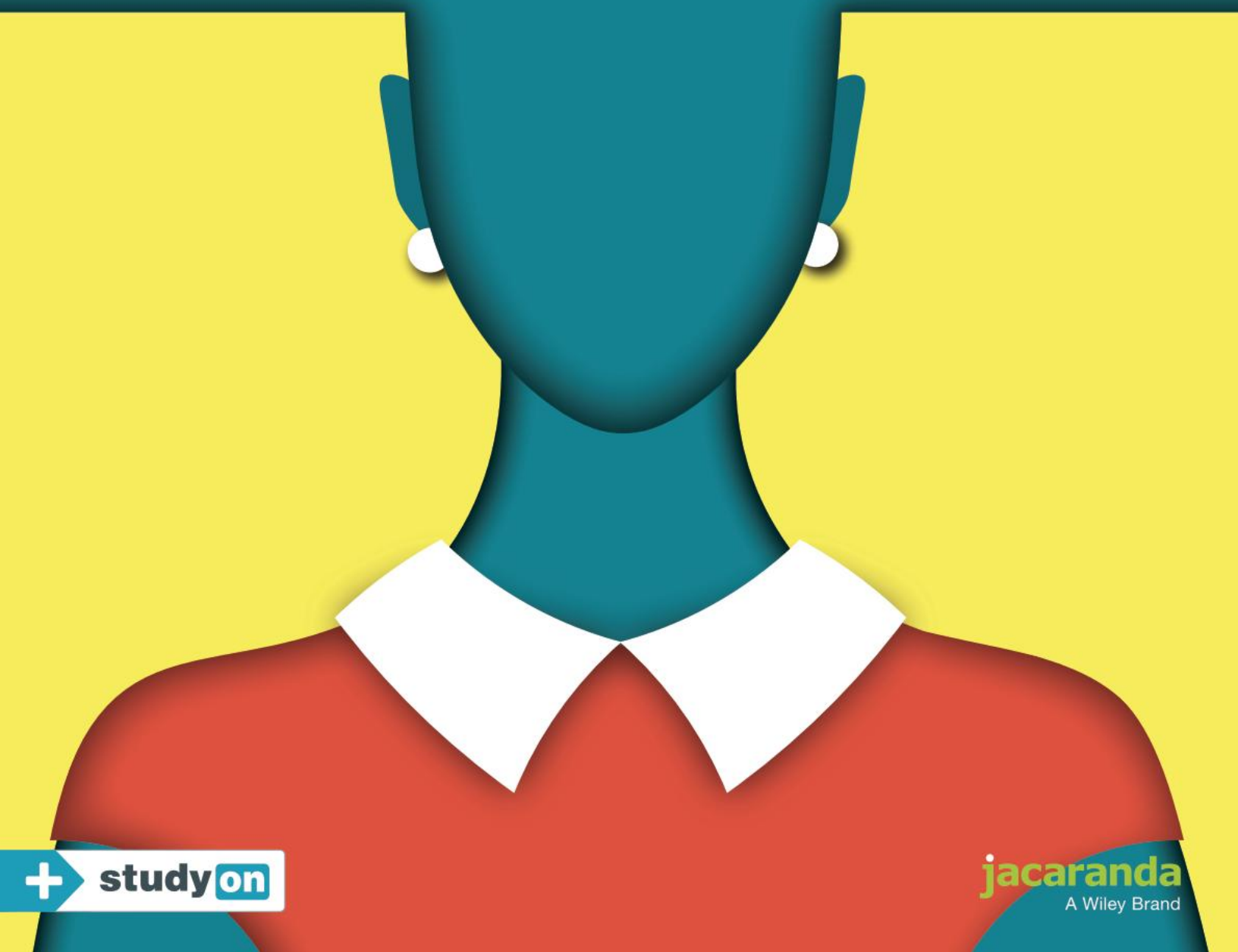


JACARANDA KEY CONCEPTS IN VCE
**BUSINESS
MANAGEMENT**

UNITS 3 AND 4 | SIXTH EDITION



JACARANDA KEY CONCEPTS IN VCE
BUSINESS
MANAGEMENT

UNITS 3 AND 4 | SIXTH EDITION

JACARANDA KEY CONCEPTS IN VCE

BUSINESS MANAGEMENT

UNITS 3 AND 4 | SIXTH EDITION

STEPHEN CHAPMAN

SIMON PHELAN

HELEN RABENDA

MATT RICHARDSON

GRAEME SMITHIES

Sixth edition published 2021 by
John Wiley & Sons Australia, Ltd
42 McDougall Street, Milton, Qld 4064

Fifth edition published 2019
Fourth edition published 2017
Third edition published 2015
Second edition published 2011
First edition published 2010

Typeset in 11/14 pt Times Ltd Std

© Steve Chapman, 2010, 2011, 2015, 2017, 2019, 2021

The moral rights of the authors have been asserted.

ISBN: 978-0-7303-8963-7

Reproduction and communication for educational purposes

The Australian *Copyright Act 1968* (the Act) allows a maximum of one chapter or 10% of the pages of this work, whichever is the greater, to be reproduced and/or communicated by any educational institution for its educational purposes provided that the educational institution (or the body that administers it) has given a remuneration notice to Copyright Agency Limited (CAL).

Reproduction and communication for other purposes

Except as permitted under the Act (for example, a fair dealing for the purposes of study, research, criticism or review), no part of this book may be reproduced, stored in a retrieval system, communicated or transmitted in any form or by any means without prior written permission. All inquiries should be made to the publisher.

Trademarks

Jacaranda, the JacPLUS logo, the learnON, assessON and studyON logos, Wiley and the Wiley logo, and any related trade dress are trademarks or registered trademarks of John Wiley & Sons Inc. and/or its affiliates in the United States, Australia and in other countries, and may not be used without written permission. All other trademarks are the property of their respective owners.

Cover image: © Moremar/Shutterstock

Illustrated by diacriTech and Wiley Composition Services

Typeset in India by diacriTech

Printed in Singapore by
Markono Print Media Pte Ltd



A catalogue record for this
book is available from the
National Library of Australia

10 9 8 7 6 5 4 3 2 1

All activities have been written with the safety of both teacher and student in mind. Some, however, involve physical activity or the use of equipment or tools. **All due care should be taken when performing such activities.** Neither the publisher nor the authors can accept responsibility for any injury that may be sustained when completing activities described in this textbook.

This suite of print and digital resources may contain images of, or references to, members of Aboriginal and Torres Strait Islander communities who are, or may be, deceased. These images and references have been included to help Australian students from all cultural backgrounds develop a better understanding of Aboriginal and Torres Strait Islander peoples' history, culture and lived experience.

CONTENTS

About this resource.....	viii
Accessing online resources.....	x
About the authors	xii
Acknowledgements	xiv

UNIT 3 MANAGING A BUSINESS

1

AREA OF STUDY 1 BUSINESS FOUNDATIONS

1 Business foundations	3
1.1 Overview.....	4
1.2 BACKGROUND KNOWLEDGE Introduction to business.....	6
1.3 Types of businesses — sole traders and partnerships	12
1.4 Types of businesses — private limited companies and public listed companies	15
1.5 Types of businesses — social enterprises and government business enterprises.....	19
1.6 EXTEND YOUR KNOWLEDGE Changing the type of business through privatisation.....	23
1.7 APPLY YOUR SKILLS Analysing and discussing social enterprises	26
1.8 Business objectives.....	29
1.9 APPLY YOUR SKILLS Business objectives and key performance indicators	35
1.10 Business stakeholders in the internal environment.....	38
1.11 Business stakeholders in the external environment.....	42
1.12 Potential conflicts between stakeholders and corporate social responsibility considerations.....	48
1.13 EXTEND YOUR KNOWLEDGE Stakeholders and corporate social responsibility.....	52
1.14 Areas of management responsibility	56
1.15 EXTEND YOUR KNOWLEDGE The contribution of areas of management responsibility to the achievement of business objectives.....	60
1.16 Management styles — autocratic and persuasive	64
1.17 Management styles — consultative and participative	68
1.18 The laissez-faire management style and the appropriateness of management styles	70
1.19 APPLY YOUR SKILLS Management styles.....	74
1.20 Management skills — communicating, delegating and planning.....	76
1.21 Management skills — leading, decision-making and interpersonal.....	84
1.22 Corporate culture and its development.....	89
1.23 APPLY YOUR SKILLS Styles, skills and corporate culture.....	92
1.24 EXTEND YOUR KNOWLEDGE The relationship between corporate culture, management styles and management skills.....	96
1.25 Review	99

AREA OF STUDY 2 MANAGING EMPLOYEES

2 Managing employees	109
2.1 Overview.....	110
2.2 BACKGROUND KNOWLEDGE Overview of the employment cycle	112
2.3 The relationship between managing employees and business objectives	115
2.4 An introduction to motivation and Maslow's Hierarchy of Needs	120
2.5 Motivational theories — Goal Setting Theory (Locke and Latham).....	124
2.6 Motivation theories — Four Drive Theory (Lawrence and Nohria)	128
2.7 EXTEND YOUR KNOWLEDGE Comparing theories of motivation	133
2.8 APPLY YOUR SKILLS Motivation theories — do they work?.....	137
2.9 Motivation strategies	139
2.10 EXTEND YOUR KNOWLEDGE Financial and non-financial motivation	148

2.11 APPLY YOUR SKILLS Evaluating motivation strategies.....	151
2.12 Training options.....	154
2.13 APPLY YOUR SKILLS Comparing and evaluating training strategies.....	159
2.14 Performance management strategies.....	161
2.15 EXTEND YOUR KNOWLEDGE Getting value from performance management.....	167
2.16 Termination management.....	169
2.17 Workplace relations — participants in the internal environment.....	175
2.18 Workplace relations — participants in the external environment.....	179
2.19 Awards and agreements.....	183
2.20 EXTEND YOUR KNOWLEDGE Determining enterprise agreements and Awards.....	189
2.21 BACKGROUND KNOWLEDGE Disputes in workplace relations.....	194
2.22 Dispute resolution.....	197
2.23 APPLY YOUR SKILLS Dispute resolution and methods of determining wages and conditions of work.....	202
2.24 Review.....	206

AREA OF STUDY 3 OPERATIONS MANAGEMENT

3 Operations management	215
3.1 Overview.....	216
3.2 The relationship between operations management and business objectives.....	218
3.3 EXTEND YOUR KNOWLEDGE Efficiency and effectiveness of operations.....	224
3.4 Key elements of an operations system.....	228
3.5 Technological developments.....	233
3.6 Materials management.....	241
3.7 The management of quality.....	248
3.8 Waste minimisation.....	255
3.9 APPLY YOUR SKILLS Managing technological developments, materials, quality and waste minimisation.....	263
3.10 Corporate social responsibility considerations in an operations system.....	267
3.11 EXTEND YOUR KNOWLEDGE Socially responsible operations management.....	271
3.12 Global considerations in operations management.....	274
3.13 APPLY YOUR SKILLS Comparing, evaluating, proposing and justifying operations management strategies.....	279
3.14 Review.....	284

UNIT 4 TRANSFORMING A BUSINESS 291

AREA OF STUDY 1 REVIEWING PERFORMANCE - THE NEED FOR CHANGE

4 Reviewing performance — the need for change	293
4.1 Overview.....	294
4.2 The concept of business change.....	296
4.3 Key performance indicators — analysis of business performance.....	300
4.4 Key principles of the Force Field Analysis theory (Lewin).....	307
4.5 Driving forces for change in business.....	311
4.6 Restraining forces in business.....	318
4.7 APPLY YOUR SKILLS Forces affecting change.....	322
4.8 APPLY YOUR SKILLS Driving and restraining forces.....	324
4.9 Strategic management by Porter's Generic Strategies (1985).....	326
4.10 APPLY YOUR SKILLS Lower cost and differentiation.....	332
4.11 EXTEND YOUR KNOWLEDGE Data-driven change.....	335
4.12 EXTEND YOUR KNOWLEDGE The concept of business change.....	337
4.13 Review.....	340

5 Implementing change	345
5.1 Overview.....	346
5.2 The importance of leadership in change management.....	348
5.3 Management strategies to respond to key performance indicators	351
5.4 APPLY YOUR SKILLS Sources of change.....	358
5.5 Management strategies to seek new business opportunities both domestically and globally	359
5.6 APPLY YOUR SKILLS Seeking new business opportunities	368
5.7 The principles of the Learning Organisation (Senge)	369
5.8 Low-risk strategies to overcome employee resistance.....	373
5.9 High-risk strategies to overcome employee resistance	378
5.10 Key principles of the Three Step Change Model (Lewin)	380
5.11 The effect of change on stakeholders.....	383
5.12 Corporate social responsibility considerations when implementing change	387
5.13 EXTEND YOUR KNOWLEDGE The impact of change on stakeholders and social responsibility.....	390
5.14 Reviewing key performance indicators to evaluate transformation	391
5.15 EXTEND YOUR KNOWLEDGE The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation.....	395
5.16 Review	398
Glossary	404
Index	410

ABOUT THIS RESOURCE

Jacaranda Key Concepts in VCE Business Management Sixth Edition has been revised and reimagined to provide students and teachers with the most relevant and comprehensive resource on the market. This engaging and purposeful suite of resources is fully aligned to the VCE Business Management Study Design (2017–2022).

Formats

Jacaranda Key Concepts in VCE Business Management is now available in print and a range of digital formats:

DIGITAL				Print
learnON	eBookPLUS	eGuidePLUS	PDF	
				
An immersive, interactive and flexible online learning course	An electronic version of the student text, with digital resources	Everything in the eBookPLUS plus additional resources designed for teachers	Downloadable PDFs directly from your Jacaranda bookshelf	Printed textbook with free digital access code inside

Fully aligned to the VCE Business Management Study Design

Have confidence that you are covering the entire VCE Business Management Study Design (2017–2022), with:

- key knowledge and skills stated at the start of each topic
- key concepts visible at the start of every subtopic
- tailored exercise sets at the end of every subtopic
- additional background information easily distinguished from curriculum content
- comprehensive topic reviews including a detailed summary and key terms glossary, plus topic review exercises including multiple choice, extended response and exam practice questions — now also including a variety of practice SACs for each Area of Study outcome.

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

3.1 Overview

Numerous videos and interactivities are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS, and at www.jacaranda.com.au.

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, M&M's and M&M's, and the plant has the capacity to produce 1 million Mars bars in just 8 hours. Mars Australia sources its cocoa beans from Rainforest Alliance certified farms. Most of the process of chocolate making is automated (done by machines) — just picture huge rolls of melting chocolate and conveyor belts of workers in white coats. When you learn about operations management in this topic, you will be studying how businesses actually make their goods or service as well as how they measure the efficiency and effectiveness of their production processes and meet the needs of stakeholders.



TOYOTA'S OPERATIONS SYSTEM

Operations is the part of the business that gets the job done. At Toyota, that means producing almost 3 million vehicles each year, of which approximately 14 000 are manufactured each day in Japan. The process of producing vehicles at Toyota's main manufacturing plants around the world is similar to producing cakes for any other product for that matter. You need inputs (resources) used in the production process, such as labour and raw materials. The next step is to transform these raw materials into output (finished products). Many of the components used to build an engine, such as pistons and cylinder head covers, are produced in-house by Toyota. Some parts are sourced from local and global suppliers. What else is needed to make a car? Lots of steel panels that are welded, painted and undergo a multitude of processes to finally reach their assembly line.

Operations is not just about making goods or producing services though. Many businesses strive to produce the best good or service on the market. Toyota uses the concept of continuous improvement to do this (known to its Japanese as *kaizen*). This means that all company activities — from the assembly line to customer service — are continually questioned, so that new and better ways of doing things are introduced if needed.

Just in Time (JIT) production is also used at Toyota. This means that the right parts and materials are manufactured and provided in the right amount needed, and often needed. The number of cars produced is directly related to customer demand.

216 *Jacaranda Key Concepts in VCE Business Management Units 3 & 4 Sixth Edition*

Toyota uses technology to its advantage. For example, the welding required for making the shell of a car involves hundreds of welding processes and parts. Robots on the automated production line do many of the welding jobs and the remainder are carried out by workers. Toyota says they are automated, but "with a human touch".

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.

- Global considerations in operations management including global sourcing of inputs, overseas manufacturing, global sourcing and an overview of supply chain management
- Operational issues requiring consideration in an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs
- Strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including the principles of lean management
- Strategies to improve the efficiency and effectiveness of operations related to quality including quality control, quality assurance and Total Quality Management
- Strategies to improve the efficiency and effectiveness of operations related to materials including forecasting, master production schedule, materials requirement planning and Just in Time

Key skills

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

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

Source: VCE Business Management Study Design (2017–2022) extracts © VCAA, reproduced by permission.

ON Resources

5 Digital document Key terms glossary (pp. 204–6)

To access key concept summaries and past VCAA exam question download and print the studyON Revision and past VCAA exam question booklet (pp. 207–214).

TOPIC 3: Operations management 217

The key knowledge and key skills from the VCAA VCE Business Management Study Design (2017–22) are included, together with a real-world case study that helps students understand Business Management theory.

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

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

Online and offline studyON question sets contain practice exam style and past VCAA exam questions with exemplary responses and marking guides.

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

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

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

Three levels of questions, Test your understanding, Apply your understanding and Exam practice, encourage students to practise and apply the concepts they are studying.

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

The studyON exams provide the past three official VCE exams in an online and offline format. Previous exam questions are mapped to specific concepts throughout the product.

3.10 Corporate social responsibility considerations in an operations system

KEY CONCEPT Operations managers must be aware of socially responsible management when pursuing business objectives. Corporate social responsibility considerations in an operations system include the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs.

You might not think that a bank would need to be concerned about its impact on the environment, or about the socially responsible practices of its suppliers, when it is providing financial services. However, the National Australia Bank (NAB) does just that, however, as shown in its commitment to sustainable business practices. NAB's corporate responsibility policies outline how it will lower costs by improving efficiency and minimising waste, and how it will work with suppliers in an environmentally friendly manner.

Corporate social responsibility refers to management's awareness of the social and environmental consequences of its actions. It can be expensive and time consuming to manage an operations system in a socially responsible way. However, it does bring benefits. Reducing in a socially acceptable manner can improve the reputation of a business, improve efficiency and reduce costs in the long term. The aspects of corporate social responsibility that would concern an operations manager include:

- managing inputs appropriately
- managing suppliers appropriately
- managing staff appropriately
- managing the customer relationship appropriately

In particular, operations managers must consider the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs.

DID YOU KNOW?

Sydney Australia's Five Year Environment Action Plan sets objectives to reduce energy usage and carbon emissions in all areas of its operations.

3.10.1 The environmental sustainability of inputs

Environmental sustainability refers to a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future. An operations manager should ensure that the inputs used in the production process do not have a serious or negative impact on the environment (as well as community health and social conditions). Food manufacturer, Mars, is a business that considers the environmental sustainability of its actions. It recently announced that it would invest approximately \$1 billion to combat climate change. The company will introduce renewable energy initiatives, source sustainable ingredients and support farmers who use sustainable methods of production. For example, Mars will purchase 100 per cent of its electricity in Australia from solar power.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

DID YOU KNOW?

Downer Group is an Australian company that provides infrastructure management and engineering services to the transport, energy, infrastructure, construction and resources sectors. The 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.

TOPIC 3: Operations management 207

Resources

11 Video Lessons CSR considerations in operations (2020)
12 Videos Applying operations strategies to efficiency and effectiveness (2020)

KEY IDEAS

- Operations managers must be aware of corporate social responsibility when pursuing business objectives. Business cases that do so will benefit from long-term 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.

3.10 EXERCISE

To answer questions online and to receive immediate feedback and sample responses for every question, go to your studyON site at www.studyon.vce.vic.edu.au.

TEST your understanding

- Outline the main reasons why operations managers must take socially responsible decisions very seriously.
- Outline the benefits and costs of managing an operations system in a socially responsible manner.
- Using examples, explain the considerations a business might need to make in the area of:
 - environmental sustainability of inputs
 - environmental sustainability of outputs
- Outline how NAB covers the considerations of corporate social responsibility as it applies to operations management.

APPLY your understanding

- If you were the manager of a waste management company, what factors would you consider in selecting a new landfill site?
- Discuss whether or not it is socially responsible to do business with suppliers who employ child labour in countries overseas.
- Business for Social Responsibility (BSR) provides information about the social responsibilities of businesses. Check the BSR website (www.bsr.com.au) to select a report that interests you. Read the report and discuss the social responsibility issues involved.

EXAM practice

- Explain how a business can ensure environmental sustainability of inputs in its operations system. (2 marks)
- Describe an operations management strategy. Outline two benefits to a business of adopting corporate social responsibility considerations in this area. (4 marks)
- Outline how corporate social responsibility considerations can influence the decisions made by management in relation to an operations system. (2 marks)
- The two 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. (3 marks)

studyON

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question, go to your studyON site at www.studyon.vce.vic.edu.au.

studyON Past VCAA exam questions (2020-2022)
Solutions and sample responses are available in your digital format.

216 Jarradine Key Concepts in VCE Business Management Units 3 & 4 Sixth Edition

3.9 APPLY YOUR SKILLS Managing technological developments, materials, quality and waste minimisation

PRACTISE YOUR SKILLS

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

3.9.1 Six Sigma

SIX SIGMA AT BORAL

Six Sigma is a measurement-based approach and methodology designed to achieve near perfection in the operations process through the elimination of defects. It was originally developed by the former US telecommunications company Motorola Inc. in the mid 1980s. Six Sigma is used to identify and remove the causes of problems in the operations process, so that a business produces only 3.4 defective parts per million products. This translates to a perfection rate of 99.9997 per cent. It uses typical quality management methods, including statistical tools to measure variation in the operations process, empirical testing of staff and training, a commitment to improving quality through the whole business and continuous improvement.

A special team of people within the business is established. This is composed of staff who have been given Six Sigma training, and are able to coordinate efforts in achieving quality. As the new steps to problem solving apply to Six Sigma, commonly referred to as DMAIC. This is shown in the diagram on the following page.

Boral Limited produces and installs construction materials and building products. With almost 50 years of experience, Boral has more than 14 000 employees working across 120 operating sites. In 2020, Boral introduced Six Sigma throughout its construction materials division in Victoria, New South Wales, the ACT and Tasmania.

Regional General Manager of Boral Australian Construction Materials (ACM) INTERACT Tony Chivers claimed that in its first year, Six Sigma helped the New South Wales business achieve a profit of \$5 million. In 2020, Boral announced that the implementation of Six Sigma led to the construction materials division identifying \$45 million of cost reduction initiatives and predicted that these would deliver three years

203

TOPIC 3: Operations management 203

- The task word (bolded) referred to as a command word or instructional word, usually 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 something. Using the example of Jan Dineen to the 'flexibility management' case study, discuss the use of one management skill necessary for successful business management. (2 marks)
- The task word (bolded) referred to as a command word or instructional word, usually generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to what is being asked. In the example of Jan Dineen to the 'flexibility management' case study, discuss the use of one management skill necessary for successful business management. (2 marks)
- Outline the relationship between the corporate culture of a business and the management style of a manager. (2 marks)
- Identify and explain two management skills that would be essential for a manager wishing to select and implement management styles. (2 marks)
- Select one management style studied this year, and select two management skills that would be essential in applying that management style, giving reasons for your selection. (2 marks)

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

KEY CONCEPT

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

One of the best ways to improve a business's productivity is to give employees more input into the decision-making process. Most people care about what they are directly involved in, as employees who are part of the decision-making process of their business tend to be more committed, productive and creative. Inclusive and democratic management practices encourage practices that include employees in the decision-making process. One such practice is the use of the 'flexibility management' case study, which is a real-life example of a business that has successfully implemented this practice.

Another word is to encourage businesses around the world of the operations system. This may mean allowing flexible working hours, encouraging employees to work from home and set their own goals. Scenario is a company that has led the world with its commitment to participate with its practice.

SCENARIO – WORKPLACE PARTICIPATION IN ACTION

Scenario Partners, based in Bristol, South Australia, is a small virtual business as a result of its absolute commitment to workplace participation. It has had a reputation for being a company that gives its employees control, and an informal reputation for its democratic management practices. Since 1990, Scenario is active in managing performance for a variety of corporations along business in Bristol.

Scenario was established in the 1980s as a company manufacturing workbenches for the capital of industry and it was a process of growth and change. Scenario's reputation for workplace participation was established between the 1980s and the 1990s. Scenario became a traditional hierarchical business, characterised by many layers. However, after coming to the attention of the business press for its democratic management, changes began in the mid 1980s that have continued to the present day.

Rosario Scenario, the founder's son, took over as the CEO of Scenario and held 60 per cent of the top managers on the first day.

216 Jarradine Key Concepts in VCE Business Management Units 3 & 4 Sixth Edition

3.14 Review

3.14.1 Summary

The relationship between operations management and business objectives

- Operations management is the area of management that is concerned with the activities used to produce goods and services.
- Operations management is responsible for transforming inputs into outputs.
- Two key areas that the operations area of management responsibility must focus on are effectiveness and efficiency. Effectiveness refers to the degree to which a business has accomplished its stated objectives. Efficiency refers to how well a business uses resources in achieving their objectives.

Characteristics of operations management within manufacturing and service businesses

- The characteristics of operations management differ according to whether the business is a manufacturer of goods or a provider of a service. Manufacturers produce tangible products whereas service businesses produce services, which are intangible.
- Most modern businesses produce a combination of both manufactured goods and services.

Key elements of an operations system

- The elements of an operations system are inputs (materials, capital equipment, labour, information and time), the transformation process, and outputs (the finished good or service).

Technological developments

Technology can improve operations. Businesses need to acquire up-to-date technology in order to compete effectively.

Technology is used in the manufacturing sector to speed up processes and enable better utilisation of raw materials. This improves productivity and makes the operations process more cost effective. Office and communications technology has enabled new markets to open up, costs to be cut and productivity to be improved.

A website can be developed for operations purposes. A website can make it easier for customers to purchase products or to find information online. A business may develop its website to increase the amount of information it gives from its customers and analyse the information. A business may also develop its website to provide information to employees and to communicate with suppliers.

An automated production line is a computerised design tool that allows a business to create products and modify them. 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.

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 inventory list of all materials required in production in most 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 arrives just in time as they are needed for production.

216 Jarradine Key Concepts in VCE Business Management Units 3 & 4 Sixth Edition

The management of quality

Quality management is the strategy that a business uses to make sure that its products meet customer expectations. There are three quality approaches: quality control, quality assurance and Total Quality Management.

Quality control involves the use of inspectors at various points in the production process to check for performance and defects. It is a reactive strategy that measures performance in relation to set standards or benchmarks. If the established standards are not 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 system used incremental standard in the 1920-1980 series of quality certification.

Total Quality Management (TQM) is an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operations. Total Quality Management can improve product quality, making the business more competitive. A number of approaches may be used, such as employee empowerment, continuous improvement and improved customer focus.

Waste minimisation

Waste minimisation is a process involving the reduction of the amount of unwanted or unusable resources produced by a business in an attempt to improve the efficiency and effectiveness of operations.

One strategy for minimising waste is lean management. This approach improves the efficiency and effectiveness of operations by streamlining waste and improving quality.

Corporate social responsibility considerations in an operations system

Operations managers must be aware of corporate social responsibility when pursuing business objectives. Business cases that do so will benefit from long-term 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.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

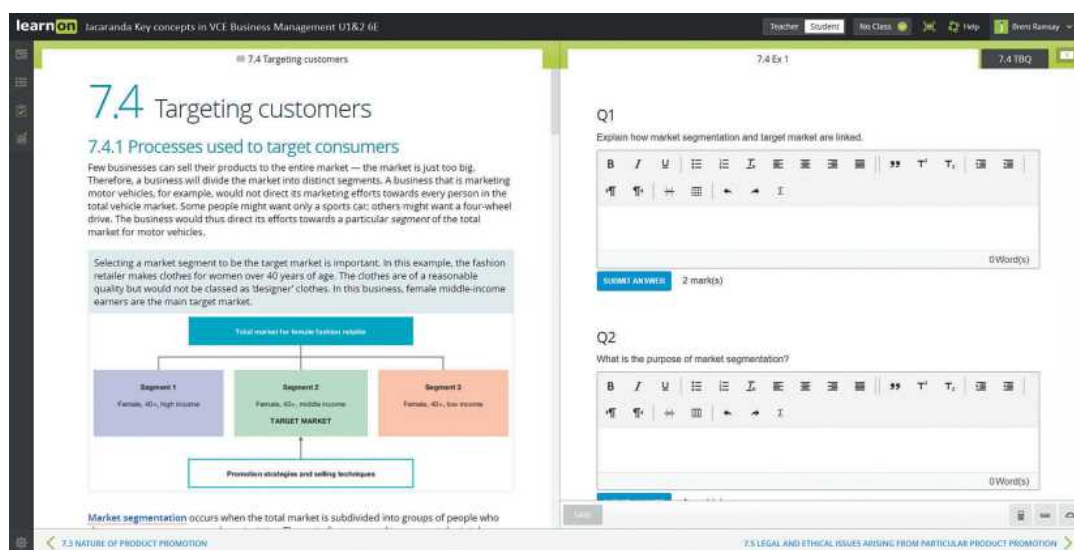
Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

Environmental sustainability is a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future.

ACCESSING ONLINE RESOURCES

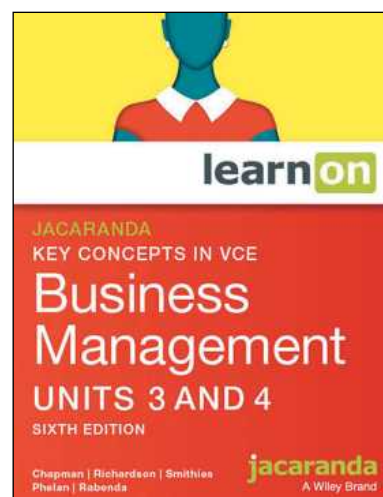
The power of learnON

The *Jacaranda Key Concepts in VCE Business Management* series learnON resources provide an immersive digital learning platform that provides teachers with valuable insights into their students' learning and engagement. It's so much more than a textbook! It provides all of the content included in your eBookPLUS and eGuidePLUS, with important additional features that allow teachers to assign, mark and track student work. The platform can monitor and report progress in real time to give teachers immediate insights into student achievement. This helps easily isolate areas in which students (or groups of students) need additional support or extension. The learnON platform provides the flexibility to create multiple learning pathways.



The learnON platform gives teachers control over their students' learning pathways. Some of the many benefits of the learnON platform include:

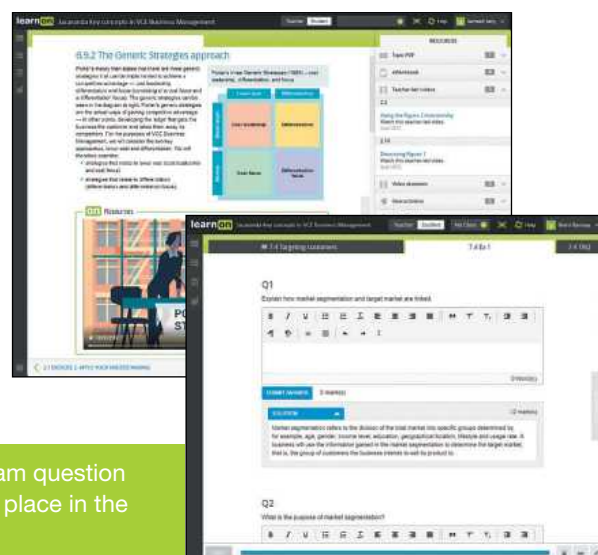
- online questions with a 1:1 correspondence to questions in print
- real-time immediate corrective feedback and fully worked solutions for every question to help students get unstuck
- a new side-by-side lesson view, enabling access to reading content and question sets on one screen
- teacher-led explainer videos, explaining how to answer exam questions and bring concepts to life
- customisable course content, giving teachers more flexibility to create their own course
- the ability to connect students and teachers in a class group
- the ability to separate a class into subgroups, making differentiation simpler
- dashboards to track progress
- immediate insight into student progress and performance using the Results page
- the ability to send important documents to the class
- formative and summative assessments.



Engaging resources and rich media, inspiring independent learning

This resource, on the immersive digital learnON platform, encourages self-driven student learning through:

- exemplary responses for every question providing students with immediate corrective feedback when answering questions online
- progress tracked automatically in learnON allowing students to reflect on their learning, and enabling students to highlight areas of strength and weakness
- studyON — online study, revision and exam practice now included in learnON and supported with an offline printable booklet.



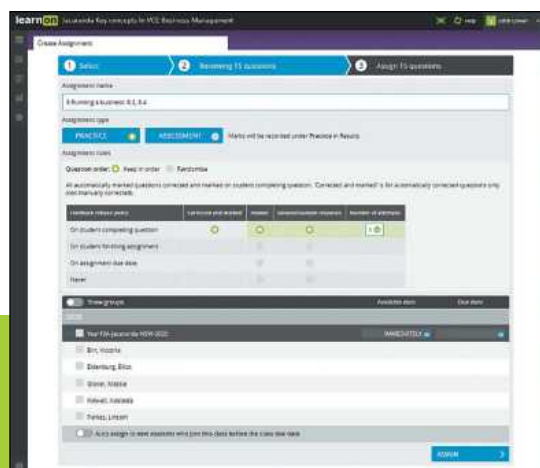
studyon

Every past VCAA exam question since 2008 all in one place in the learnON platform

A wealth of teacher resources

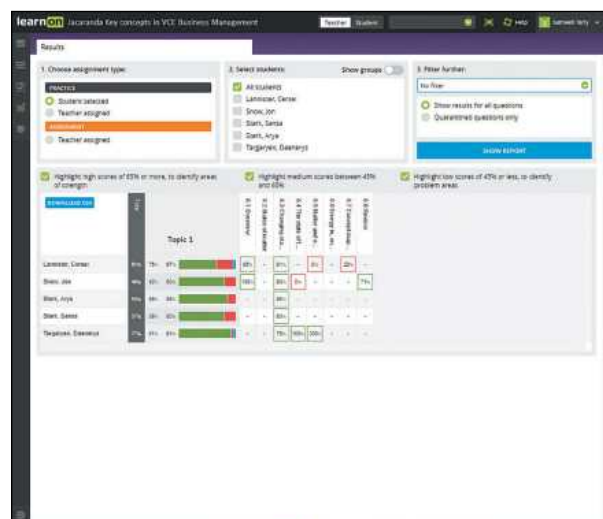
Key Concepts in VCE Business Management empowers teachers to teach their class their way, with the extensive range of teacher resources including:

- comprehensive support material, including work programs and teaching advice
- quarantined practice SACs and topic tests with answers and exemplary responses
- an easy-to-navigate marking interface that allows teachers to see student responses, add comments and mark their work
- the ability to create custom tests for your class from the entire question pool — including all subtopic, topic review and past VCAA exam questions.



Custom test maker

Create custom tests for your class from the entire question pool — including all subtopic, topic review and past VCAA exam questions.



Access detailed reports on student progress that allow you to filter results for specific skills or question types. With learnON, you can show students (or their parents or carers) their own assessment data in fine detail. You can filter their results to identify areas of strength or weakness. Results are also colour-coded to help students understand their strengths and weaknesses at a glance.

Reports and results

Track activity and gain deep insights into student performance

ABOUT THE AUTHORS

Matt Richardson

Matt Richardson is a senior Commerce teacher at Ballarat High School with over 20 years' experience teaching Business Management. Matt has held positions of responsibility with the Victorian Curriculum and Assessment Authority (VCAA) as a review panel member on the Business Management study design and as an examination vetter on the Business Management exam panel. He is an experienced VCAA examination assessor. Matt is the co-author of several Jacaranda textbooks in the areas of Business Management, Legal Studies, Economics and Business, and Civics and Citizenship. He has presented professional development sessions for Victorian Commerce Teachers Association (VCTA) for Business Management teachers and has contributed articles to the VCTA journal *Compak*. Matt facilitates student revision and exam preparation lectures and is a prolific writer of assessment materials for Business Management.



Simon Phelan

Simon Phelan has worked at a number of government and independent schools over the past 35 years. He is currently the Year 12 Coordinator and a senior Accounting/Business Management/Legal Studies teacher at Gladstone Park Secondary and the Curriculum Lead — Business Studies at RMIT Training. He has taught VCE Business Management/Accounting/Economics/Legal Studies for 35 years and has been involved in a number of Study Design Review Panels, including the most recent panel that developed the Study Design for 2017–22. Simon is an experienced VCAA examination assessor. He has presented professional development sessions for teachers at Comview, the annual VCTA conference, and has contributed articles to the VCTA journal *Compak*. He has co-authored other textbooks, including *Key Concepts in VCE Legal Studies*.



Helen Rabenda

Helen Rabenda is a Program Coordinator at St Monica's College in Epping. Having started her career in the grammar school sector in the United Kingdom, Helen has over 15 years' teaching experience in Commerce-related subjects from Years 8 to 12. This has been focused primarily on Business Management and Economics. Helen continues to occupy several long-term roles within the VCAA as part of the Business Management team, including exam development, assessor and sitter roles. More recently, Helen has undertaken leadership in the field of targeted educational programs. Helen has a particular interest in creating resources and providing differentiated support for students of all abilities.



Stephen Chapman

Stephen Chapman is an active teacher, author, external examination marker and consultant, with over 30 years' experience in high schools as a classroom teacher and coordinator. He has authored/co-authored 28 textbooks in the areas of Commerce, VELS Economics, Business Management and Economics. He has won awards for teaching excellence and pedagogical writings as well as a Commonwealth Parliamentary Teaching Fellowship. As a consultant, he works with schools in developing teaching programs and educational resources. Stephen has a specific interest in the development and implementation of multiple learning styles to engage students in actively learning.



VALE | Graeme Smithies

Sadly, during the production of this series, author **Graeme Smithies** passed away.

Graeme Smithies had over 45 years' experience in secondary education in Victoria. During that time he taught Legal Studies, Business Management, Economics, English, History and a variety of other Humanities and Commerce subjects. He spent more than 19 years in assistant principal and principal positions in government secondary schools. Graeme contributed to many Jacaranda titles over the years, including resources for VCE Commerce subjects, as well as the Years 7–10 National Curriculum learning areas of Civics and Citizenship, Economics and Business, and History. Graeme was a talented and creative writer, passionate and knowledgeable about teaching and learning, and committed to excellence in all his work. We are extremely proud to have worked with Graeme.

From everyone at Jacaranda, a heartfelt thanks.



ACKNOWLEDGEMENTS

The authors would like to thank those people who have played a key role in the production of this text. Their families and friends were always patient and supportive, especially when deadlines were imminent.

Stephen Chapman wishes to acknowledge his late father Jack, late mother Lorna, mother-in-law Thelo and late father-in-law Rae, who have encouraged him as a student, educator and writer for many years — and a special thanks to Wendy and Max.

Matt Richardson wishes to acknowledge his late mother Jan and his father Kevin for inspiring in him a love of learning and teaching, and the value of hard work. Matt is especially thankful for the patience of Eve, Gemma, Charlie and Bridie.

Simon Phelan wishes to acknowledge his family for their support, patience and encouragement during this project – Paula, Kate, Matt, Luke, Nicole and Mark.

The publisher acknowledges Carmel Taylor for her contribution to this text.

Mention also needs to be made to those businesspeople who gave of their time and expertise: Chris Lu, Guy Bartlett, Andrew Curry, Harriet Michaels, Mick McGrath, Simone McGrath, Michael Prevedello and Beau Wilkes.

The staff of Wiley are also deserving of the highest praise. Their professionalism and expertise are greatly admired and appreciated. We build on each other's work.

The authors and publisher would like to thank the following copyright holders, organisations and individuals for their permission to reproduce copyright material in this book.

Selected extracts from the VCE Business Management Study Design (2017–2022) are copyright Victorian Curriculum and Assessment Authority (VCAA), reproduced by permission. VCE® is a registered trademark of the VCAA. The VCAA does not endorse this product and makes no warranties regarding the correctness or accuracy of its content. To the extent permitted by law, the VCAA excludes all liability for any loss or damage suffered or incurred as a result of accessing, using or relying on the content. Current VCE Study Designs and related content can be accessed directly at www.vcaa.vic.edu.au. Teachers are advised to check the VCAA Bulletin for updates.

• © Jim Penman: 1 • © Jiw Ingka / Shutterstock: 3 • a. © mangostock / Shutterstock; b. © Nils Versemann / Shutterstock; c. © mavo / Shutterstock; d. © Nils Versemann / Shutterstock: 4 • © Stringer Image / Shutterstock: 5, 50 • © haireena / Shutterstock: 7 • a. © GV Images / Alamy Stock Photo; b. © KC Hunter / Alamy Australia Pty Ltd: 9 (top)
• a. © Wikimedia Commons; b. © 3 TK Kurikawa / Shutterstock; c. © Nils Versemann / Shutterstock; d. © Bloomberg / Getty Images Australia; e. © Gordon Bell / Shutterstock: 9 (bottom) • © Commonwealth of Australia: 10 • a. © George Mdivanian / Alamy Stock Photo; b. © Takatoshi Kurikawa / Alamy Stock Photo: 11 • © Maridav / Shutterstock: 13
• © wavebreakmedia / Shutterstock: 14 • © Dzmitry Slizski / Shutterstock: 17 • © Passion Images / Shutterstock: 18
• © Trevor Pinder / Newpix: 19 • © Nikitina Olga / Shutterstock: 20 • © NBN / AAP: 21 (top) • © Stuart Taylor / Shutterstock: 21 (bottom) • © Nils Versemann / Shutterstock: 24 • © Alex Cimal / Shutterstock: 25 • © Vanguard Laundry Services: 27 (top) • © Patrick McMullan / Getty Images Australia: 27 (bottom) • © Jacqui Martin / Shutterstock: 30 • © Rebecca Newman / FareShare: 36 (top) • © SG SHOT / Shutterstock: 36 (bottom)
• © wk1003mike / Shutterstock: 39 • © Anadolu / Getty Images: 44 • © Taras Vyshnya / Shutterstock: 45 • © Alizada Studios / Shutterstock: 48 • © garagestock / Shutterstock: 49 • © Ian Munro / Newpix: 52 • © Sam Mooy / Newpix: 53
• © Douglas Magno / AFP / Getty Images: 54 • © 06photo / Shutterstock: 56 • © Africa Studio / Shutterstock: 57
• © Pavel L Photo and Video / Shutterstock: 58 (top) • © Mark Agnor / Shutterstock: 58 (bottom) • © The Strategic CFO: 61 • © Daria Nipot / Shutterstock: 62 • © Chayut Orapinpatipat / Shutterstock: 63 • © indianstockimages / Shutterstock: 65 • © g-stockstudio / Shutterstock: 66 • © BlueSkyImage / Shutterstock: 68 • © Pressmaster / Shutterstock: 69, 113, 308, 348 • © Hero Images Inc. / Alamy Australia Pty Ltd: 71 • © Photodisc: 74, 376 • © Jack Tran / Newpix: 77 • © Richard Drew / AAP: 78 • © Fancy: 81 • © Richard Dobson / Newpix: 85 (left) • © Thankyou: 85 (right) • © Asif Islam / Shutterstock: 86 • © Rawpixel.com / Shutterstock: 87, 117, 371 • © wavebreakmedia /

Shutterstock: 89, 177, 202 (top), 261 (top) • © Bank Australia: 90 • © Scott Ehler: 92 • © Nils Versemann / Shutterstock: 93, 324, 361 • a. © Digital Vision; b. © Photodisc: 94 (top) • © George Doyle / Getty Images: 94 (bottom) • © AAP: 97 • © Tupungato / Shutterstock: 103 • © Joyseulay / Shutterstock: 104 • © mayrum / Shutterstock: 109 • © Olena Yakobchuk / Shutterstock: 110 (top) • © Jae C. Hong / AP Photo: 110 (bottom) • © Steve Lovegrove / Shutterstock: 115 • © Top Employers Institute: 118 (top) • © Uladzik Kryhin / Shutterstock: 118 (bottom) • © Wiley art: 120, 172, 176, 302 (top) • © wavebreakmedia / Shutterstock: 121, 130 (bottom) • © Dragon Images / Shutterstock: 124, 133 (right) • © Monkey Business Images / Shutterstock: 126, 246 • © fizkes / Shutterstock: 130 (top), 304 • © Phovoir / Shutterstock: 131 • © UfaBizPhoto / Shutterstock: 133 (left) • © Lantern Group: 137 • © goodluz / Shutterstock: 141 • © hidesy / Shutterstock: 142 (top) • © Peggy Blume / Shutterstock: 142 (bottom) • © Lipik Stock Media / Shutterstock: 143 • © Stuart Jenner / Shutterstock: 144 • © pang147 / Shutterstock: 145 • © Andrey_Popov / Shutterstock: 146 (top) • © H_Ko / Shutterstock: 146 (bottom) • © sirtravelalot / Shutterstock: 149 • © Fonda Restaurants: 150 • © Giulio_Fornasar / Shutterstock: 151 • © SEEK Limited: 152 • © Monkey Business Images / Shutterstock: 154, 163, 170, 375 • © beerkoff / Shutterstock: 155 • © imtmphoto / Shutterstock: 157 • © iJeab / Shutterstock: 159 • © NP27 / Shutterstock: 160 • © Andrey_Popov / Shutterstock: 162, 252 • © madpixblue / Shutterstock: 165 • © Ragma Images / Shutterstock: 167 • © Erik Reis / Alamy Australia Pty Ltd: 171 • a. © Australian Retailers Association; b. © Master Builders Association: 179 • © VACC: 180 (top) • © Australian Council of Trade Unions: 180 (centre, bottom) • © Paul Vasarhelyi / Shutterstock: 181 • Information derived from a Department of Employment fact sheet, and 'Current and emerging issues for the Australian Australian Mines and Metals Association National Industrial Relations Commission', speech by Justice Guidice, AIRC President, at the Australian Mines and Metals Association National Conference, 2 April 2008: 185 • © George Rudy / Shutterstock: 186 • © Nik Scott Illustrations: 187 • © Pressmaster / Shutterstock: 190, 194 • © EyeofPaul / Shutterstock: 193 • © The Australia Institute: 195 • AAP Image: 196 • © Marcin Balcerzak / Shutterstock: 200 (top) • © Robert Kneschke / Shutterstock: 200 (bottom) • © ProStockStudio / Shutterstock: 202 (bottom) • © inewsfoto / Shutterstock: 203 • © Goran Bogicevic / Shutterstock: 211 • © Timboon Fine Ice Cream: 213 • © Patrick Hertzog / AFP / Getty Images: 216 (top) • © News Ltd / Newspix: 216 (bottom) • © ESB Professional / Shutterstock: 218, 222, 228, 274 (bottom) • © M&J Chickens: 221 • © Food Magazine, 9 April 2013 / Prime Creative Media: 221 • © nhungboon / Shutterstock: 225 • © Maurizio Milanese / Shutterstock: 229 • © Jenson / Shutterstock: 230 • © angellodeco / Shutterstock: 235 • © Gorodenkoff / Shutterstock: 237, 238 (bottom) • © Baevskiy Dmitry / Shutterstock: 238 (top) • © Pit Stock / Shutterstock: 239 • © sirtravelalot / Shutterstock: 242 (top) • © Ibrahim Yozoglu / Anadolu Agency / Getty Images: 242 (bottom) • © Alexander Chizhenok / Shutterstock: 244 • © David Crosling / Newspix: 249 (top) • © Syda Productions / Shutterstock: 249 (bottom) • © Waldemar / Shutterstock: 250 • © Brambles Ltd / AAP Newswire: 253 • © Anne Greenwood / Shutterstock: 256 (top) • © supergenijalac / iStockphoto: 256 (bottom) • © Hulton Archive / Getty Images: 258 • © James King-Holmes / Science Photo Library: 259 • © Yuganov Konstantin / Shutterstock: 261 (bottom) • © Taronga Zoo / AAP Newswire: 263 • © foto infot / Shutterstock: 264 • © TY Lim / Shutterstock: 268 • © Peter Parks / AFP / Getty Images: 269 • © Kim Eiszele / Newspix: 271 • © Matt Cardy / Stringer / Getty Images: 272 • © Frame China / Shutterstock: 274 (top) • © Dmitry Kalinovsky / Shutterstock: 275 (top) • © PA Images / Alamy Stock Photo: 275 (bottom) • © Sergey Nivens / Shutterstock: 276 • © vichie81 / Shutterstock: 277 • © Tracey Nearmy / AAP: 281 • © imwaltersy / Shutterstock: 287 • © Trevor Collens / Alamy Stock Photo: 291 • © Leszek Glasner / Shutterstock: 293 • © Woolworths: 294 • © Cartoonresource / Shutterstock: 297 (top) • © ArliftAtoz2205 / Shutterstock: 297 (bottom) • © The Advertising Archives / Alamy Stock Photo: 298 (top) • © Sharaf Maksumov / Shutterstock: 298 (bottom) • © Grzegorz Czapski / Shutterstock: 302 (left) • © StreetVJ / Shutterstock: 302 (right) • © Fotos593 / Shutterstock: 303 • © Anton Gvozdikov / Shutterstock: 312 • a. © Dave Hunt / AAP Newswire; b. © Victor Wong / Shutterstock: 313 (top) • © Douglas Cliff / Shutterstock: 313 (bottom) • © Bignai / Shutterstock: 314 (left) • © 1000 Words / Shutterstock: 314 (right) • a. © SOTK2011 / Alamy Stock Photo; b. © Bluskystudio / Shutterstock; c. © Alex Segre / Alamy Stock Photo: 315 (top) • © Rido / Shutterstock: 315 (bottom) • © Shuang Li / Shutterstock: 316 • © Elnur / Shutterstock: 319 • © 2020 CIRCLE Recruitment & HR: 322 • Based on information taken from National Australia Bank Full Year Results 2019, <https://www.nab.com.au/content/dam/nabrwd/documents/reports/corporate/2019-full-year-results-announcement.pdf>: 325 • © BonkersAboutPictures / Alamy Stock Photo: 326 • a. © Victor Wong / Shutterstock; b. © Michael Leslie / Shutterstock; c. © Nils Versemann / Shutterstock: 328 • © ymgerman / Shutterstock: 330 • © ChameleonsEye / Shutterstock: 332 • © Hadrian / Shutterstock: 333 • © Anan Kaewkhammul / Shutterstock: 336 • © Scott Kenneth Brodie / Shutterstock: 338 (top) • Based on information taken from Wesfarmers half yearly reports, <https://www.wesfarmers.com.au/investor-centre/company-performance-news/reports>: 338 (bottom) • © Simon Evans / Alamy Stock Photo: 339 • © Chan2545 / Shutterstock: 345 • © Robb1037 / Shutterstock: 346 (top) • © Julian Smith / AAP: 346 (bottom) • Based on information taken from Qantas Annual Report 2019: 347 • © SpeedKingz / Shutterstock: 351 • © TijanaM / Shutterstock: 352 • © Bikeworldtravel / Shutterstock: 353 • © GaudiLab / Shutterstock: 360 • © Four Pillars: 362 (top) • © Sean Leonard / Shutterstock: 362 (bottom) • © Small Business Victoria: 363 • © austrade.gov.au: 364 • a. © TY Lim / Shutterstock; b. © grejak / Shutterstock: 365

• © Ego Pharmaceuticals: 368 • © The Society for Organizational Learning: 369 • © Andrey Burmakin / Shutterstock: 378
• © Photographee.eu / Shutterstock: 379 • © Interfoto / Alamy Stock Photo: 380 • © ipag collection / Shutterstock: 381
• © Andresr / Shutterstock: 383 • © Goodluz / Shutterstock: 384 • © FiledIMAGE / Shutterstock: 385 • © Steve Tanner /
Newspix: 387 • © Aysezgicmeli / Shutterstock: 388 • © Igor Shmoldaev / Shutterstock: 390 • © Micolás / Shutterstock:
393 (top) • © epicstockmedia / Shutterstock: 393 (bottom) • © anystock / Shutterstock: 395 (top) • © Prime Build:
395 (bottom) • © Medianet Images / AAP: 396 (top) • © Daria Nipot / Shutterstock: 396 (bottom)

Every effort has been made to trace the ownership of copyright material. Information that will enable the publisher to rectify any error or omission in subsequent reprints will be welcome. In such cases, please contact the Permissions Section of John Wiley & Sons Australia, Ltd.

UNIT 3

MANAGING A BUSINESS

Introducing a corporate manager

Few people know who Jim Penman is; however, we all know the business he founded — Jim's Mowing. The business has grown exponentially over the years since he commenced it in 1982 with a \$24 investment. He franchised the business in 1989 and since then, Jim's Mowing has become the largest franchise chain in Australia, and the largest and best-known lawn-mowing business in the world.

Jim's Cleaning was launched in 1994, followed by more than 50 other divisions that now operate in Australia, New Zealand, Canada and the United Kingdom. Today, Jim's Group has over 3800 franchisees and a turnover of approximately \$500 million.



Most of the franchisees operate as sole traders, working by themselves in people's homes and gardens. It was no surprise then when Jim went on the offensive during the COVID-19 Stage 4 lockdown in Melbourne in July 2020. Believing that individual workers mowing lawns while wearing masks were very unlikely to catch the virus, he asked the Premier of Victoria to review the ban on these services. These workers were deemed non-essential, but advice from Victoria's Department of Health and Human Services suggested that sole operators could continue mowing lawns during lockdown.

While he encouraged sole operators to work within the law, he offered to pay the fines of any franchisee fined while obeying the letter of the law.

TOPIC	UNIT / AREA OF STUDY / OUTCOME
1 Business foundations	Unit 3, Area of Study 1 — Outcome 1 Discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills.
2 Managing employees	Unit 3, Area of Study 2 — 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.
3 Operations management	Unit 3, Area of Study 3 — 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.

1 Business foundations

UNIT 3, AREA OF STUDY 1

OUTCOME 1

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

LEARNING SEQUENCE

1.1 Overview.....	4
1.2 BACKGROUND KNOWLEDGE Introduction to business.....	6
1.3 Types of businesses — sole traders and partnerships	12
1.4 Types of businesses — private limited companies and public listed companies	15
1.5 Types of businesses — social enterprises and government business enterprises.....	19
1.6 EXTEND YOUR KNOWLEDGE Changing the type of business through privatisation	23
1.7 APPLY YOUR SKILLS Analysing and discussing social enterprises	26
1.8 Business objectives.....	29
1.9 APPLY YOUR SKILLS Business objectives and key performance indicators	35
1.10 Business stakeholders in the internal environment	38
1.11 Business stakeholders in the external environment	42
1.12 Potential conflicts between stakeholders and corporate social responsibility considerations	48
1.13 EXTEND YOUR KNOWLEDGE Stakeholders and corporate social responsibility.....	52
1.14 Areas of management responsibility.....	56
1.15 EXTEND YOUR KNOWLEDGE The contribution of areas of management responsibility to the achievement of business objectives.....	60
1.16 Management styles — autocratic and persuasive.....	64
1.17 Management styles — consultative and participative	68
1.18 The laissez-faire management style and the appropriateness of management styles	70
1.19 APPLY YOUR SKILLS Management styles	74
1.20 Management skills — communicating, delegating and planning	76
1.21 Management skills — leading, decision-making and interpersonal	84
1.22 Corporate culture and its development	89
1.23 APPLY YOUR SKILLS Styles, skills and corporate culture.....	92
1.24 EXTEND YOUR KNOWLEDGE The relationship between corporate culture, management styles and management skills.....	96
1.25 Review	99



1.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS, and at www.jacplus.com.au.

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, and any one of its 2 200 000 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.



NBN CO LIMITED — A GOVERNMENT BUSINESS ENTERPRISE

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

NBN Co is a government business enterprise (GBE). This means that it is owned by the federal government. Currently, NBN Co employs approximately 6000 people and has estimated that thousands of local jobs will be created as they continue to build the \$38 billion network. The company is a wholesale provider of broadband access — this means that it supplies broadband access to retail phone and internet providers who onsell access to end-users. End-users are both residential and business customers accessing the internet.

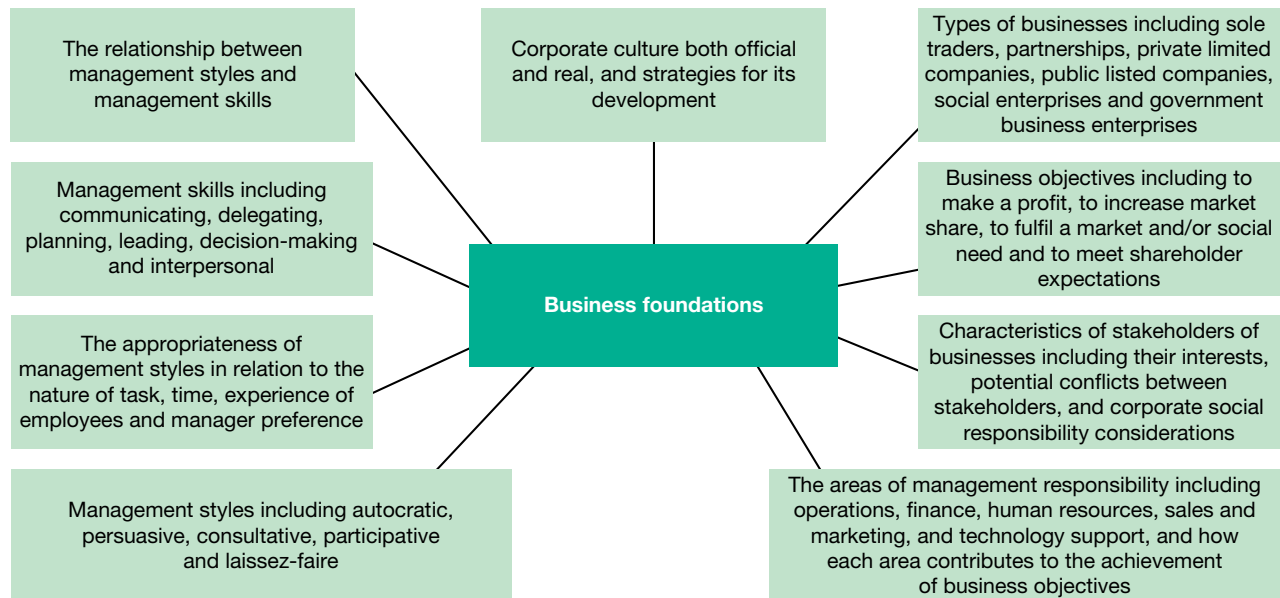
The key objective of NBN Co is to ensure all Australians have access to fast broadband as soon as possible, at affordable prices, and at least cost. One of the company's priorities is to maintain NBN Co as a great place to work, which is underpinned by a customer-led culture. This corporate culture of NBN Co is reflected in its values, which include 'we are one team', 'we are fearless', 'we deliver' and 'we care'.



1.1.2 What you will learn

Key knowledge

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



Key skills

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

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

Source: VCE Business Management Study Design (2017–2022) extracts © VCAA; reproduced by permission.

on Resources

 **Digital document** Key terms glossary (doc-35204)

studyon

To access key concept summaries and past VCAA exam questions, download and print the **studyON: Revision and past VCAA exam question booklet** (sonr-0132).

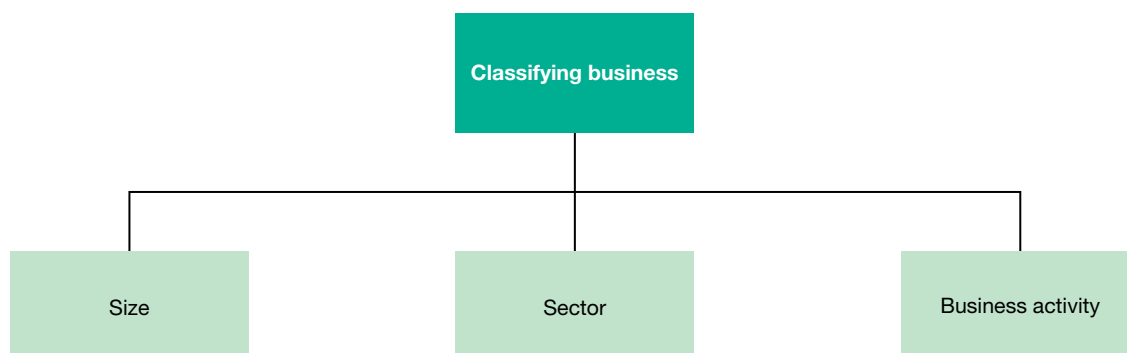
1.2 BACKGROUND KNOWLEDGE Introduction to business

BACKGROUND INFORMATION

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

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

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



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



1.2.1 Business size

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

- *the number of employees (those who are hired to do work for the business).* A large number of employees, for example, will suggest that a business is large. Many small businesses in Australia have no employees, as the owner or owners operate the business on their own. The Australian Bureau of Statistics (ABS) refers to these businesses as 'non-employing'. Traditionally the ABS has defined a small business as one employing fewer than 20 people, and this is the most widely accepted definition. A medium-sized business is defined as employing 20 or more people, but fewer than 200. Any business employing more than 200 people is considered to be a large business.
- *the number of owners (of the business).* For example, if a business is a sole trader (a type of business that has one owner), it is likely to be small. Medium-sized and large businesses tend to be companies with many owners (or **shareholders**).
- *the legal structure.* For example, is the business set up as a sole trader, partnership or company?
- *the amount of **revenue** earned.* For example, a large business may earn revenue of many millions of dollars annually. The Australian Taxation Office (ATO) defines a small business as one that has less than \$10 million in annual turnover (the money received from sales). Large businesses are defined as those with turnover levels above \$250 million.
- *the amount of **assets** owned.* For example, the ABS has historically defined a large business as one that has assets worth more than \$200 million.
- ***market share** (the proportion of total sales in a given market or **industry** that is controlled or held by a business).* A small market share, for example, may suggest that a business is small; however, this depends on the size of the industry or market and the number of businesses operating within it.

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

- *who makes most management decisions, such as who to hire, what to produce or how to advertise a product?* If it is the owner, then the business is most likely small. By comparison, managers working on behalf of the owners typically make the decisions in medium-sized and large businesses.
- *who provides most of the capital (finance)?* The owner of a small business is likely to provide most of the capital. Medium-sized and large businesses are able to raise large amounts of capital, perhaps by taking on more debt, such as through a bank loan or by issuing more shares.

shareholders (or members) the owners of a company

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

assets items of value owned by a 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

Australia Post is a large business because it employs more than 35 000 people and earned revenue of \$6.99 billion in 2018–19. As of June 2019, the business owned assets of more than \$5.5 billion. Australia Post is also a government business enterprise (GBE), as the Commonwealth Government is its sole shareholder. As a GBE it operates in the public sector, but it also operates in the transport, postal and warehousing industries.



1.2.2 Public or private sector

According to the ABS, over 2.375 million businesses were operating in the private sector in June 2019. The private sector is the part of Australia's economy that is operated by private individuals and companies usually for the purpose of making profit. Businesses such as sole traders, partnerships and companies make up the private sector. The public sector is the part of Australia's economy that is operated by government. Businesses operating in the public sector are the least common type of business, according to the ABS. It estimated that in 2018–19, there were fewer than 400 public sector businesses actively trading goods and services. Businesses operating in the public sector are referred to as government business enterprises (GBEs); these are businesses that are owned and operated by the government.

The top five public listed companies in Australia in relation to total revenue in April 2020 were CSL Ltd, Commonwealth Bank of Australia, BHP, Westpac Banking Corporation and National Australia Bank Ltd.



1.2.3 Business activity

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

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

Number of businesses by industry in Australia, 2018–19			
Industry division	Number of businesses operating June 2019	Industry division	Number of businesses operating June 2019
Agriculture, forestry and fishing	173 932	Financial and insurance services	211 644
Mining	8045	Rental, hiring and real estate services	259 290
Manufacturing	86 428	Professional, scientific and technical services	294 471
Electricity, gas, water and waste services	7376	Administrative and support services	96 249
Construction	394 575	Public administration and safety	7922
Wholesale trade	81 627	Education and training	33 055
Retail trade	132 835	Health care and social assistance	141 628
Accommodation and food services	95 301	Arts and recreation services	29 743
Transport, postal and warehousing	189 982	Other services	102 053
Information media and telecommunications	23 249	Currently unknown ^(a)	6348
		All industries	2 375 753

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

Source: Table 1 Businesses by industry division, from ABS 8165.0, *Counts of Australian businesses, including entries and exits, June 2018–June 2019*.

- *is the business independently owned and operated?* Small businesses tend to be owned and operated by the same person, with the owner able to make independent decisions. For example, the owner of a local hamburger shop will be able to decide independently what food he or she will serve, while a large business like Coca-Cola will have entire teams of individuals developing products in line with the company's strategic goals.
- *how many locations does the business have?* A business that is locally based is likely to be small. Note that this does not mean that the business will only trade locally, as many small businesses are able to export products to overseas markets. Small businesses will be based in the one location, whereas a large multinational corporation (or company) may have offices around the world.

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

Common classification of businesses based on size			
Characteristics	Small	Medium-sized	Large
Business type	Corner store Local mechanic Hairdressing salon	Services club Motel/hotel Engineering factory	Woolworths Qantas National Australia Bank
Number of employees according to the ABS business register definition	Fewer than 20 employees	20–199 employees	200 or more employees
Type of ownership	Independently owned and operated by usually one or two people	Owned and operated by a few people and/or private shareholders	Owned usually by thousands of public shareholders
Most common legal structure	Sole trader Partnership	Partnership Private company	Public company (numerous)
Decision-making	Owner responsible for majority of decisions; simple and quick implementation of decisions	Owner basically responsible for majority of decisions; more complicated decision-making with slower implementation, due to influence of directors	Complex decision-making, due to division of responsibilities among directors, senior and middle management; possibly slow implementation of decisions, due to the layers of management
Sources of finance	Owner (usually from own savings or a loan); difficulty in accessing loans	Owners'/partners' own savings or a loan and/or private shareholders; easier accessibility to larger loans	Many sources, including cash reserves, retained profit, sale of shares, and loans from domestic and overseas institutions
Market share	Small, usually local area; not dominant in the industry	Medium-sized, due to dominance within a geographic region; some market dominance	Large, especially for multinational corporations that dominate the markets of many countries

DID YOU KNOW?

In June 2019 there were approximately 2.1 million small businesses in Australia, which represented 97 per cent of all businesses. Most small businesses employ fewer than five people, including the owner, and are often referred to as micro-businesses. Almost 1.5 million of these businesses are non-employing — that is, they have no employees.

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



1.2 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Distinguish between revenue and assets.
2. State whether the following businesses are small, medium-sized or large, and the reason for your decision.
 - a. Qantas employs approximately 30 000 people.
 - b. National Australia Bank is an international financial services company that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.
 - c. Brookfarm is owned by Carolyn and Martin Brook; it produces gourmet macadamia nuts for domestic and export markets, and employs more than 20 staff.
 - d. Ripe Maternity Wear was started by two friends in 1996 to manufacture contemporary maternity clothes. It supplies clothes worldwide, employing no more than 20 staff.
3. Are the following statements true or false?
 - a. Large businesses employ a small number of people.
 - b. Small businesses do not usually have a large share of a particular market.
 - c. In small businesses, decisions are usually made by the owners of the business.
4. Explain the difference between the private sector and public sector.
5. Outline the key characteristics of the primary, secondary and tertiary industry sectors.

APPLY your understanding

6. Prepare a database of 6 to 8 businesses that you have dealt with over the past few months — you may have bought something from them or worked in one. Copy and complete the table below and then answer the questions that follow. One example has been entered for you.

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

- a. What percentage of the businesses in your database are small? What percentages are medium-sized and large?
- b. How do the percentages compare with the figures for Australia?
- c. Provide two reasons for the differences/similarities between the figures.

7. Using the internet or newspapers, look for articles about different businesses that interest you. Start a file of news clippings or printouts and write an information page to attach to each article. Include the following:
- Describe what the article is about.
 - Provide background information about the business.
 - Identify the section of the VCE Business Management course to which the article relates, e.g. Area of Study 1, Outcome 1.

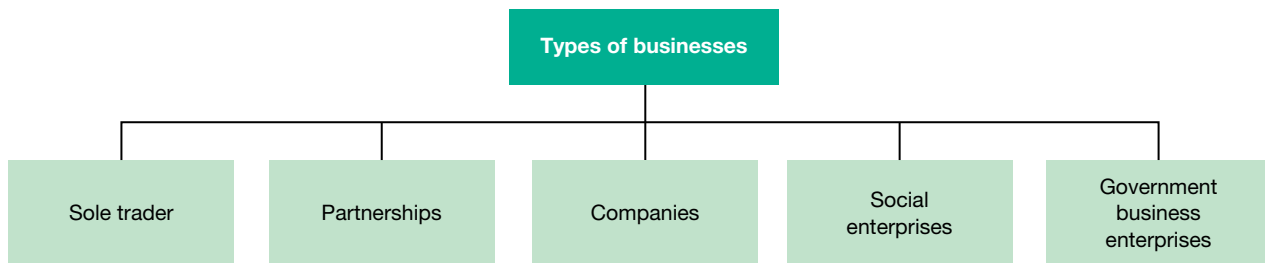
Solutions and sample responses are available in your digital formats.

1.3 Types of businesses — sole traders and partnerships

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

1.3.1 Types of businesses

There are a number of different types of businesses. Three common legal structures used by businesses in Australia are: sole traders, whereby an individual owns and runs a business; partnerships, whereby a 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 the next subtopic. Each of these structures has certain advantages and disadvantages. Two other types of businesses are social enterprises and government business enterprises. These are explored in subtopic 1.5.



on Resources

▶ 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 to discuss the key characteristics of businesses'. This suggests that you should know the advantages and disadvantages of each type of business.

1.3.2 Sole trader

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

sole trader a business owned and operated by one person

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

The advantages and disadvantages of being a sole trader



1.3.3 Partnership

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

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

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

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)

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.

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.

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.

1.3 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

APPLY your understanding

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

EXAM practice

8. Define the term 'partnership'. (1 mark)
9. Distinguish between a sole trader's business and a partnership. (3 marks)
10. Explain two reasons why a business may choose to operate as a sole trader rather than as a partnership. (4 marks)
11. Outline the characteristics of a sole trader. (2 marks)
12. Discuss the advantages and disadvantages of a partnership. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions [online only](#)

Solutions and sample responses are available in your digital formats.

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

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

1.4.1 Incorporation

Many businesses 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**.

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

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

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

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

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

DID YOU KNOW?

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

1.4.2 Private limited companies

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

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

Sometimes the decision is taken to close a business. However, closing a private company is much more complex than closing a sole-trader business or a partnership. All shareholders of the company must agree to the company being wound up. A liquidator (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.

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 amongst 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

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.

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

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.

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.

Registering a proprietary company also requires the payment of a registration fee when the company is registered with ASIC. This fee is usually increased each year. At 1 July 2020 this fee was \$506. 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

Advantages

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



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

Disadvantages

1.4.3 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.

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

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.

The advantages and disadvantages are much the same for both private limited and public listed companies.

Furthermore, public listed companies can attract extra capital by issuing shares on the share market. A private limited company must not offer its shares to the public.

Because a public company has the ability to raise capital from the public, there is a greater potential for growth. However, because of this capital-raising capacity, public listed companies are required to abide by stringent compliance rules and disclose corporate financial information. A public listed company is a highly complex business structure and it requires greater accountability and compliance than a private limited company.

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).



STOCK	BID	OFFER	LAST	VOL	STOCK	BID	OFFER
EUR GROUP	0.080	0.070	0.000	0	FARM PRIDE	0.100	0.140
EUROFIELD	0.098	0.140	0.000	0	FE LIMITED	0.026	0.030
EUROPE GAS	0.385	0.335	0.335	777	FEDAX	0.120	0.130
EUROPE	1.000	1.000	1.000	47	FERROWEST	0.024	0.033
EVOLUTION	1.835	1.940	1.835	2M	FERRUM	0.052	0.057
EXALTUS	0.041	0.050	0.050	57	FIDUCIAN	0.800	0.810
EXALTUS	0.000	0.000	0.000	0	FEAX	0.110	0.125
EXCALIBUR	0.040	0.049	0.040	50T	FIBAR	1.075	1.080
EXCALIBUR	0.001	0.002	0.000	0	FINDERS	0.200	0.220
EXCALIBUR	0.010	0.050	0.000	0	FIRESTONE	0.008	0.009
EXCALIBUR	0.180	0.185	0.180	30T	FIRSTFOLD	0.014	0.015
EXCALIBUR	0.200	0.285	0.260	54T	FISSION EN	0.020	0.035
EXCALIBUR	0.072	0.075	0.072	30T	FITZROYIES	0.049	0.068
EXCALIBUR	0.430	0.480	0.000	0	FLATGLASS	0.225	0.230
EXCALIBUR	3.380	3.500	0.000	0	FLATGLASS	0.050	0.190
EXCALIBUR	0.020	0.053	0.000	0	FLEETWOOD	10.21	10.23
EXCALIBUR	0.385	0.400	0.385	18M	FLEXIGROUP	3.380	3.380
EXCALIBUR	0.008	0.010	0.008	3M			
EXCALIBUR	0.025	0.028	0.000	0			
EXCALIBUR	0.001	0.001	0.000	0			

KEY IDEAS

- 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.

1.4 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

APPLY your understanding

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

EXAM practice

8. Define the term 'private limited company'. (1 mark)
9. Outline two reasons why a business may choose to operate as a private limited company rather than as a public listed company. (4 marks)
10. Discuss the key characteristics of a public listed company. (4 marks)
11. Outline the characteristics of a public listed company. (2 marks)
12. Discuss the advantages and disadvantages of a private limited company. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

1.5 Types of businesses — social enterprises and government business enterprises

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

1.5.1 Social enterprises

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

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.

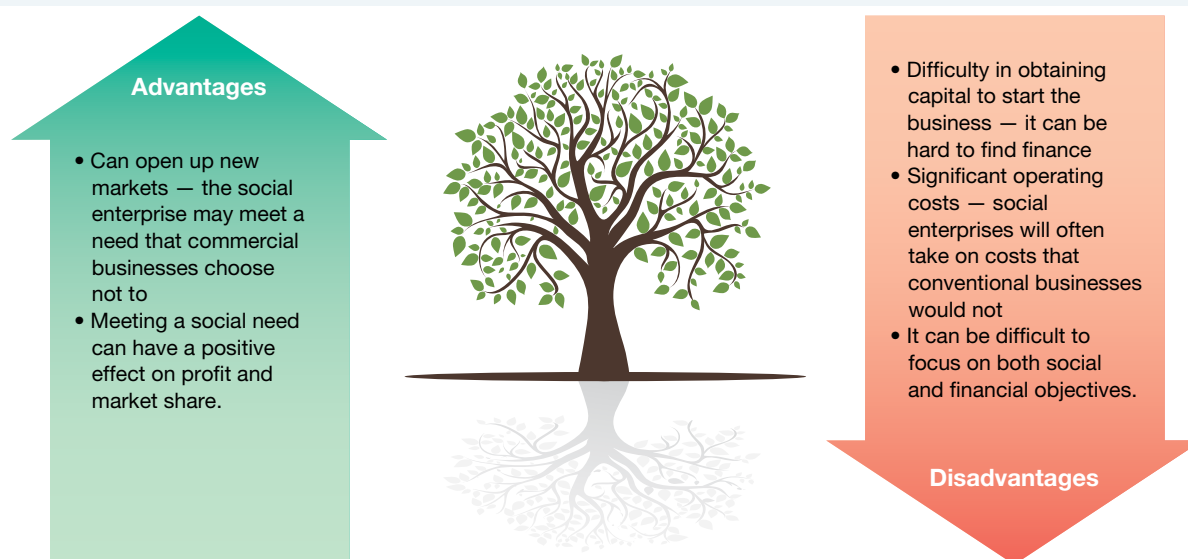


In Australia, a social enterprise can operate in many ways — it can take the form of a cooperative (a business that is owned and operated by the group of members) or a privately owned business. A social enterprise will often run just like a commercial business. Unlike charities, social enterprises do 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:

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

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

The advantages and disadvantages of social enterprises



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. The company is still going strong and declared a profit of \$164 369 for the year ending 30 June 2019.

1.5.2 Government business enterprises

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

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

government business enterprise (GBE) a type of business that is government owned and operated

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

NBN Co was established as a business in April 2009, tasked with designing, building and operating Australia's National Broadband Network. Like a privately owned enterprise, a GBE will have a Chief Executive Officer (CEO). In February 2020, Stephen Rue (CEO at NBN Co) announced revenue of \$1.8 billion for the second half of 2019.



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.

on Resources

 **Weblink** Defence Housing Australia

KEY IDEAS

- 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.

1.5 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

APPLY your understanding

5. Shane is planning to manufacture home water filtration units and sell the products locally. He then wants to use the proceeds of these sales to provide the same product to communities in developing countries. Explain to Shane why a social enterprise would be an appropriate business type for this idea.
6. In your notebook, construct a table with six columns labelled as in the example below. From the list of businesses provided, write each name in the correct column for its particular business type. The first business has been entered for you, as an example.
 - Ray Coulton Carpentry
 - 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
 - Tynan Motors Pty Ltd
 - 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					

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

EXAM practice

9. Explain the key characteristics of a social enterprise. **(2 marks)**
10. Distinguish between a social enterprise and a government business enterprise. **(4 marks)**
11. Discuss the use of a government business enterprise as a type of business. **(4 marks)**
12. Social enterprises do not exist primarily to make a profit, but still need to ensure that revenue is greater than expenses. Discuss the key characteristics of a social enterprise. **(4 marks)**
13. Justify the continued existence of a government business enterprise, even if it is making a loss, giving an example of an existing GBE to support your argument. **(3 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

1.6 EXTEND YOUR KNOWLEDGE Changing the type of business through privatisation

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

The process of privatisation started in Australia in the 1980s, and over the past 40 years there has been a worldwide trend to privatise GBEs. Privatisation involves the transfer of ownership of government assets to the private sector. This often results in government-owned corporations being sold to the private sector through a float (the issuing of shares to the public for the first time), and then run as profit-making businesses.

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

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

MEDIBANK

Medibank Private Limited is a company that is listed on the ASX and is headquartered in Melbourne. It employs nearly 4000 people. It provides private health insurance and complementary health services to more than 3.7 million people in Australia and New Zealand through its Medibank and ahm brands.

However, Medibank has not always been a public listed company.

Medibank was originally established in 1975 by the Whitlam Labor government as a universal health care scheme; it was an operating division of the Health Insurance Commission (HIC) — now known as Medicare Australia — and ran in much the same way as Medicare does today. The Whitlam government was defeated in the December 1975 election and the incoming Liberal–National Country Party Coalition government set up a review of Medibank in February 1976. In October of that year Medibank became Medibank Private, a government owned, not-for-profit private health insurer that would provide competition for private for-profit health funds.

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

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

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

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

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

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

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

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



Medibank Private is now a multi-billion-dollar revenue business, and holds just under 27 per cent of the private health insurance market in Australia. In June 2019, Medibank announced an annual profit of \$458.7 million, an increase of 3.1 per cent on the previous financial year's result. The result was attributed to increased membership numbers and productivity gains. Medibank eCEO Craig Drummond said, 'While we may face a challenging market environment, our focus is clear — to give our customers greater choice over how and where their health care is delivered, and make health insurance more affordable, better value and easier to use.'

The profit was better than market expectations and Medibank Private's share price rose significantly in response to the release of the annual report.

In response to increasing consumer disquiet about rising premiums, Mr Drummond pointed out that since January 2019, Medibank had saved customers more than \$3 million in out-of-pocket costs through the launch of their Members' Choice Advantage dental network. They had also launched their 'Live Better' rewards program to recognise customers for taking healthy actions, with one of the benefits being that rewards can be used to lower premiums.

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



DID YOU KNOW?

When Medibank Private floated on the ASX, its five female directors made history by sitting on the only board of the 100 largest companies to have more women than men. In 2020, there were still five women on Medibank's board of eight directors: chairman Elizabeth Alexander, Tracey Batten (a former CEO of St Vincent's Health Australia, Eastern Health and Dental Health Services Victoria), former premier of Queensland Anna Bligh, Japara Healthcare chair Linda Bardo Nicholls, and CSL and Transurban director Christine O'Reilly.

1.6 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

EXTEND your understanding

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

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

Date	Closing share price for Medibank (code MPL)
30 June 2015	\$2.01
30 June 2016	\$2.95
30 June 2017	\$2.80
30 June 2018	\$2.92
30 June 2019	\$3.49

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

EXAM practice

9. Australia Post is a government business enterprise. It makes healthy profits on its parcel delivery services, but loses money on regular mail deliveries. Over the years, governments have discussed the issue of privatising the business
- a. Outline a benefit to government of privatising Australia Post. **(2 marks)**
- b. Would the sale of Australia Post be an attractive option for investors? Explain one possible benefit and one risk for potential shareholders of Australia Post. **(4 marks)**
- c. Australia Post provides a valuable service to the community. Discuss the benefits and risks to the community of the possible privatisation of this business. **(4 marks)**

Solutions and sample responses are available in your digital formats.

1.7 APPLY YOUR SKILLS Analysing and discussing social enterprises

PRACTISE YOUR SKILLS

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

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

VANGUARD DOES THE LAUNDRY TO PROVIDE JOBS

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

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

As a social enterprise, the Vanguard laundry provides jobs to unemployed people who have a lived experience of mental illness. Any surplus it makes is 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 2018 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 now.

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

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

Luke Terry, Managing Director of Vanguard Laundry Services



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. Since then, every time that he has had the opportunity to travel, Meltzer has visited non-governmental organisations (NGOs) that work with women and girls around the world.

Jeremy Meltzer, founder of i=Change



To better understand the issue, he has met with the NGOs and women's rights activists, sat with communities and spoken to media around the world. Meltzer has pointed out that the United Nations (UN) states that violence against women and girls is rooted in structural inequality in power relations between women and men. According to the UN, it persists in every country in the world and is one of the most systematic and widespread human rights violations.

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

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

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

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

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

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

i=Change currently has more than 40 participating retailers, including brands such as Pandora and Camilla, and recently hit \$1.9 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.

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

1.7 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

1. Read the 'Vanguard does the laundry to provide jobs' case study. Outline why Luke Terry established Vanguard Laundry Services.
2. What is Vanguard's objective?
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 supports retailers in donating to global development projects' case study. Explain where Jeremy Meltzer's idea for i=Change came from.

6. What is i=Change's objective?
7. Outline how Meltzer's online cause-based marketing platform works.
8. Why does Meltzer believe that social enterprises need to be profitable businesses?

APPLY your skills

9. Using internet sources, find an example of a social enterprise. For example, you might use the 'Social Traders' website to identify names of social enterprises in Australia.
 - a. What is the objective of the social enterprise?
 - b. Explain how the social enterprise achieves its objective.
10. Identify whether or not the following businesses are social enterprises. Justify each response.
 - a. Sports4U Pty Ltd designs, develops and sells sporting apparel, including compression wear and general fitness garments. Its mission is to advance human performance through the development of the best available athletic garments at the lowest possible prices.
 - b. Delia is a sole trader operating a landscape gardening business. She started the business to pay off her and her husband's mortgage.
 - c. Christine owns a café that has environmental and social objectives. It provides jobs for young people with learning difficulties and other disabilities. As well as being used to provide training programs, revenue from the café funds other local community programs.
 - d. Ossivision Australia is a private company that has an objective of aiding the homeless community. The business puts the proceeds from the sale of its sunglasses towards acquiring blankets and distributing them to the homeless.
 - e. Assistenz Health is a public company that produces and distributes health care products to pharmacies. Its vision is to improve health care while creating unprecedented value and opportunity for customers, employees and investors.
11. The task word (sometimes referred to as command word or instructional word) 'discuss' generally requires you to consider both sides of something. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs of that thing. Using the example of Vanguard Laundry Services or i=Change, discuss the use of a social enterprise as a type of business.

EXAM practice

12. Define the term 'social enterprise'. (2 marks)
13. Discuss the advantages and disadvantages of a social enterprise as a type of business. (4 marks)

Solutions and sample responses are available in your digital formats.

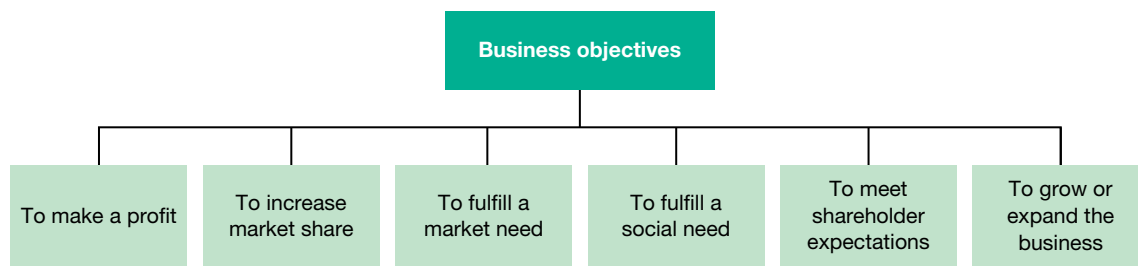
1.8 Business objectives

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

1.8.1 Business objectives

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

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

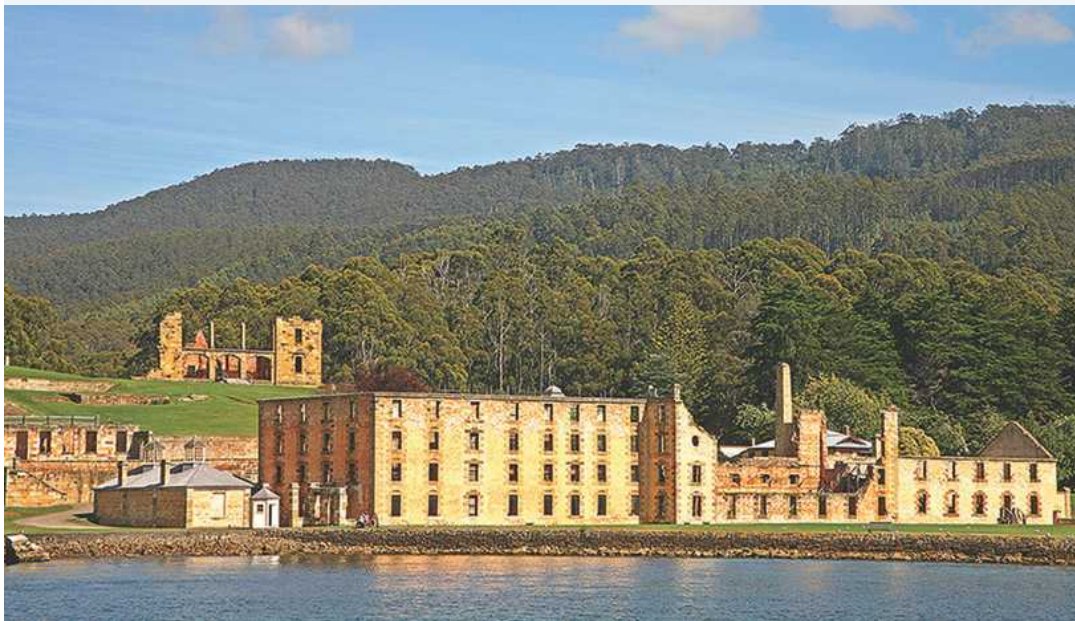


To make a profit

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.

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.

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.



To increase market share

As mentioned in section 1.2.1, market share is a business's proportion of total sales in a market or an industry. This is easy to visualise using a pie chart that shows the percentage of sales the business has in relation to all its competitors. 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 cafes. 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 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.

Growing or expanding the business

For most business owners, growing or expanding the business is an important objective. Business growth will usually come from increasing the number of customers, increasing revenue and potentially increasing profit as a result. Expanding the business is also important in increasing market share. A business that stands still and does not grow in size, output and revenue is likely to be overtaken by competitors, and may not be successful. For small business owners, business growth can often bring additional expenses, such as the need to hire more staff, so growth needs to be sustained over a period of time before such decisions are made.

1.8.2 Setting business objectives

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). However, profits are not the only objective.

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

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

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

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

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



Objectives from a range of businesses

Bakers Delight (private limited company)
<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.

1.8.3 Developing business strategies

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

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

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

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

1.8.4 Analysing performance

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

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

Businesses use **key performance indicators (KPIs)** to precisely analyse performance. KPIs are criteria used as a measure of the success, or the efficiency and effectiveness, of a particular area of 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
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 (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 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.

1.8 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

- Outline the difference between an objective and a strategy.
- Explain the importance of business objectives.
- Examine the four businesses' objectives outlined in the figure at the end of section 1.8.2, and then answer the following questions.
 - Are there common features of these objectives? What are they?
 - What are the differences between these objectives?
 - Would it be important for employees, managers and customers to be familiar with a business's objectives? Why?
- Complete the following sentences by filling in the blanks.
 - Making a _____ is a central objective for many businesses.
 - Fulfilling a _____ involves producing and/or selling goods and services for the purpose of making the world a _____ place.
 - Fulfilling a _____ involves meeting customer expectations or providing a good or service that is not available to a market.
 - Shareholders expect to receive a proportion of the profits (called _____) as well as make a capital _____ if the value of a company's shares increases.
 - Market share is a business's _____ of total industry _____.
- Why should businesses analyse their performance?
- Differentiate between effectiveness and efficiency.
- What is a key performance indicator and what is it used for?

APPLY your understanding

8. Working with a partner, write a suitable business objective for the following businesses.
 - a. Your local fish and chip shop
 - b. Your local accounting firm
 - c. A company that exports products
 - d. A social enterprise employing the homeless
9. What are your objectives for this year? Do you have a strategy to achieve those objectives? Complete the 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.

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

EXAM practice

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

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

1.9 APPLY YOUR SKILLS Business objectives and key performance indicators

PRACTISE YOUR SKILLS

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

1.9.1 Business objectives

OBJECTIVE: GIVE AWAY ONE MILLION MEALS A YEAR

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

The enterprise started in 2000 with volunteers cooking 300 pies a week. For some time, its aspirational target had been to cook one million meals in a year. It finally achieved this in 2015, with its volunteers and staff cooking approximately 5000 meals every day. In 2018, FareShare expanded to Queensland, opening a kitchen in the Brisbane suburb of Morningside. In 2019, FareShare cooked over two million meals across its Melbourne and Brisbane kitchens, supplying meals to charities including Vinnies vans, the Salvos and the Asylum Seeker Resource Centre.

FareShare's major food and kitchen donors include Woolworths, Coles DC, Bakers Delight, Fonterra, Corona Manufacturing and Linfox Logistics. In 2015, Moorabbin Airport donated a block of land to FareShare. This land was transformed into an enormous vegetable garden to supply the enterprise's kitchen in Abbotsford with fresh produce. FareShare now has three gardens in operation, covering 0.65 hectares and yielding over 60 000 kilograms of vegetables in 2018–19. In addition, the business has been able to acquire a warehouse in the Melbourne suburb of Derrimut, which allows it to receive large donations of food. This warehouse also has large freezer capacity which allowed FareShare to store 32 000 kilograms of meat in 2019 — enough to supply the Abbotsford kitchen for six months. This facility also has a temperature-controlled food preparation room, which allows meat and vegetables to be processed, relieving a bottleneck in the Abbotsford kitchen.

FareShare does have other objectives. Part of its mission relates to raising awareness about food insecurity and the value of food rescue. FareShare also helps the environment, as reducing waste that ends up in landfill reduces methane pollution and the demand for new food products. In 2019, FareShare rescued 1 027 233 kilograms of food, which it used to distribute 863 184 kilograms in meals.

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



1.9.2 Goal!

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

Materials required

- Basketballs
- Basketball rings
- Space

Instructions

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



on Resources

 **Weblink** FareShare

1.9 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

1. Define the term 'business objective'.
2. Explain what a 'vision' is.
3. Read the 'Objective: Give away one million meals a year' case study. Describe what FareShare does and how its work benefits the community.
4. Explain why FareShare's mission is very different from that of other businesses that have a main focus on making a profit.
5. Using evidence from the case study, explain whether FareShare has achieved its objectives.
6. How did your group manage the task outlined in section 1.9.2? Did you work well together?
7. What was the objective for your group?
8. Explain what 'effectiveness' means.
9. What does 'efficiency' mean?

APPLY your skills

10. Use the **FareShare** weblink in the Resources tab to watch the video about FareShare.
 - a. What objectives are businesses such as Woolworths achieving by donating food to FareShare?
 - b. Approximately how many tonnes of food are wasted each year in Australia?
 - c. How many volunteers work for FareShare? Why do you think people volunteer to work for no wages?
 - d. Explain what would happen to the surplus food if FareShare did not collect it.
11. The task word (sometimes referred to as command word or instructional word) 'discuss' generally requires you to consider both sides of something. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs of that thing. Discuss the strengths and weaknesses of FareShare as a social enterprise.
12. The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate the need for social enterprises in our society.
13. How can you measure the effectiveness of your group's performance in the activity outlined in section 1.9.2?
14. Can you think of a way to measure your group's efficiency?
15. Complete the following table, using the results from your goal shooting. The table has been started for you.

	Efficient	Inefficient
Effective	Score a goal from every shot	
Ineffective		

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

EXAM practice

17. Social enterprises that provide food for hungry and homeless people are providing a community service to those people. Outline one other possible benefit to society provided by such enterprises. **(2 marks)**
18. Justin runs a plumbing business. He aims to make a profit.
 - a. Explain the importance of the business objective 'to make a profit'. **(2 marks)**
 - b. Describe one business objective (other than 'to make a profit') that would be relevant to Justin's plumbing business. **(2 marks)**

Solutions and sample responses are available in your digital formats.

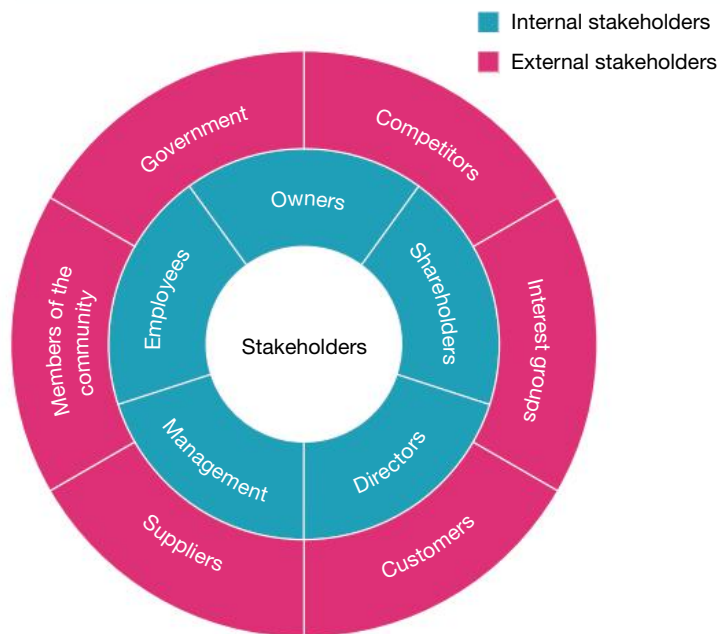
1.10 Business stakeholders in the internal environment

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

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

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

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



1.10.1 Owners

A business may be owned by a sole trader, by partners or by a number of shareholders. The extent to which the owner is involved in the management or daily operations of the business will affect 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.



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

1.10.2 Shareholders

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

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

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

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

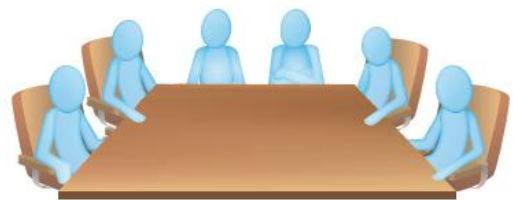


DID YOU KNOW?

In Australia, many industries generate emissions of the most common greenhouse gas — carbon dioxide. However, many energy companies in Australia that have traditionally relied on coal-fired power stations are now expanding into renewable energy production by investing in wind and solar power.

1.10.3 Directors

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



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

DID YOU KNOW?

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

1.10.4 Management

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

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



1.10.5 Employees

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



DID YOU KNOW?

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

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

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

The internal stakeholders of businesses and their interests

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



Resources



Weblinks

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

KEY IDEAS

- Businesses have many stakeholders, with varying interests.
- Stakeholders for a business internally include owners, shareholders, directors, management and employees.

1.10 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

Internal stakeholder	Description	Interest

APPLY your understanding

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

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

EXAM practice

8. Define the term 'stakeholder'. (1 mark)
9. Describe the interests of employees. (2 marks)
10. Compare the interests of shareholders, as stakeholders in a company, with those of management. (3 marks)
11. Grace has just commenced work in a jeans store in a busy shopping centre. She is the newest employee amongst ten other shop assistants employed in the store.
 - a. Explain why Grace would be considered a stakeholder in the jeans store. (2 marks)
 - b. Outline one interest Grace would have as a stakeholder in the business. (1 mark)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

1.11 Business stakeholders in the external environment

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

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

1.11.1 Competitors

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

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

1.11.2 Customers

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

1.11.3 Suppliers

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

1.11.4 Interest groups

Interest groups are organisations of people who attempt to directly influence or persuade businesses to adopt or change particular activities, processes or policies. Three common types are trade unions, consumer groups and specific issue groups. These interest groups can be considered in both the operating and



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

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

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

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



macro environment, as they can have a direct impact on individual businesses, as well as a broader community-wide influence.

Trade unions

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

Trade unions in some industries have a lot of power, including the ability to organise strikes if certain demands are not met. While the Australian Council of Trade Unions (ACTU) represents about 1.8 million workers, union membership in Australia more than halved between 1990 and 2020 (from 40.5 per cent of the workforce to below 15 per cent, according to Australian Bureau of Statistics data). The steady decline in union membership is partly due to a shift from blue-collar jobs to those in the service sector, which is less unionised.



Consumer groups

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

Specific issue groups

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

1.11.5 Government

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



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

The Westgate Tunnel project is being built by toll-road operator Transurban on behalf of the Victorian Government. It is an example of cooperation between a large company and government.



1.11.6 The broader 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.



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 2017 Sustainability Report, Wesfarmers outlined how it had reduced its environmental impact. Over the previous five years, the company had reduced its greenhouse gas emissions intensity by 16 per cent. An increase in emissions of 8 per cent in 2019 was largely a result of increases arising from chemical, energy and fertiliser production. Reinvestment in plant and equipment was planned for 2020 to overcome this issue.

Furthermore, some people within the general community may be concerned about their future welfare through their own employment within businesses. Businesses employ large numbers of people. In June 2018, the ABS estimated there were 4.9 million people employed in small businesses, 2.7 million people employed in medium-sized businesses and 3.5 million people employed in large businesses.

The external stakeholders of businesses and their interests

External stakeholder	Interest
Competitors	Want to have a competitive advantage over the business Likely to be prepared to respond to any change in the actions of the business to gain a competitive edge — this may include changing prices or improving the quality of products
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
Interest groups	Trade unions want to prevent anything that diminishes employee rights, safety or conditions — they work to achieve favourable pay and work conditions for employee members. Consumer groups want to ensure that the business sells products that are safe, appropriately packaged, reasonably priced and advertised with honesty. Specific interest groups want the business to consider their area of interest, whether it is in the area of unemployment, civil liberties, anti-globalisation or environmental protection.
Government	Make or change laws that have an impact on businesses Want the business to do well because this is good for the economy — the government also benefits from successful business by receiving a portion of their profits through its collection of taxation revenue
The broader 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

THE INTERESTS OF STAKEHOLDERS AFFECT BUSINESSES

Businesses need to consider the many interests of all of their stakeholders. For example, in times of rapid economic growth, the demand that customers have for goods and services can increase, and many businesses will be able to take advantage of this. Investing in new equipment, hiring new staff and even expanding the business into new locations can be possible during such times. In contrast, slow economic growth can lead to a decline in the demand of customers, resulting in reduced revenue and loss of staff. The interests of government can also affect the way businesses operate. For example, the Commonwealth government established the Royal Commission into the banking and financial services industry held in 2017. The Royal Commission resulted in findings of unethical and illegal behaviour by many banks and other organisations. The government has undertaken making legislative changes to deal with these issues, which are aimed at changing the culture and performance of these types of businesses.

The interests of stakeholders can combine to affect the way in which businesses operate. For example, during the COVID-19 pandemic, the interests of the government and the broader community had a profound effect on businesses. In order to enforce health safeguards, many businesses were forced to close for a number of months, while many others had most or all employees working from home. Many of these changes could have long-term effects on the way businesses operate into the future.



Resources



Weblink Coles

KEY IDEAS

- Businesses have many stakeholders, with varying interests.
- Stakeholders for a business externally include competitors, customers, suppliers, interest groups, government and the broader community.

1.11 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

External stakeholder	Description	Interest

APPLY your understanding

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

EXAM practice

9. Describe the interests of customers. (2 marks)
10. Outline the characteristics of unions. (2 marks)
11. Distinguish between competitors and suppliers. (4 marks)
12. Explain two ways in which a business can respond to the expectations of the broader community. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

1.12 Potential conflicts between stakeholders and corporate social responsibility considerations

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

1.12.1 Potential conflicts between stakeholders

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

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

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

An accident on a ride at Gold Coast theme park Dreamworld in October 2016 resulted in the deaths of four adults and injuries to two children. In February 2020, the Queensland Coroner found systemic failure by Dreamworld in relation to all aspects of safety, and declared that he was referring the parent company Ardent Leisure for possible prosecution.



Stakeholders and their conflicting interests



Stakeholders	Conflicting interest
Employees and shareholders	Employees require safe working conditions and reasonable wages, but this may reduce the business's profit and dividends to shareholders.
Management and customers	Management could attempt to maintain profit and a high dividend to satisfy shareholders by raising the prices of products, but this will upset customers, who expect reasonably priced products.
Management and the broader community	Management might decide to cut costs by neglecting maintenance, which could possibly put members of the community in danger.
Suppliers and the broader 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.'

1.12.2 Corporate social responsibility

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

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

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.



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.

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

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.

Yarra Valley Water is a statutory corporation that provides water and sanitation services to more than 1.8 million people and over 50 000 businesses in the northern and eastern suburbs of Melbourne. The government business enterprise is committed to protecting the environment and prioritises sustainability. In December 2019, Yarra Valley Water was awarded the Infrastructure Project Innovation Award at the annual Australian Water Association Victorian Water Awards. The award was for its state-of-the-art waste to energy plant, 'ReWaste'. Since opening in 2017, the plant has converted over 60 000 tonnes of spoiled food waste into clean, renewable energy. The plant powers itself, as well as a sewage and recycled water plant next door, while exporting around 70 per cent of energy produced to the electricity grid.



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.

1.12 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Define the term 'corporate social responsibility' in your own words.
2. Explain why there are potential conflicts between the interests of stakeholders.
3. Looking at the information in the table in section 1.12.1, in what ways do the interests of stakeholders conflict?
4. Suggest ways in which a business could reconcile the following pairs of conflicting interests.
 - a. Consumers demanding cheaper products and employees wanting higher wages
 - b. Shareholders desiring a higher return on their investment and society wanting a clean environment
 - c. Managers being required to keep costs of production down and socially responsible suppliers wanting higher prices for inputs
5. List some business activities that could involve corporate social responsibility considerations.
6. 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

7. 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.
8. 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?
9. 'To be effective, corporate strategy must take into account the interests, needs and expectations of all the business's stakeholders. Companies should have a strategy that combines business goals and broad social interests.' Do you agree? Explain your answer.

EXAM practice

10. Outline the competing demands that two stakeholders may place on a business. **(2 marks)**
11. Explain one potential conflict between the demands of shareholders and employees. **(2 marks)**
12. Describe the positive and negative consequences of a business implementing socially responsible practices. **(4 marks)**
13. 'Corporate social responsibility considerations are an unwelcome constraint on businesses.' Discuss this statement. **(4 marks)**
14. With reference to a contemporary business case study, explain the conflicting interests of two stakeholders on a business. **(4 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

1.13 EXTEND YOUR KNOWLEDGE Stakeholders and corporate social responsibility

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

1.13.1 Stakeholder engagement

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

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

STAKEHOLDER ENGAGEMENT AT BHP

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

BHP claims that it regularly consults employees and contractors, local and Indigenous communities, shareholders and customers.

It realises that other groups — such as the investment community, business partners, community organisations, unions, non-government organisations, suppliers, governments, media and industry associations — have an influence on the business. Some of BHP's stakeholder engagement methods are described under the following headings.

Community organisations

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

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



Customers

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

Employees and contractors

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

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



Government

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

Shareholders

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

Suppliers

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

1.13.2 Environmental damage

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

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

SAMARCO DAM FAILURE

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

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

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

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

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

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

In late 2017, BHP agreed to fund a total of up to US\$181 million to support the Renova Foundation and Samarco. In a media statement, BHP said that, 'Funds will be released to Samarco only as required, and subject to achievement of key milestones.' In June 2018, Samarco and parent companies Vale and BHP signed a deal with Brazilian authorities settling a lawsuit related to the dam burst. In November 2018, a US\$5 billion lawsuit was filed against BHP, under Brazilian law in the English High Court, on behalf of 235 000 Brazilian individuals and organisations. In 2020 the proceedings were delayed because of the COVID-19 pandemic.

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



Resources

 **Weblink** BHP

1.13 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. What is meant by the term 'stakeholder engagement'?
2. Read the 'Stakeholder engagement at BHP' case study. List BHP's stakeholders.
3. Outline some of the conflicts that could occur between the stakeholders of BHP.
4. Read the 'Samarco dam failure' case study. State where the Fundão tailings dam is located.
5. Describe BHP's role in the dam failure.
6. Outline the consequences of the dam failure.

EXTEND your understanding

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

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

8. Explain how the management of conflicting stakeholder interests can lead to a business being viewed as socially responsible.
9. Use the **BHP** weblink in the Resources tab to find information about sustainable development as it applies to BHP. Write a report explaining how BHP performs in the area of socially responsible management.
10. Use the following table to outline the effect of the Samarco dam failure on BHP's stakeholders.

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

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

EXAM practice

13. Explain whether or not it is possible for a business to satisfy the expectations of all stakeholders. Justify your answer. **(4 marks)**
14. 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. **(4 marks)**

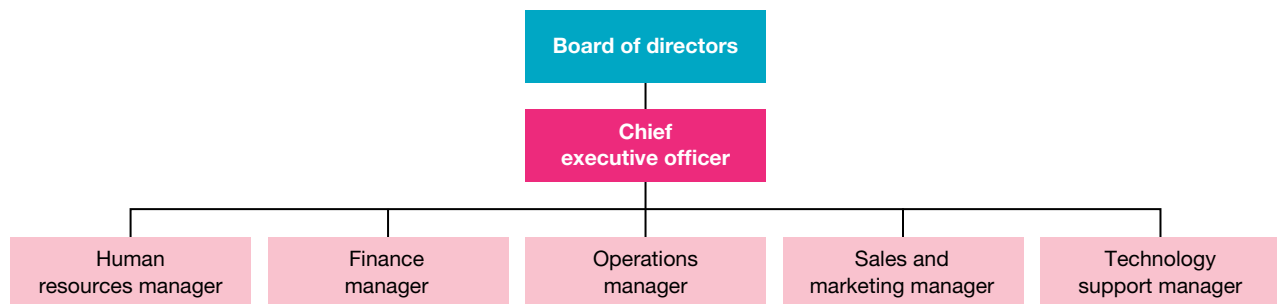
Solutions and sample responses are available in your digital formats.

1.14 Areas of management responsibility

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

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

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



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

on Resources

Video eLesson Areas of management responsibility (eles-2940)

1.14.1 Operations

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

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



The strategies used by the operations area depend on whether the business transforms inputs into goods or services. Generally, the operations strategies include the use of technology, materials management, quality management and waste minimisation in the production process. An operations manager might, for example, introduce a quality strategy to improve the competitiveness of the business's product. Quality control — the use of inspections at various points in the production process — could be utilised to minimise waste and defects, and ensure that the product meets certain standards.

The operations area is sometimes referred to by other names, such as production, quality or supply. This management area will be covered in more detail in topic 3.

1.14.2 Finance

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

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

The finance area is sometimes referred to by other names, such as administration, and in larger businesses the person with responsibility for this area of management is often known as the Chief Financial Officer (CFO).

1.14.3 Human resources

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

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



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

The human resources area is sometimes referred to by other names, such as people and development, or personnel. This management area will be covered in more detail in topic 2.

1.14.4 Sales and marketing

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

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

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

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



1.14.5 Technology support

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

This area of management responsibility is very important, as the use of information technology continues to expand in most businesses. For many businesses therefore, the achievement of business objectives relies heavily on the successful integration of technology throughout the business. The technology support area is responsible for the installation and maintenance of this technology.

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



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

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

Resources



Weblinks

Tasman Tank Co.
Toshiba International Corporation

KEY IDEAS

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

1.14 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

EXTEND your understanding

7. A large energy provider decides to focus on the objective of improving customer service. Identify one strategy that each area of management responsibility could implement to support the attainment of this objective.

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

EXAM practice

10. Define the term 'technology support'. (1 mark)
11. EcoMe is a social enterprise that has the objective of supporting households to become more environmentally sustainable. Explain how the human resources area of management responsibility contributes to the achievement of EcoMe's objective. (2 marks)
12. Distinguish between the management responsibilities of operations and finance. (3 marks)
13. Explain how the sales and marketing area of management responsibility contributes to the achievement of business objectives. (2 marks)
14. Lisa has just set up her own hairdressing business in a busy shopping centre. Identify and explain three areas of management responsibility she will have to consider in addition to her actual hairdressing activities. (6 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

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

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

ROLE OF THE CHIEF FINANCIAL OFFICER (CFO)

In many businesses today the finance manager is known as the chief financial officer (CFO). With this change in title often comes a broader set of duties. The traditional view of the finance manager concentrated almost solely on the accounting role within the business. Keeping accurate financial records and preparing regular financial reports was seen as the primary role, and as long as this was done efficiently and effectively, not much else was required.

Much has changed in recent years. The Strategic CFO is an American consultancy company that provides educational and training programs, as well as consultancy services, to CFOs all over the world. The Strategic CFO was founded in 1999 by Jim Wilkinson, who realised that as the role of CFOs changed, the level of available support was missing. For the next 18 years Wilkinson wrote extensively on the evolving role of the CFO, and the importance of that role in achieving business objectives, before his passing in 2017. The Strategic CFO continues to provide educational material and coaching workshops under the new leadership provided by Daniel E. Corredor and the team.

Wilkinson identified five key ways in which a CFO can add value to a business. These include the following:

Jim Wilkinson was the founder of The Strategic CFO, a consultancy business that provides education, training, support and consultancy services.



1. *Growing the company faster.* A CFO can identify investment possibilities that will assist in achieving the objective of growing or expanding the business. By analysing financial reports, the CFO is ideally placed to recognise those areas of business activity that have potential for growth, and encourage the directing of resources into those areas.
2. *Improving profitability.* Profitability is improved by either increasing revenue or reducing expenses (or both). With good financial analysis skills, a CFO should be able to identify those areas of business activity that are contributing to the greatest growth in revenue, and promote action to build on those areas. The same skills should allow the CFO to identify potential areas in which expenses can be reduced without sacrificing efficiency or effectiveness.
3. *Improving cash flow.* Once again, the financial analysis skills of the CFO would be expected to be valuable in identifying areas in which cash flow can be improved. For example, if clients and customers who purchase on credit from the company are regularly late in paying invoices, the CFO can identify this problem and make recommendations for rectifying the issue. Introducing a shorter payment period could improve payment times and thus improve cash flow.
4. *Gaining the most favourable terms from financial institutions.* All businesses need to borrow money from time to time, usually to provide funds for expansion. This will involve approaching a bank or other financial institution for a loan. The CFO would be expected to have a strong knowledge and understanding of financial markets, and be in a position to identify and negotiate the best deal for the company.
5. *Providing leadership and direction throughout the company.* A CFO is a key member of the management and leadership team within the business. They would be expected to display and model the type of behaviours that are consistent with the culture and values of the business. The CFO will have a team of employees in their area of responsibility, carrying out a variety of duties. In leading this team, the CFO would be expected to reflect the relevant management style, and display high levels of management and leadership skills that bring the best out of that team.

The CFO in any business has a clear role in contributing to the achievement of business objectives. The success of a business can be measured in a number of ways depending on those objectives, but financial measures — such as profitability, business growth and cash flow — will usually be central within those objectives. Improvements in performance to achieve business objectives are central to the role of the CFO.

INTERVIEW WITH ROGER SНИЕZEK, CHIEF INFORMATION AND DIGITAL OFFICER AT COLES

Wesfarmers announced that it would be demerging from Coles in 2018. The decision created much unexpected work for Coles' chief information and digital officer (CIDO) Roger Sniezek. At the same time, Coles' executive team had just begun executing a new strategy, 'A Fresh Tomorrow', with a significant focus on technology.

Sniezek told CIO Australia in a recent interview that his technology team and the financial services leadership team worked together to determine how they were going to plan and deliver the transition.

'This was agile on steroids,' says Sniezek. 'There was huge technology leadership focus on the demerger but we still had work to do and deliver well over 100 of the agreed technology strategy projects.'

But the teams pulled it off with no material technology incidents as part of the demerger process.

Roger Sniezek was required to work with his technology team to support Wesfarmers' demerger from Coles and to assist with implementing Coles' new 'A Fresh Tomorrow' strategy.



Innovations deliver retail efficiencies

Coles' recent innovations are tackling one of the biggest challenges: how does it efficiently flow nearly 20 million cartons of stock each week to the right aisles, at the right time, across more than 800 supermarkets each carrying around 20 000 individual products?

The retailer's Guided Split store function uses algorithms to detect what stock from a delivery should be sent straight to the shop floor and what can be kept in the stockroom for later replenishment. This leverages wearable technology, voice, and Coles' Simpler Tools mobile devices, which power activities for team members when they are on the shop floor.

'We have also used advanced analytics to better understand stock availability to optimise the replenishment of our store inventory, reducing gaps on the shelf and lost sales. This new machine learning model is replacing traditional availability measures that relied on historical data team member experience,' Sniezek tells CIO Australia.

The Simpler Tools innovation was driven from a desire to provide team members with mobile technology so that decisions on the shop floor are based on accurate and relevant data.

'Previously, we had 42 separate apps and websites to complete daily tasks so a key objective was to radically simplify this,' he says.

The idea for Guided Split came through the operations and technology teams watching tasks in store and recognising the inefficiencies in the current process of unpacking stock that arrives on pallets. Team members were either taking stock out onto the shop floor that couldn't fit on the shelves, or hadn't identified all the gaps where incoming stock was needed.

'Our Simpler Tools device made this information available but was cumbersome to use while moving cartons — which is when we hit on the idea of a wearable solution,' says Sniezek.

Guided Split is one of Coles' first in-store experiments with wearable technology. 'The primary driver was productivity gains, but we have seen several associated benefits, including an improved shopping experience for customers, as more efficient replenishment means fewer roll cages in aisles,' says Sniezek. 'It also gives us visibility of distribution centre 'mis-picks' and improved safety by reducing double handling of cartons, meaning fewer opportunities for injury. The technology has enabled Coles to save more than several million per annum through store team member productivity,' says Sniezek.

A head for business

Coles is an ASX-listed organisation, and a large part of Snizek's role is to create and deliver the retailer's strategy. 'This involves having a strong understanding of the macro and micro factors influencing retailing, the current business environment and technology more broadly,' says Snizek.

As CIDO, Snizek ensures his colleagues are informed on the digital landscape and upcoming opportunities in their areas, as well as how the technology roadmap is 'joined up' across the organisation.

Technology support contributes to the achievement of business objectives, including improving the shopping experience for customers.



1.15 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Read the 'Role of the chief financial officer (CFO)' case study. In what ways has the role of the CFO in a business changed and developed over the last thirty years or so?
2. Outline why the duties carried out by a CFO are so important in assisting a business to achieve its objectives.
3. Read the 'Interview with Roger Snizek, Chief Information and Digital Officer (CIDO) at Coles' case study.
 - a. Identify the area of management responsibility that Roger Snizek oversees.
 - b. Outline why it would be important for Roger Snizek to maintain strong links with other managers and departments within the business.
4. Identify and explain two strategies implemented by Roger Snizek and his team that can have a significant influence on the achievement of a business's objectives.

EXTEND your understanding

5. Select one other area of management responsibility that would be expected to be carried out within a large business. Search online for a website that provides examples of the duties, roles and responsibilities usually carried out by that manager, and provide an explanation of the typical role performed by that person.

6. Overall responsibility for the success of a business, and its ability to achieve its objectives, lies with the CEO. Research the responsibilities of the CEOs of two different large companies. In a paragraph, outline the areas of similarity and areas of difference between the duties and responsibilities of these two CEOs.
7. Eco Point is a social enterprise that operates with the objective of working towards sustainable environmental change. Explain how the following areas of management responsibility can contribute to Eco Point's objective:
 - Operations
 - Finance
 - Human resources
 - Sales and marketing
 - Technology support.
8. Sean is a sole trader who operates a café with the objective of making a profit. Explain how the following areas of management responsibility can contribute to his café's objective:
 - Operations
 - Finance
 - Sales and marketing.

EXAM practice

9. Explain the importance of the finance area of management responsibility in assisting a business to achieve its objectives. (2 marks)
10. Define the term 'technology support' as an area of management responsibility. (2 marks)

Solutions and sample responses are available in your digital formats.

1.16 Management styles — autocratic and persuasive

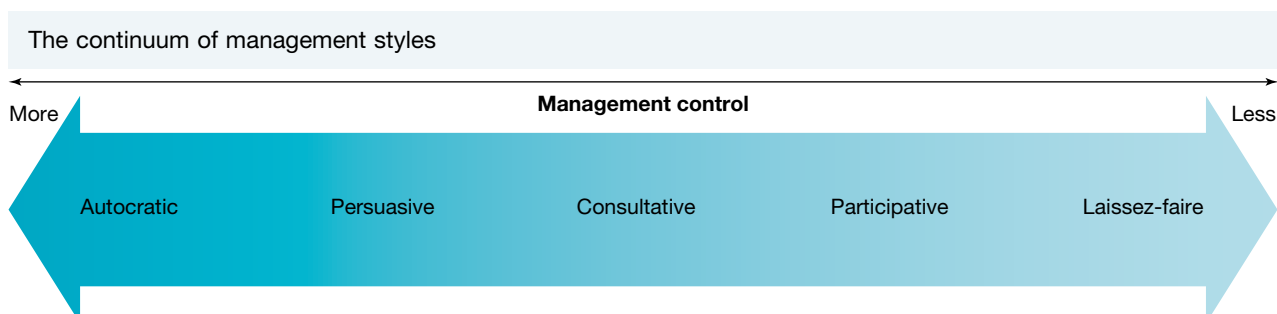
KEY CONCEPT Two management styles are the autocratic and persuasive styles.

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



EXAM TIP

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

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

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

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

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



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 set out plainly, so management can monitor their performance. • Control is centralised at top management level, so time is used efficiently and problems are dealt with quickly, because there is no discussion or consultation.	• 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.

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

An extension of the autocratic style, the **persuasive management style** is one where the manager attempts to convince employees that management’s way is the right way. Authority and control are centralised with senior management, but managers attempt to make employees accept the objectives of the business and work to certain plans and procedures. Communication is

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

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

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-orientated. 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



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.

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.

1.16 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

APPLY your understanding

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

EXAM practice

8. Explain the difference between the autocratic management style and the persuasive management style. **(2 marks)**
9. Samo is the CEO of Resources and Minerals Ltd. The business is facing the threat of a takeover. He has chosen to use the autocratic management style at this time. Discuss Samo's use of the autocratic management style. **(4 marks)**
10. Analyse how the persuasive management style could be appropriate for successful business management. **(4 marks)**
11. Outline one advantage and one disadvantage of a manager adopting an autocratic management style. **(4 marks)**
12. Sharon is the manager of a suburban real estate business. She prefers to use a persuasive management style when dealing with the employees of the business. Describe two characteristics of this management style, and explain why this style might be successful in the running of the business. **(6 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

1.17 Management styles — consultative and participative

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

1.17.1 Consultative management style — ‘I put the people first, the task second’

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

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

The consultative management style



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.

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

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

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

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.

on Resources

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

KEY IDEAS

- 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.

1.17 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Outline the characteristics of the consultative and participative styles.
2. In what ways is the consultative style similar to the participative style? In what ways are the two styles different?

3. List the main advantages and disadvantages of the consultative and participative styles.
4. Outline the situations where the consultative and participative styles would be appropriate.

APPLY your understanding

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

EXAM practice

7. Explain the difference between the consultative management style and the participative management style. **(2 marks)**
8. Petrea is the HR manager at Real Technologies Ltd. She uses the participative management style. Identify two characteristics of this management style, and explain one advantage and one disadvantage of using this style. **(4 marks)**
9. Analyse how the participative management style could be appropriate for successful business management. **(4 marks)**
10. Outline two advantages and two disadvantages of a manager adopting a participative style of management. **(4 marks)**
11. Justify the use of the consultative management style in helping to resolve a conflict that has arisen in the workplace. **(2 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

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

KEY CONCEPTS

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

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

A **laissez-faire management style** is one where employees are responsible for workplace operations. Management has no central role or decision-making power. Essentially, management has no role in the day-to-day running of the business. Management will set objectives and is still accountable for the overall performance of the department or business, but employees take responsibility for implementing the

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

means of achieving the objectives. In so doing, employees are responsible for their decisions and accountable for the results. This is a completely decentralised management style, with employees operating individually or in small groups to complete tasks.

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

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



The main advantages 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?

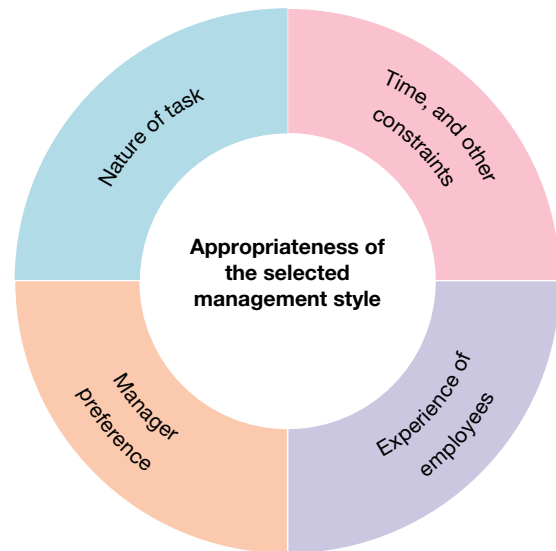
- 'Laissez-faire' is a French phrase meaning to leave things as they are, or to let (them) go.
- Some people argue that the laissez-faire approach should not be recognised as a separate management style. They argue it is only an extreme example of the participative style of management.

1.18.2 The appropriateness of management styles

Circumstances in a business are constantly changing. Managers will often simply choose the management style that they are most comfortable with. However, highly effective managers change styles depending on the situation.

The most appropriate management style chosen by a manager for any given situation will be influenced by:

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



The consideration of the appropriateness of management styles in relation to the nature of 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

on Resources

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

KEY IDEAS

- The laissez-faire style is one where the employees assume total responsibility for, and control of, workplace operations.
- The management style chosen by a manager will be influenced by the nature of the task; time and other constraints such as resources; the experience of employees, as well as their personalities, values, beliefs and skills; and the preference of the manager.

1.18 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

APPLY your understanding

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

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

EXAM practice

8. Explain the characteristics of the laissez-faire management style. **(2 marks)**
9. Wilson's Pty Ltd is a business that manufactures and retails flat-pack furniture. The CEO of the company, Shadi Wilson, is detached and often hard to find. She believes that if the business employs competent staff, they will be able to manage themselves. Identify the management style that Shadi Wilson has been using. Discuss the use of this style. **(5 marks)**
10. Paul uses the autocratic style to manage the inexperienced employees of his café. This is the management style that he feels comfortable using, therefore he has used it for some time. Referring to two factors indicating the appropriateness of management styles, justify the use of Paul's use of the autocratic style. **(4 marks)**
11. Discuss the use of the laissez-faire management style. **(4 marks)**
12. Tammy makes use of the participative management style at her business. Outline two factors that Tammy would have considered when deciding on the appropriateness of the participative management style. **(2 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

1.19 APPLY YOUR SKILLS Management styles

PRACTISE YOUR SKILLS

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

AN EXPERIENCED MANAGER

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

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

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

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



1.19 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

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.

SCENARIO ONE

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

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

SCENARIO TWO

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

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

SCENARIO THREE

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

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

APPLY your skills

4. The following scenarios illustrate different management styles. Working in groups of three or four, determine what style is being used. Also explain whether it is correct for the situation or whether a different style would work better.
- a. A manager is leading a team of research scientists working on new ways to use plastic. Although the team discusses the merits of each idea and project, she retains the final decision-making authority.
 - b. A new supervisor has just been put in charge of the production line. He immediately starts by telling the crew what changes need to be made. When some suggestions are made, he tells the crew he does not have time to consider them.
 - c. A construction crew has worked together for the past four years with little changeover in personnel. They always vote whenever a decision has to be made on how to proceed with the project.
 - d. The manager of an electronics manufacturing department starts every day by telling the 15 employees what has to be done and how to do it.
 - e. A manager is working on the budget. He is told to get an important project running immediately. He calls his staff together and explains the project. He then tells them to get it up and going while he completes the budget.
 - f. An inspection line has no supervisor. The employees are expected to have the correct staffing, procedures and expertise on each shift to ensure no defective parts get past them.
 - g. There are seven people on a special project team, and each individual is from a different department. Although a leader was elected, for a decision to pass it must have the approval of each individual.
5. The task word (sometimes referred to as command word or instructional word) 'discuss' generally requires you to consider both sides of something. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs of that thing. Using the example of Peter Anderson in the 'An experienced manager' case study and the scenarios, discuss the use of the autocratic management style as being necessary for successful business management.
6. The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate the appropriateness of Harvey Beck using the participative management style with his team.

EXAM practice

7. 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. **(4 marks)**
8. 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. **(3 marks)**

Solutions and sample responses are available in your digital formats.

1.20 Management skills — communicating, delegating and planning

KEY CONCEPTS

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

1.20.1 Management skills

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

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

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

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

RESEARCH ON MANAGEMENT SKILLS

Beginning with the release of the Karpin Report findings in 1995, there has been much research over the past 20 years into the kinds of skills that managers need in order to carry out their work more effectively. To identify ideal management skills and characteristics, the authors of the Karpin Report (otherwise known as *Enterprising nation: renewing Australia's managers to meet the challenges of the Asia-Pacific century*) interviewed a number of Australian management experts. The report found that businesses in Australia had failed to invest in the management skills needed for best practice; the majority of Australia's managers did not have the skill levels of those of the major trading nations. The Karpin Report suggested that managers needed better 'people' or 'soft' skills, including communicating, delegating and leading, as well as strategic skills, such as planning.

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

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

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

EXAM TIP

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

DID YOU KNOW?

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

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

1.20.2 The relationship between management styles and skills

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

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



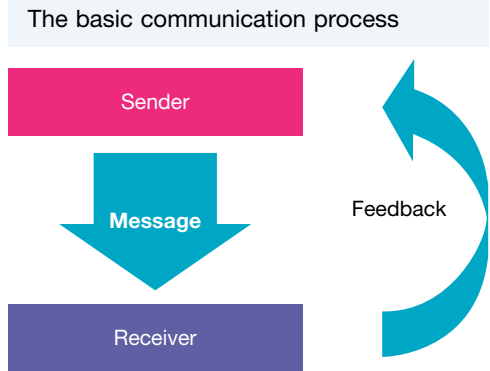
1.20.3 Communicating

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

It can be non-verbal (body language, visual) or 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.



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

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 Nadella became CEO and continues to trade at all-time highs. Nadella has received praise for his calming and collegial style of communication. He has shown that he is prepared to work with staff and listen to them. Nadella is also a confident and charismatic public speaker.

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



COMMUNICATION PROBLEMS

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

Conversation 1: Managing director to the general manager

On Monday morning, at precisely 10:00 am, a total eclipse of the sun will occur — an event that takes place once in every 85 years. Please ask employees to meet in the parking area outside the main entrance, wearing safety glasses, and I will explain this rare natural event. If it rains, we will not be able to witness the event, so have employees meet in the auditorium and I will show them a video of the eclipse.

Conversation 2: General manager to department head

The managing director has ordered a total eclipse of the sun above the parking area outside the main entrance on Monday at 10:00 am. If clouds cover the event, instruct the employees to wear safety glasses, then proceed to the auditorium where this natural event will take place — something that occurs every 85 years.

Conversation 3: Department head to sectional manager

At 10:00 am on Monday, the managing director, who will be wearing safety glasses, has ordered a total eclipse of the sun in the auditorium. In case of clouds, assemble in the main entrance before going to the parking area, where the managing director will give another order, something that occurs only every 85 years.

Conversation 4: Sectional manager to senior supervisor

A rare event will occur on Monday at 10:00 am. The managing director will appear in the auditorium with his son, who will eclipse him now 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.

1.20.4 Delegating

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

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

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

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*.

1.20.5 Planning

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

Levels of planning — strategic, tactical and operational

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

- **Strategic** (long-term) **planning** is planning for the following two to five years. This level of planning will help determine where the business wants to be in the market, and what the business wants to achieve in relation to its competitors.
- **Tactical** (medium-term) **planning** is flexible, adaptable planning, usually over one to two years. It supports the implementation of the strategic plan and allows the business to respond quickly to changes. The emphasis is on how business objectives will be achieved through the allocation of resources.
- **Operational** (short-term) **planning** provides specific details of the way the business will operate in the short term. Management controls the day-to-day operations that contribute to achieving short-term actions and objectives. Examples of operational plans are daily and weekly production schedules.

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

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.

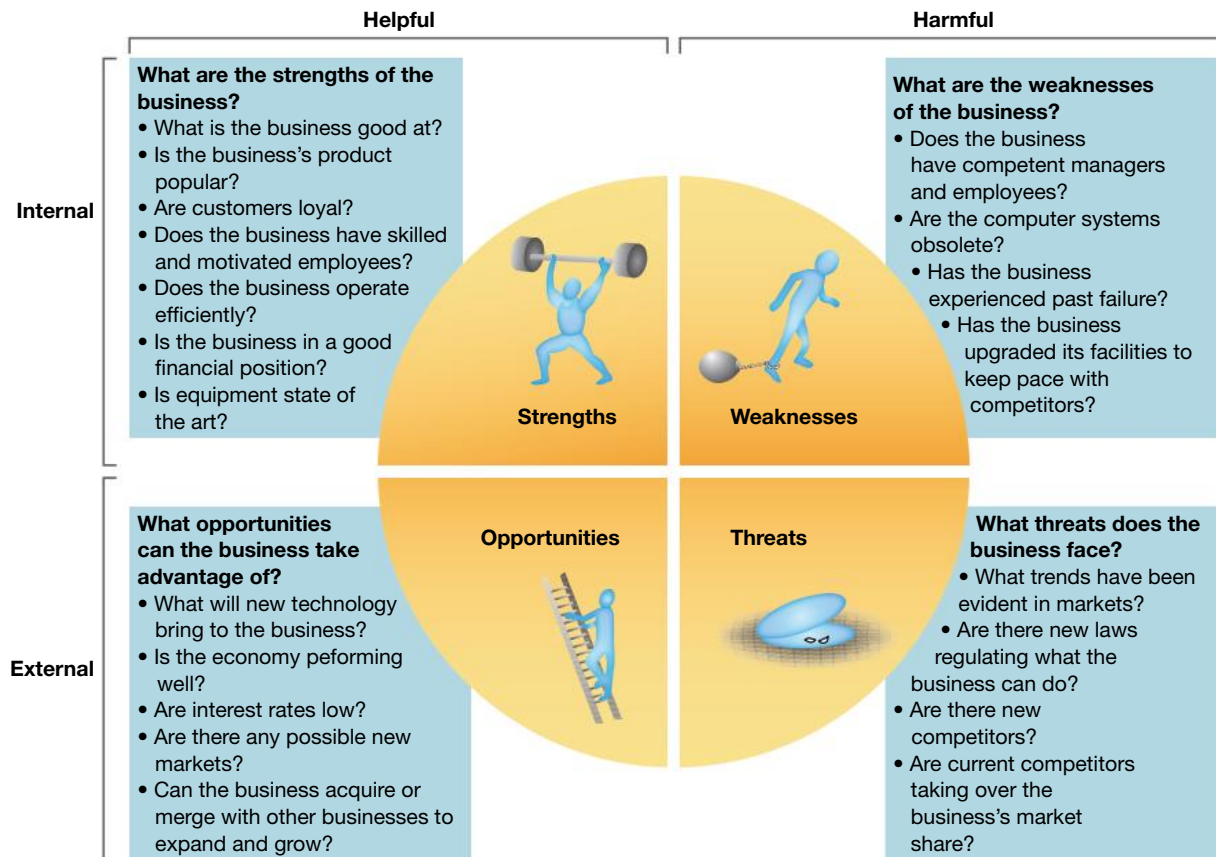
Step 2. Analyse the environment. Managers attempt to work out exactly where the business currently stands. A common analysis technique is known as a **SWOT analysis** (an acronym for strengths, weaknesses, opportunities and threats). This identifies and analyses the business's internal strengths and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

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.

on Resources

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.
- Delegating is the ability to transfer authority and responsibility from a manager to an employee to carry out specific activities.
- Planning is the ability to define business objectives and determine methods or strategies that will be used to achieve those objectives.

1.20 EXERCISES

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

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

APPLY your understanding

7. When Josh, the owner of Get Fit gymnasium, arrived at his office in the morning, the first thing he did was check his calendar on his mobile phone. He was reminded that he had an early meeting with all of his employees. The purpose of the meeting was to discuss weekly planning schedules. At the meeting, Josh asked Kaila to work on rosters for the next week and suggested that Elly report back to the meeting next week with solutions for the recent drop in memberships. What skills is Josh using? In what way is he using each of these skills?

8. Use the **Communication Skills Test** weblink in the Resources tab to take the test. What were your results? Do you think this is accurate? How could you improve your communication? How competent do you think you are with the other skills in this subtopic?
9. Ask your teacher to make up a statement and then play a game of 'Pass the message'. Each member must pass the message on to another person. At the end of the activity, have your teacher read out the original statement and compare it with the final verbal statement from the last class member in the group who was told the statement.

EXAM practice

10. Define the term 'communicating'. (1 mark)
11. Distinguish between delegating and planning. (2 marks)
12. Discuss the use of communicating for resolving a dispute between management and employees. (4 marks)
13. Outline the importance of planning as a management skill. (2 marks)
14. Identify and explain one advantage and one disadvantage of delegating as a management skill. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

1.21 Management skills — leading, decision-making and interpersonal

○ KEY CONCEPTS

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

1.21.1 Leading

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

Managers can be categorised as transactional or transformational leaders. A transactional leader provides staff with rewards in return for their compliance and acceptance of authority. Incentives such as pay rises or promotions are offered depending on whether or not performance goals are met.

A transformational leader inspires or enthuses staff with a vision to ensure that they are committed to achieving the objectives of the business. They consider each member of staff as a unique individual and provide opportunities for team members to exercise their own judgement on decisions.

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

DID YOU KNOW?

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

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



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

DID YOU KNOW?

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

— Peter Drucker, Management Consultant

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

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

1.21.2 Decision-making

Managers today are often confronted with complex, challenging and stressful conflicts, problems and issues. The world is changing rapidly, and it is necessary to possess skills to identify all possible options and possibilities. **Decision-making** involves identifying available options and then choosing one course of action from the alternatives. Effective decision-making involves being able

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

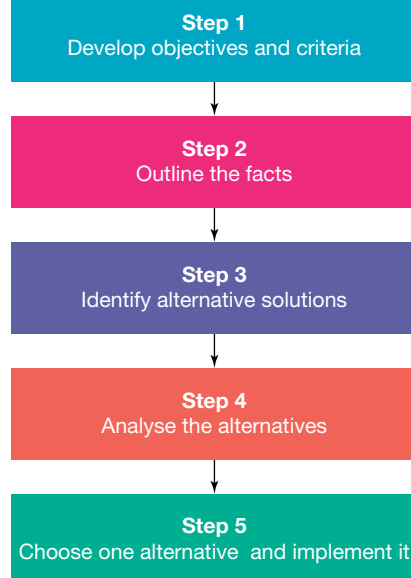
to make decisions within a particular timeframe. It also requires a manager to adequately assess the risk involved if the decision is implemented.

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.

A decision-making process



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



DID YOU KNOW?

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

1.21.3 Interpersonal skills

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

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

on Resources

 **Video eLesson** Management skills (eles-4289)

KEY IDEAS

- Leading is the ability to influence or motivate people to work towards the achievement of business objectives.
- Decision-making is the ability to identify the options available and then choose a specific course of action from the alternatives.
- Interpersonal skills refer to management's ability to deal or liaise with people and build positive relationships with staff.
- Different management styles rely on different management skills to varying degrees.

1.21 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

Skill	Definition	Characteristics	Application to the workplace

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

APPLY your understanding

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

EXAM practice

8. Distinguish between leading and interpersonal skills. (2 marks)
9. Explain a decision-making process that could be used by a manager introducing new technology to a business. (4 marks)
10. Analyse how the use of leading as a management skill would be important in the achievement of business objectives. (4 marks)
11. Explain why good interpersonal skills are important for a manager. (2 marks)
12. Danielle is marketing manager of an organic muesli company that has developed a new line in its products. Danielle has to make a decision on how best to market the new product. Outline a process she could use before making a final decision on the marketing strategy. (5 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

1.22 Corporate culture and its development

KEY CONCEPTS

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

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

on Resources

 **Video eLesson** Corporate culture and its development (eles-4290)

1.22.1 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.



1.22.2 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.

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

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.

1.22.3 Developing a positive corporate culture

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

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

Strategies for developing corporate culture

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

Staff at Bank Australia enjoy a positive culture that has been created by the employees themselves and which includes a shared commitment to supporting each other's needs, and a collaborative and inclusive work environment.



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

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



Resources



Weblink Bank Australia

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

1.22 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

APPLY your understanding

8. Working in groups of three or four, describe the culture of your school. Identify the shared values, practices, symbols, rituals, rites, celebrations and heroes. Present your information in a table. Share your answers with other members of the class.

9. Discuss the following statement: 'It takes years for a business to establish a positive corporate culture, yet a return to a negative culture may occur overnight.' In your answer, refer to:
 - a. the importance of a positive corporate culture
 - b. strategies to develop a positive corporate culture
 - c. circumstances that result in a negative corporate culture.
10. Choose a business. Use the internet to find out about its corporate culture.
 - a. Explain the values employees of that business would be expected to demonstrate.
 - b. What symbols or celebrations did you find that reflect the business's culture?

EXAM practice

11. Define the term 'corporate culture'. (1 mark)
12. Distinguish between official corporate culture and real corporate culture. (2 marks)
13. Then Data Ltd is a business with a poor corporate culture. Justify two management strategies for developing corporate culture at Then Data Ltd. (4 marks)
14. Identify two indicators (or elements) of corporate culture and explain how each reflects the shared values and beliefs of a business. (4 marks)
15. Outline two strategies a human resources manager could use to improve and develop corporate culture within a business. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

1.23 APPLY YOUR SKILLS Styles, skills and corporate culture

PRACTISE YOUR SKILLS

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

1.23.1 Managing leadership capability and corporate culture

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.



1.23.2 Management styles and skills

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.



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!'

1.23 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

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. What management style is Jan Dvorak using? What are the characteristics of this style?
7. Read the 'Choco management' case study. What management style is Jack using? What are 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		
Delegating		
Planning		
Decision-making		
Interpersonal		
Leading		

- b. Explain how the choice of management style will affect the way in which management skills are used.
 c. Using your answers to 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.

EXAM practice

18. Outline the relationship between the corporate culture of a business and the management skill of leading. **(3 marks)**
19. Identify and explain two management skills that would be essential for a manager wishing to adopt a participative management style. **(4 marks)**
20. Select one management style studied this year, and select two management skills that would be essential in applying that management style, giving reasons for your selection. **(5 marks)**

Solutions and sample responses are available in your digital formats.

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

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

One of the best ways to improve a business's productivity is to give employees some input into the decision-making process. Most people care about the things that they are directly involved in, so employees who have an input in the decision-making processes of their business tend to be more committed, productive and creative. Inclusive and democratic management practices (management practices that include employees) are often talked about, but rarely practised — this process is more difficult and takes longer than traditional management techniques.

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

SEMCO — WORKPLACE PARTICIPATION IN ACTION

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

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

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

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

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

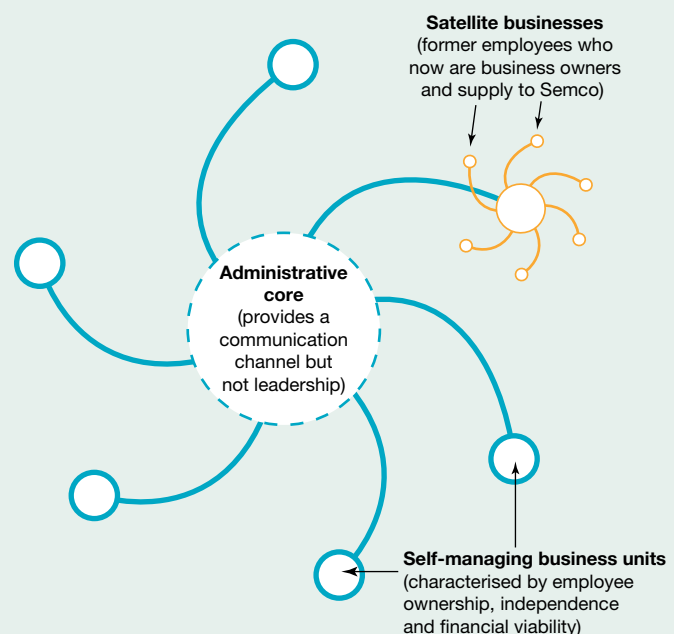
There is an emphasis on ownership and disclosure — all wages are tied to the performance of the business, and each person's wage is published so team leaders are shown not to be earning unfairly high salaries. Staff set their own salaries, but need to be careful because there are no secrets. Staff are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

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

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



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



1.24 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

EXTEND your understanding

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

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

EXAM practice

8. 'The benefits to the business of employees taking on responsibility through a participative or laissez-faire management style far outweigh the risks.' Discuss the extent to which you agree with this statement. **(5 marks)**
9. 'A good leader listens to, and takes advice from, those they are leading.' Discuss the use of leading as a management skill. **(4 marks)**

Solutions and sample responses are available in your digital formats.

1.25 Review

1.25.1 Summary

Types of businesses

- 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.
- Each type of business has certain advantages and disadvantages.

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 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.

Stakeholders of businesses

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

Areas of management responsibility

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

Management styles

- Management styles are the ways managers work with and through other people to achieve the objectives of the business. They differ according to the degree of decision-making control that management exercises, the direction of communication and the value that management places on staff input.

- The autocratic style is one where the manager tells staff what decisions have been made.
- The persuasive style is one where the manager attempts to sell decisions made.
- The consultative style is one where the manager consults employees before making decisions.
- The participative style is one where the manager unites with staff to make decisions together.
- The laissez-faire style is one where the employees assume total responsibility for, and control of, workplace operations.
- The management style chosen by a manager will be influenced by the nature of the task; time and other constraints such as resources; the experience of employees, as well as their personalities, values, beliefs and skills; and the preference of the manager.

Management skills

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

Corporate culture

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

Resources

studyon

To access key concept summaries and past VCAA exam questions, download and print the **studyON: Revision and past VCAA exam question booklet** (sonr-0132).

1.25.2 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
- communicating** the ability to transfer information from a sender to a receiver, and to listen to feedback
- competitive advantage** occurs when a firm, industry or economy has a lower cost price structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market.
- competitors** other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business
- 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
- delegating** 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** the group of people with the authority to govern a community. In Australia, this exists at three levels (federal, state and local).
- government business enterprise (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
- interest groups** organisations who attempt to directly influence or persuade a business to adopt or change particular activities, processes or policies
- interpersonal skills** the ability to deal or liaise with people and build positive relationships with staff
- 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
- leading** 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 amongst shareholders
- management** the people who have the responsibility for successfully achieving the objectives of the business
- 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
- 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

on Resources

 **Digital documents** Key terms glossary (doc-35204)
Missing word glossary quiz (doc-35205)
Crossword (doc-35206)

1.25.3 Practice school-assessed coursework

OUTCOME 1

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

ASSESSMENT task — structured questions

Time allowed: 60 minutes

Marks allocated: 40 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 (20 marks)

1. Define the following terms and provide an example for each.
 - a. Stakeholders (1 mark)
 - b. Shareholders (1 mark)
2. Describe the key characteristics of management as a stakeholder. (2 marks)

Qantas

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

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



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

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

Read the 'Qantas' case study, then answer the following questions.

3. a. What type of business is Qantas? Explain your answer in terms of ownership and objectives. **(3 marks)**
- b. Discuss the advantages and disadvantages of this type of business ownership. **(4 marks)**
- c. Explain the characteristics of one other type of business. **(2 marks)**
- d. Using Qantas as an example, identify and explain one business objective. **(3 marks)**
- e. Analyse the potential conflicts between Qantas's employees and customers. **(4 marks)**

SECTION B (20 marks)

Fedcomm

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

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

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



Read the 'Fedcomm' case study, then answer the following questions.

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

on Resources

 **Digital document** School-assessed coursework (doc-35327)

1.25 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

1.25 Exercise 1: Test and apply

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 listed 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. Describe the five main business objectives.
6. Explain what a strategy is, using an example.
7. Explain the difference between effectiveness and efficiency.
8. Define the term 'key performance indicator' and explain what they are used for.
9. What is a stakeholder?
10. Distinguish between internal and external stakeholders.
11. List the main stakeholders of businesses.
12. In what ways can stakeholder interests potentially conflict?
13. Outline what is meant by the term 'corporate social responsibility'.
14. List the typical areas of management responsibility in a business.
15. Distinguish between the operations and human resources areas.
16. Describe the following areas of management.
 - a. Finance
 - b. Sales and marketing
 - c. Technology support
17. Explain the importance of management styles to a business.
18. Compare the autocratic management style to the persuasive management style.
19. Identify two advantages and two disadvantages of both the autocratic and persuasive management styles.
20. Distinguish between the consultative and participative management styles.
21. Identify two advantages and two disadvantages of both the consultative and participative management styles.
22. Describe the laissez-faire management style and outline two advantages and two disadvantages of this style.
23. Outline the factors a manager will need to consider when choosing an appropriate management style.
24. Define each of the following management skills and outline their main features.
 - a. Communicating
 - b. Delegating
 - c. Leading
 - d. Interpersonal skills
25. Explain the difference between the three levels of planning.
26. Outline the steps involved in a planning process.
27. Define 'decision-making' and identify the steps in a decision-making process.
28. Explain how management skills relate to the management styles.
29. Define 'corporate culture'.
30. Explain the difference between official and real corporate culture.
31. Why is it important for a manager to understand a business's corporate culture?
32. Briefly outline elements or indicators of the type of culture a business has.
33. Explain two strategies that management can use to develop a business's corporate culture.

APPLY your understanding

34. 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		

35. Compare the following types of business (how are they similar and how are they different).
- Sole traders and public listed companies
 - Private limited companies and social enterprises
 - Partnerships and government business enterprises
36. 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.
37. Explain how attempting to meet all stakeholder expectations can lead a business to behave in a socially responsible manner.
38. Summarise the way in which each area of management responsibility contributes to the achievement of business objectives by completing the following table.

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

39. 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.
- Discuss Chloe's use of the participative management style.
 - Identify one management skill that Chloe is making use of and justify why it is necessary for the successful management of Exceptional Technology Company.
40. 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.
41. 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		

42. Management at Australian Industries is very concerned about the culture of the business. The negative culture appears to be affecting the company's performance. Management would like to develop a positive corporate culture. Describe two management strategies for developing corporate culture at Australian Industries.

1.25 Exercise 2: Exam practice



Resources



Teacher-led video Topic 1 Exam practice solutions (tlvd-1840)

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.

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

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)**

studyon

Past VCAA examinations **online only**

Sit past VCAA examinations and receive immediate feedback, marking guides and examiner's report notes. Access Course Content and select 'Past VCAA examinations' to sit the examinations online or offline.

Solutions and sample responses are available in your digital formats.

teachon

Test maker

Create unique tests and exams from our extensive range of questions, including past VCAA exam questions. Access the Assignments section in learnON to begin creating and assigning assessments to students.

2 Managing employees

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

2.1 Overview.....	110
2.2 BACKGROUND KNOWLEDGE Overview of the employment cycle.....	112
2.3 The relationship between managing employees and business objectives	115
2.4 An introduction to motivation and Maslow's Hierarchy of Needs.....	120
2.5 Motivational theories — Goal Setting Theory (Locke and Latham)	124
2.6 Motivation theories — Four Drives Theory (Lawrence and Nohria)	128
2.7 EXTEND YOUR KNOWLEDGE Comparing theories of motivation	133
2.8 APPLY YOUR SKILLS Motivation theories — do they work?.....	137
2.9 Motivation strategies	139
2.10 EXTEND YOUR KNOWLEDGE Financial and non-financial motivation	148
2.11 APPLY YOUR SKILLS Evaluating motivation strategies.....	151
2.12 Training options	154
2.13 APPLY YOUR SKILLS Comparing and evaluating training strategies.....	159
2.14 Performance management strategies.....	161
2.15 EXTEND YOUR KNOWLEDGE Getting value from performance management	167
2.16 Termination management	169
2.17 Workplace relations — participants in the internal environment.....	175
2.18 Workplace relations — participants in the external environment.....	179
2.19 Awards and agreements.....	183
2.20 EXTEND YOUR KNOWLEDGE Determining enterprise agreements and Awards	189
2.21 BACKGROUND KNOWLEDGE Disputes in workplace relations	194
2.22 Dispute resolution.....	197
2.23 APPLY YOUR SKILLS Dispute resolution and methods of determining wages and conditions of work.....	202
2.24 Review	206



2.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS, and at www.jacplus.com.au.

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 2019.

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.

FEDEX CARES

FedEx Express is a well-known transportation company, delivering packages to hundreds of countries and territories across the world. FedEx Express employs more than 400 000 people — that is a lot of employees to keep satisfied. Nevertheless, FedEx has gained a reputation as a great place to work.

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

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

The company is also renowned for its employee relations and motivation strategies. FedEx has frequently been recognised for its people-first culture including an Australian HR Award for employer of choice.

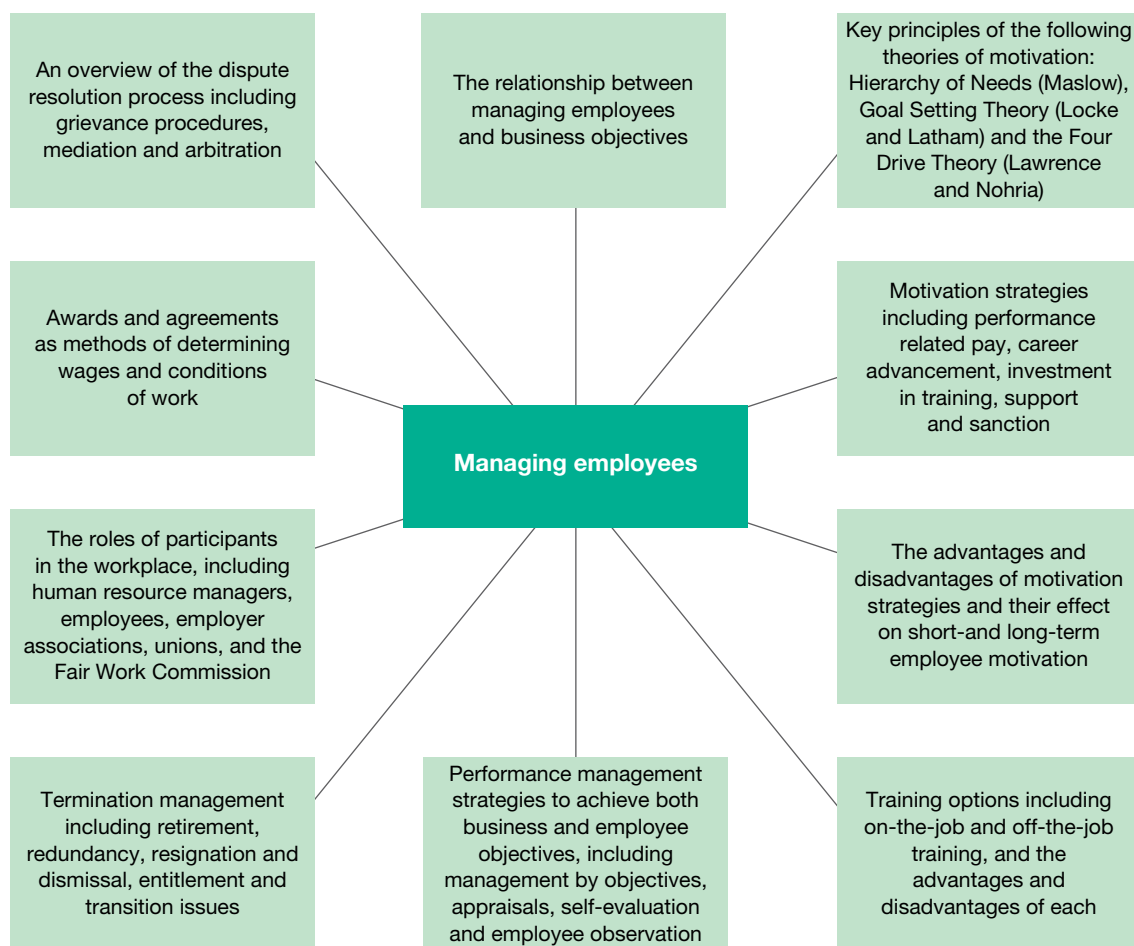
FedEx delivers packages to 97 per cent of the world within 24 to 48 hours.



2.1.2 What you will learn

Key knowledge

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



Key skills

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

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

Source: VCE Business Management Study Design (2017–2022) extracts © VCAA; reproduced by permission.

on Resources

 **Digital document** Key terms glossary (doc-35209)

To access key concept summaries and past VCAA exam questions, download and print the **studyON: Revision and past VCAA exam question booklet** (sonr-0133).

2.2 BACKGROUND KNOWLEDGE Overview of the employment cycle

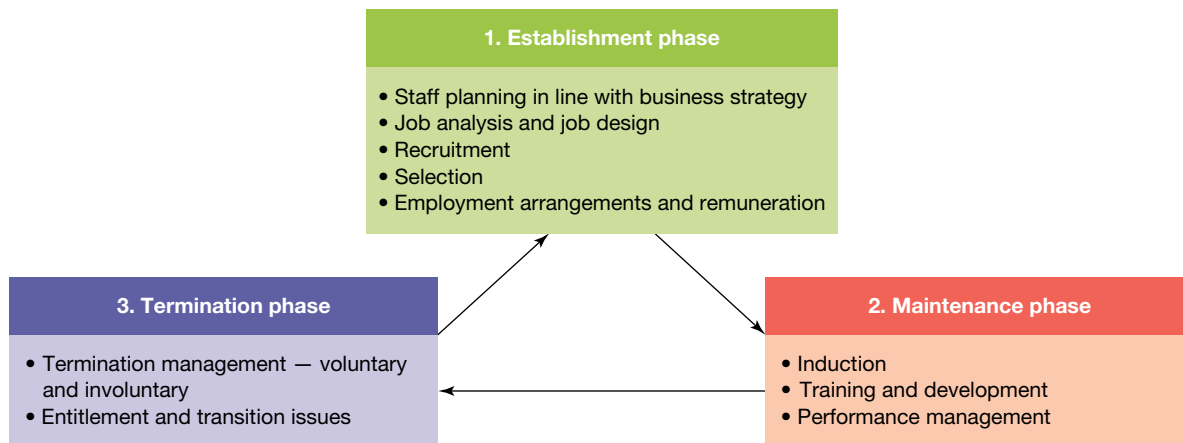
BACKGROUND INFORMATION

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 management of employees, it is worth noting that 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 working life, 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 at the termination phase.

The three phases of the employment cycle



The establishment phase

The establishment phase involves the planning of staffing needs, the recruitment and selection of staff, and the determination of employment arrangements and remuneration. These were covered in detail in Unit 2 of the Business Management course.

Planning

The staff planning process begins with the identification of staffing needs. This may involve increasing the number of employees who carry out existing functions within the business, or identifying new tasks that need to be performed, and the particular skills that will be needed to perform those tasks. In either case a process of job analysis is carried out. This usually consists of two parts:

1. Job description: the duties, tasks and responsibilities associated with the job.
2. Job specification: the qualifications, skills and experience that an employee would need to have to carry out the job.

Recruitment

Recruitment is the process of attracting suitable applicants to the position, using advertisements, employment agencies and word of mouth. A business may choose to recruit externally, which involves bringing in a new employee from outside the business. Alternatively, it may choose to recruit internally, which usually involves transferring an existing employee into a new position, or promoting an existing employee into a position of greater responsibility.

Selection

This is the process by which the most suitable applicant is chosen to fill the position. It can involve all or any of the following:

- requiring applicants to provide detailed information on an application form
- carrying out interviews
- various forms of testing, including aptitude testing and psychological testing
- examining references and other background checks.

The applicants will then be ranked, with the highest ranked applicant offered the position. If that person does not accept the offer, the next highest ranked applicant can be approached.

Employment arrangements and remuneration

Employment arrangements can include ongoing permanent employment, casual employment or fixed-term employment for a designated period of time. **Remuneration** refers to the payments made to the employee. Most industries are governed by Awards, which establish a minimum set of wages and conditions for employees. Employers may choose to pay above this minimum and they may also build in a variety of additional financial incentives for employees.

The maintenance phase

This phase covers the period of time during which the employee actually works for the business. It involves induction, training and development, and performance management.

Induction

This is a process of acquainting the new employee with the business — its history, structures, objectives, culture, policies and practices. It also involves ensuring that the new employee has full knowledge of the tasks and responsibilities associated with their new job. If the new employee is to become a new member of an established team, it is important that the employee be given opportunities and time to get to know other members of that team. One or more existing team members may take on the responsibility of mentoring the new employee. This aspect of the maintenance phase was covered in Unit 2.

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



Training

On various occasions in the employee's time with a business, new processes may be introduced, or the employee's duties may otherwise change. Preparing employees for these changes will usually involve some training, to provide them with any new skills they may need. Staff training is covered in more detail in subtopic 2.12.

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

Performance management

All businesses seek to achieve their objectives by improving productivity, and getting the best value from employees. It is important to monitor the performance of all employees, and find ways of improving that performance over time. We have already seen how employee motivation can be a powerful driver of improved performance. Performance management strategies are dealt with in subtopic 2.14.

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 2.16 covers these issues in more detail.

Managing termination

The employment relationship may end voluntarily, when an employee retires at the end of their working life, or resigns, often to take up a position elsewhere. Departures of this nature will be managed differently from involuntary departure. Such examples include when a position becomes redundant (the situation where a job no longer exists, usually due to technological changes, restructuring or a merger or acquisition) and the person in that job can no longer be retained; or dismissal, usually as a result of unsatisfactory job performance or unsatisfactory behaviour.

Entitlement and transition issues

An employee leaving a business may be entitled to the payment of outstanding benefits, such as accumulated annual leave, or long service leave. It is important that accurate records are kept to allow these benefits to be calculated and paid. In some cases of involuntary termination of employment, counselling and support for affected employees may be appropriate. This may include the provision of assistance to the departing employee to help them transition to a new job elsewhere.

KEY IDEAS

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

2.2 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Name the three phases of the employment cycle.
2. Explain the difference between a job description and a job specification.
3. Identify three possible methods of selecting the most suitable applicant to fill an employment position.
4. Explain why it is important to carry out an induction program with new employees.

APPLY your understanding

5. Peter has completed a degree in marketing and has gained employment with a real estate agency to manage their advertising, both through their website and through a section in the local newspaper.
 - a. Describe an induction process that may help Peter settle into his new position.
 - b. Following his induction, what additional training might be useful for Peter, and for his employer?
 - c. Explain how a process of performance management could benefit both Peter and the real estate business.
6. Why might an employer need to manage a voluntary termination of employment differently from an involuntary termination? Make a list of the issues that might arise with each type of termination.

Solutions and sample responses are available in your digital formats.

2.3 The relationship between managing employees and business objectives

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

2.3.1 Human resource management

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

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

human resource 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

Iluka prides itself on looking after the 3000 people employed across its operations; this is what human resource management is all about.



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.

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 all 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**.

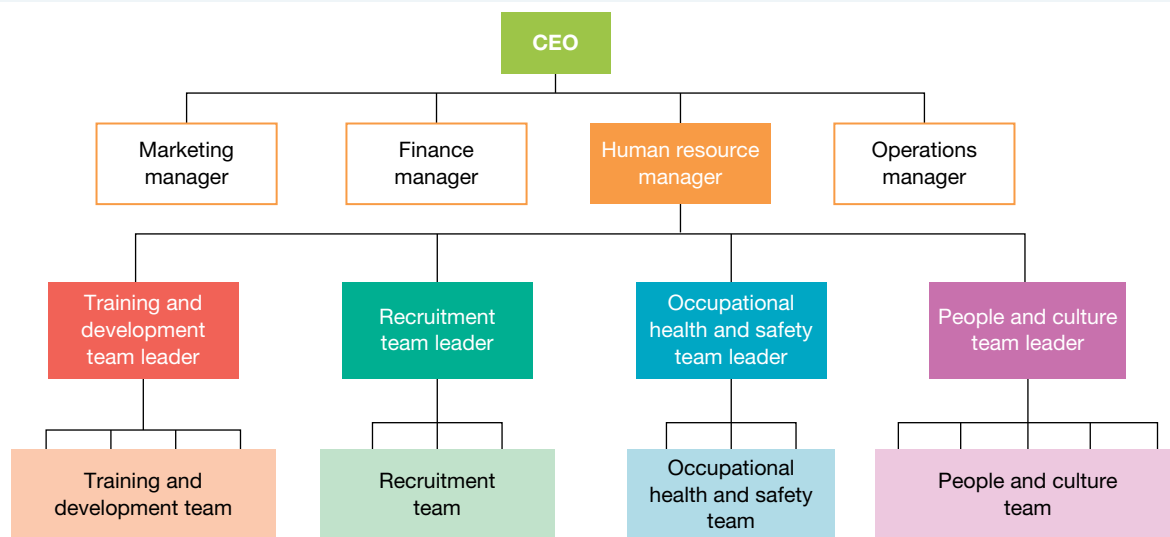
Businesses such as Iluka are successful in achieving their objectives by balancing the need for profitability (and satisfying shareholders) with a regard for the wellbeing of employees. Human resource management's focus on positive work and employment relationships should lead to a motivated staff, increased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

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

The HR area of management responsibility will work closely with the other departments in the business. The HR department may, for example, work closely with the operations management department to recruit and select new staff. Human resources strategies can be used to achieve business objectives by supporting

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



strategies in other areas of the business. The following table provides more examples of how HR strategies can be used to help the business achieve its objectives.

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

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

The human resources management 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.

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



The relationship between managing employees and business objectives can be described in several ways.

Relationships between managing employees 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 HR area will be involved in determining business objectives and will work closely with other areas in the business to support them in achieving objectives.
- HR's focus on positive work and employment relationships should lead to a motivated staff, increased productivity and the achievement of business objectives.

TOP EMPLOYERS INSTITUTE

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



GOOGLE'S HUMAN RESOURCES DRIVING BUSINESS GROWTH AND DEVELOPMENT

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

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

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

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

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



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 managing employees and business objectives is very important as it is staff who achieve the business's objectives and HR strategies that help ensure objectives are achieved.

2.3 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

APPLY your understanding

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

EXAM practice

9. Outline the relationship between managing employees and business objectives. **(2 marks)**
10. Jess has purchased new software to improve the management of her clothing store. She has four employees who will need to use the software to carry out their duties.
 - a. Explain one business objective that Jess might be attempting to achieve through this purchase. **(2 marks)**
 - b. Identify two human resources strategies Jess might implement to achieve the business objective explained in **part a**. **(2 marks)**
11. Analyse the importance of the relationship between operations management and business objectives. **(4 marks)**
12. With reference to a contemporary business case study, explain how managing employees relates to business objectives. **(4 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

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

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

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, change its behaviour)? Either a carrot can be dangled in front of the donkey (a reward) or the donkey can be hit with a stick (a punishment). Either method may motivate the donkey. In the work environment, 'rewards' refer to increased pay and improved conditions, 'punishment' refers to fear of a reprimand, demotion or dismissal.

However, research over the past 70 years has revealed that motivation is much more complicated than just these two variables. Different theories have been formulated that conclude that individual employees respond differently to various motivational techniques.

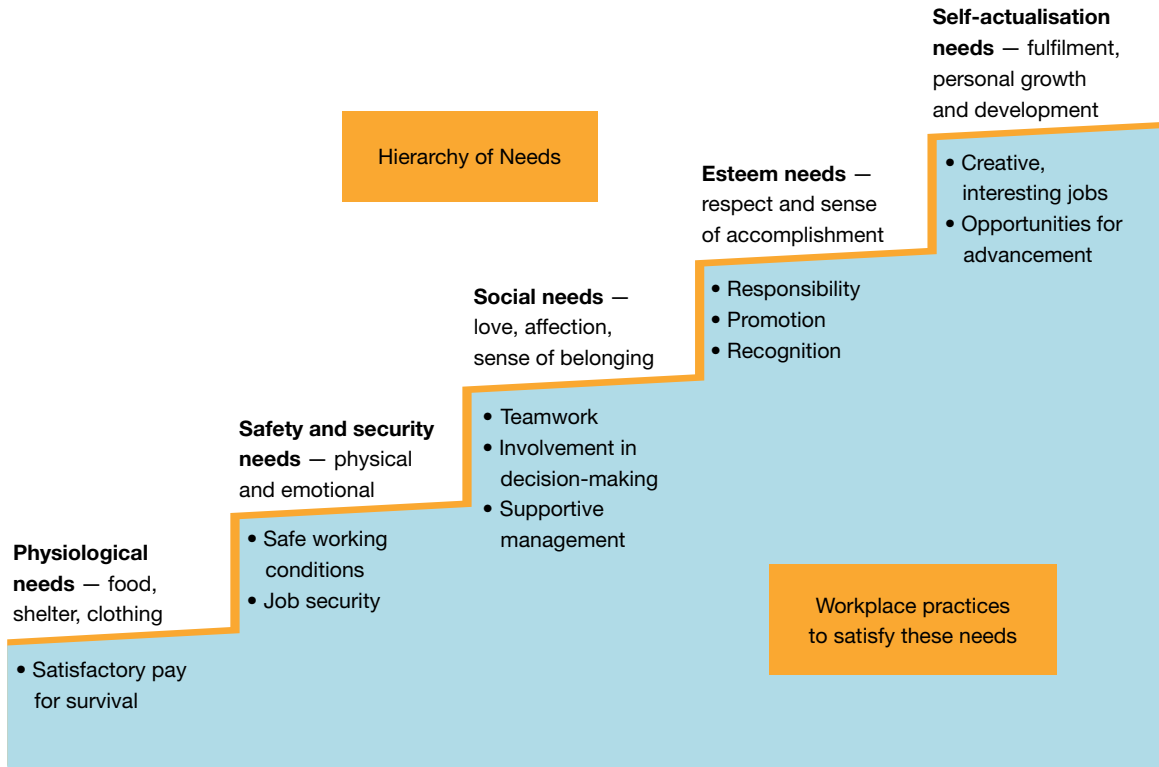
Motivation — carrot or stick approach



2.4.2 Maslow's Hierarchy of Needs

Abraham Maslow (1908–70), 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).

motivation the individual, internal process that directs, energises and sustains a person's behaviour
need a personal requirement
Hierarchy of Needs Maslow's sequence of human needs in the order of their importance



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.

Resources

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

DID YOU KNOW?

Naomi Fraser, a well-respected management consultant, has concluded that 'What motivates people is similar to how Winston Churchill viewed Russia... an enigma, inside a puzzle wrapped up in a mystery'.

EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to 'examine the key principles of the theories of motivation' as well as 'apply the key principles of the theories of motivation'. The task word 'examine' generally requires you to make the details or meaning of something clear (possibly exploring both sides or cause and effect). This suggests that you should know the strengths and weaknesses/limitations of Maslow's theory of motivation. The task word 'apply' generally requires you to use the information provided or knowledge relevant to a particular situation and make links and connections. This indicates that you need to know the Hierarchy of Needs well enough to be able to relate it to a practical example or a case study or to link it to an example or case study.

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.

2.4 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Which of the following is correct? Motivation is:
 - a. the drive that makes a person do something well once
 - b. the drive that makes someone exert effort over a sustained period of time
 - c. the wish to succeed
 - d. what makes us go to work each day.
2. When talking about motivation, the carrot or stick approach is sometimes mentioned. Explain why giving someone a reward or a punishment might motivate them to act.
3. Arrange these needs in order according to Maslow's theory:
 - a. esteem needs
 - b. physiological needs
 - c. safety needs
 - d. self-actualisation needs
 - e. social needs.
4. Explain why Maslow's theory is important.

APPLY your understanding

5. Explain how managers could use Maslow's theory to motivate staff.
6. Describe how a business could help a person meet their self-actualisation needs.

EXAM practice

7. Apply the key principles of Maslow's Hierarchy of Needs to a contemporary business case study. (5 marks)
8. MetFab metal fabrication business employs over 100 staff, many of them highly skilled tradespeople. The employees are all paid well above the industry average, the business has won a number of safety awards, and has an active social club for its employees. Despite these positives, management is concerned that many of its employees are content to coast along and not put much effort into their work. Examine how MetFab could make use of Maslow's theory to improve the motivation of its employees. (6 marks)
9. As Easy Airlines' sales have been decreasing, the business is planning to introduce a cost-cutting program. This means that staff may be made redundant and, as a consequence, morale is falling. Discuss how Maslow's motivational theory will assist the human resource manager at Easy Airlines to motivate the employees. (4 marks)
10. Maslow's Hierarchy of Needs has been recommended to Dana to motivate the employees at her beauty salon. Describe this theory of motivation and explain how Dana could use this theory to improve the performance of her employees. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

2.5 Motivational theories — Goal Setting Theory (Locke and Latham)

KEY CONCEPT Locke and Latham's Goal Setting Theory is based on the notion that employees are more likely to be motivated if they are able to strive for specific goals, and can be rewarded for achieving those goals.

2.5.1 Goal Setting Theory (Locke and Latham)

Dr Edwin Locke researched goal setting and motivation during the 1960s. He concluded that employees were motivated by clear goals and appropriate feedback regarding their achievement. Locke maintained that working towards a goal provided the motivation to reach that goal and this, therefore, improved performance. He found that specific and challenging goals led to better performance than vague goals or goals that were too easy to achieve.

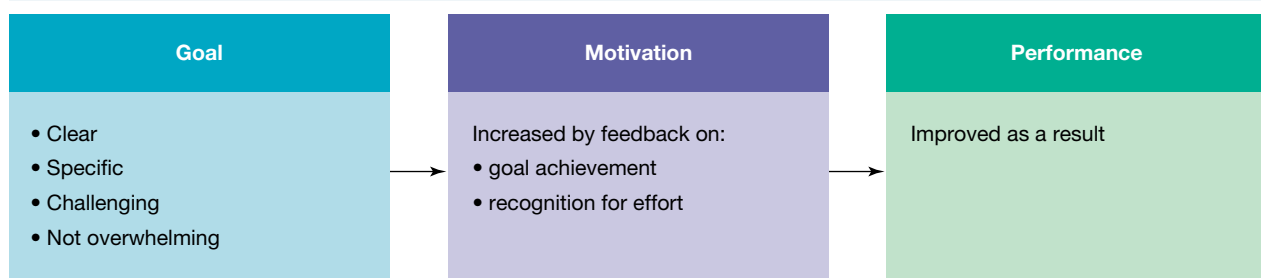
That is, Locke found that in order to motivate employees, goals must be clear, specific and provide a challenge. The employee must also be committed to meeting the challenge, and it helps if each employee receives regular feedback that provides clarification and adjustment of the goals and recognition for the efforts being made. The goal or task should not become so overwhelming that a person loses motivation.

Dr Gary Latham is a Canadian researcher who experimented with and tested Locke's theories, producing research results that endorsed the strong connection between goal setting and workplace performance. In 1990, Locke and Latham published *A Theory of Goal Setting and Task Performance*, which further developed Locke's original proposals.

According to Locke's theory, employees are motivated to achieve goals they have helped to set. The goals should be clear and specific, challenging but not so overwhelming that they are impossible to achieve. Constant feedback on progress and recognition for the effort being made is vital.

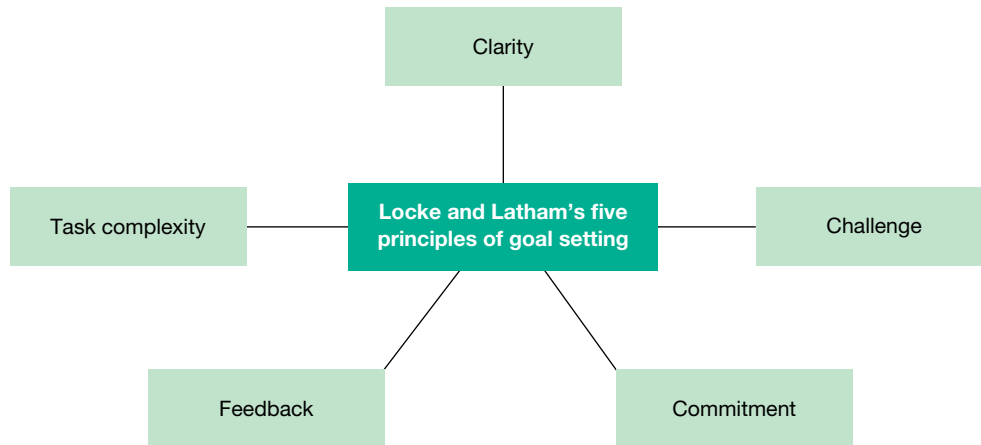


Locke and Latham's theory has been applied in many circumstances over a number of years.



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.

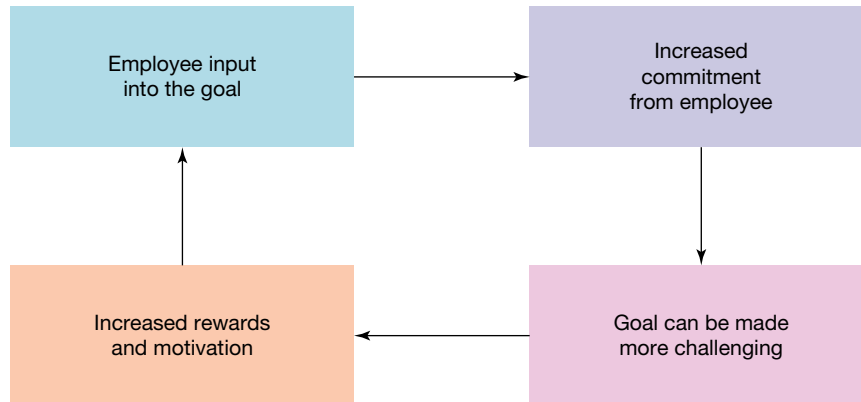
Challenge

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.

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



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.

EXAM TIPS

- Goal setting is often associated with the concept of setting SMART goals. Be aware that SMART goals are not a part of Locke and Latham's Goal Setting Theory and should not be used to cover the key elements of the theory in your VCAA exam.
- The **Unit 3, Area of Study 2** key skills state that you need to 'examine the key principles of the theories of motivation' as well as 'apply the key principles of the theories of motivation'. The task word 'examine' generally requires you to make the details or meaning of something clear (possibly exploring both sides or cause and effect). This suggests that you should know the strengths and weaknesses/limitations of Locke and Latham's theory of motivation. The task word 'apply' generally requires you to use the information provided or knowledge relevant to a particular situation and make links and connections. This indicates that you need to know Goal Setting Theory well enough to be able to relate it to a practical example or a case study or to link it to an example or case study.

Strengths and weaknesses of Locke and Latham's Goal Setting Theory

Strengths	Weaknesses
• Setting goals that are clear and specific, challenging but not overwhelming, will motivate employees and improve their performance, thereby contributing to business objectives. • 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)

KEY IDEAS

- 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.

2.5 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain how goal setting affects a person's motivation.
2. Explain what is meant by 'clarity' when it comes to setting goals for employees.
3. Why do you think that setting goals that are easy to achieve might lower motivation?
4. Why is 'task complexity' an issue in the process of goal setting?
5. Outline the strengths and weaknesses/limitations of Locke and Latham's Goal Setting Theory.

APPLY your understanding

6. Have you set goals for yourself recently? If you did, how did this affect your motivation?
7. What goals might a football club establish at the start of a new season? Why do clubs set such goals?

8. Dean is a sales manager in charge of 15 sales representatives. He wishes to provide motivation for each of these representatives to improve their sales figures during the coming six-month period, and believes that Locke and Latham's Goal Setting Theory may provide him with the means of doing this.
- a. Outline how Dean could make use of Goal Setting Theory with each of the sales representatives.
 - b. Explain how he might monitor the process during its operation.
 - c. What would you expect to occur at the completion of the six-month period?

EXAM practice

9. Describe two differences between Maslow's and Locke and Latham's theories of motivation. **(4 marks)**
10. MetFab metal fabrication business employs over 100 staff, many of them highly skilled tradespeople. The employees are all paid well above the industry average, the business has won a number of safety awards, and has an active social club for its employees. Despite these positives, management is concerned that many of its employees are content to coast along and not put much effort into their work. Examine how MetFab could make use of Locke and Latham's Goal Setting Theory to improve the motivation of its employees. **(6 marks)**
11. Reliable Transport is planning to recruit new staff, and relocate existing employees, as the business expands and sales continue to grow. Describe Locke and Latham's Goal Setting Theory and explain how the HR manager at Reliable Transport could use this theory to motivate staff. **(4 marks)**
12. Besides motivated employees, describe two benefits to a business that could be achieved through the use of Locke and Latham's Goal Setting Theory. **(4 marks)**
13. Allen's Accountants recently employed six graduates. Four of the graduates resigned after six months due to low job satisfaction. Discuss how using Locke and Latham's Goal Setting Theory might assist Allen's Accountants to motivate the remaining two graduates. **(6 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

2.6 Motivation theories — Four Drive Theory (Lawrence and Nohria)

🔑 **KEY CONCEPTS** The Four Drive Theory attempts to identify the basic human drives that determine all human behaviour and apply these as a means of motivating employees in the workplace.

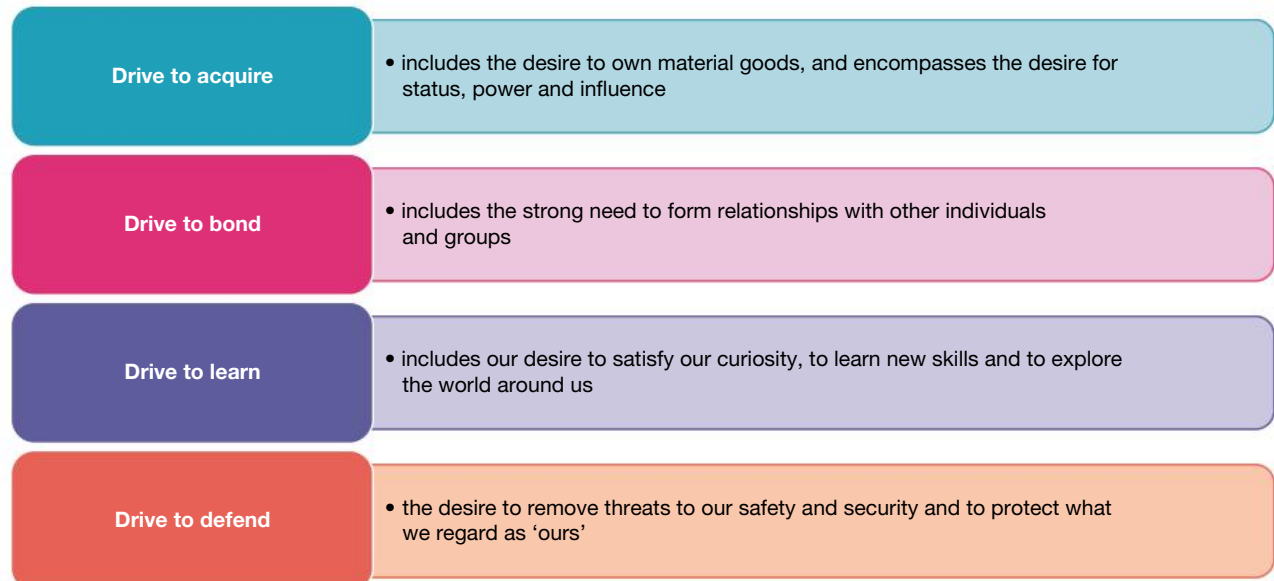
2.6.1 Four Drive Theory (Lawrence and Nohria)

The Four Drive Theory was developed by Dr Paul Lawrence and Dr Nitin Nohria, from the Harvard Business School, and outlined in their book *Driven: How Human Nature Shapes Our Choices*, published in 2002. They identified what they believe are the four main drives that shape the way in which all human beings think and behave. In doing so, they were attempting to explore the very core of human nature and the key determinants of all human behaviour. By applying what they saw as the four basic human drives to the business world, they hoped to be able to identify what motivates a range of stakeholders, including employees, customers, competitors and others.

The four drives

Lawrence and Nohria identified the 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)

2.6.2 The four drives and employee motivation

An employer or manager can harness the four drives in the development of a work environment that will motivate employees and encourage them to work productively towards achieving business objectives.

Drive to acquire

The drive to acquire can be expanded to include *achievement* as a means of identifying and including the desire for non-material things, such as status and influence. Employers and managers can apply this in the workplace by:

- ensuring levels of remuneration are comparable with those of competing businesses, to ensure that valued staff are satisfied and not easily lured away
- tying monetary rewards to improvements in performance
- recognising good performance from employees with appropriate financial incentives
- providing opportunities for employees to feel proud of the work they do, and to feel that they can distinguish themselves through their work
- clearly expressing the expectations of the business, particularly in relation to the ways in which work performance will be evaluated
- establishing high levels of performance as the norm, and the standard by which all employees are judged and rewarded.

Providing opportunities for employees to feel proud of the work they do can satisfy the need to acquire and achieve.



Drive to bond

In the context of motivating employees within a business, the drive to bond is most commonly expressed through a sense of *belonging*. Businesses wishing to harness this drive as a means of motivating employees will encourage this in the following ways:

- Managers and leaders will be people oriented, and will seek to interact with all employees in a positive and encouraging manner.
- Management will seek ways to develop corporate culture and improve relationships between management and employees, by recognising achievements outside of the workplace and milestones such as birthdays, or years of service.
- Teamwork and collaboration will be encouraged and recognised, and collective achievements highly valued.
- Sharing of best management practice among employees will be rewarded and staff will be encouraged to support the team culture.
- Employees will be encouraged to trust and support each other.
- Personal friendships between employees will be fostered and supported.

Harnessing the drive to bond allows collective achievements to be highly valued by employees.



Drive to learn

The drive to learn encompasses the need to understand the world around us, to be challenged mentally and be faced with interesting and varied experiences. This drive can be used to provide motivation in the following ways:

- Opportunities to learn new skills are provided on a regular and ongoing basis.
- Tasks are made as interesting as possible.
- Each person's duties include a variety of different tasks to provide stimulation and avoid the boredom that can come from constant repetition.
- Challenges are built in to all work assignments to increase satisfaction when a difficult task has been completed.
- Employees feel that they are gaining additional skills and valuable experience as they go about their daily work.
- Management actively supports employees in gaining new skills and qualifications, including formal qualifications from external institutions such as universities and TAFE colleges.
- Each job or set of duties within the business is valued as making a significant and meaningful contribution to the achievement of the business's objectives.

Opportunities to acquire new skills can satisfy the drive to learn.



Drive to defend

As the latent drive, defending comes into play in ensuring that the work environment is safe and non-threatening, with high levels of trust between employees and management. Motivation comes from removing fears and insecurities from the workplace.

- The workplace is welcoming and supportive, and intimidation is not used as a management technique.
- Managers treat all employees fairly and are seen to do so consistently.
- Systems and processes for determining rewards and recognition within the business are fair and transparent, so that no-one feels that any other employee is the subject of favouritism, or that they have been discriminated against.
- Managers and leaders foster an atmosphere of trust, by ensuring they are consistent and honest in all dealings with employees.
- Employees are encouraged to speak up, to air their concerns and offer suggestions, with full support of management, and without any fear of reprisals.

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** key skills state that you need to ‘examine the key principles of the theories of motivation’ as well as ‘apply the key principles of the theories of motivation’. The task word ‘examine’ generally requires you to make the details or meaning of something clear (possibly exploring both sides or cause and effect). This suggests that you should know the strengths and weaknesses/limitations of Lawrence and Nohria’s theory of motivation. The task word ‘apply’ generally requires you to use the information provided or knowledge relevant to a particular situation and make links and connections. This indicates that you need to know the Four Drive Theory well enough to be able to relate it to a practical example or a case study or to link it to an example or case study.

KEY IDEAS

- 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.

2.6 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Outline the ‘four drives’ identified by Lawrence and Nohria, which they believe provide motivation for all human behaviour.
2. Explain two ways in which the drive to acquire can be harnessed to motivate employees in a workplace.
3. How can the drive to bond be used to motivate employees?
4. In what ways does the drive to learn usually show itself in human behaviour? Explain how employers can make use of this drive to improve work performance.
5. Outline two ways in which an employer can provide a workplace that satisfies the drive to defend.

APPLY your understanding

6. Create two checklists, one under the heading ‘Things to do’, and one under the heading ‘Things NOT to do’.
 - a. Under the first heading, provide a list of at least eight actions that a manager could take to ensure he or she is making use of the Four Drive Theory to improve employee motivation.
 - b. Under the second heading, develop a list of at least eight actions that a manager should NOT do if he or she wishes to maximise employee motivation using the Four Drive Theory.

EXAM practice

7. Describe two differences between Locke and Latham’s and Lawrence and Nohria’s theories of motivation. **(4 marks)**
8. TechSol is an IT consultancy business that is expanding rapidly. It hired four new computer science graduates at the beginning of the year, but now all of them have indicated that they wish to leave because of low job satisfaction. Examine how TechSol could make use of Lawrence and Nohria’s Four Drive Theory to improve the motivation of its employees. **(6 marks)**
9. Outline the strengths and weaknesses/limitations of Lawrence and Nohria’s Four Drive Theory. **(4 marks)**
10. Canlock Manufacturing is a manufacturer of customised canvas goods. The HR manager believes that the business’s employees are under performing. Apply the key principles of the Four Drive Theory (Lawrence and Nohria) to employee management at Canlock Manufacturing. **(4 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

2.7 EXTEND YOUR KNOWLEDGE Comparing theories of motivation

KEY CONCEPTS The motivational theories of Maslow, Locke and Latham, and Lawrence and Nohria are not mutually exclusive. There are a number of similarities and some overlap between the different theories.

Motivated employees are very important to a business owner or human resource manager, but whose approach to choose: Maslow, Locke and Latham, or Lawrence and Nohria? It is useful to look at the similarities and differences between these theories of motivation, and even the ways in which they can be used together. For example, it is possible to set goals (Locke and Latham) which satisfy higher level needs such as self-actualisation in an employee (Maslow). To fully appreciate the similarities and differences between the theories studied so far, it is useful to understand the difference between extrinsic rewards and intrinsic rewards.

on Resources

Video eLesson Comparison of motivation theories (eles-2928)

2.7.1 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.

Maslow 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.

Locke and Latham 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.

2.7 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain the difference between extrinsic rewards and intrinsic rewards and provide an example of each.
2. Using examples from each theory to illustrate your response, outline the similarities and differences between Maslow's Hierarchy of Needs, Locke and Latham's Goal Setting Theory and Lawrence and Nohria's Four Drive Theory.

EXTEND your understanding

3. Outline how each of the following theories makes use of both extrinsic rewards and intrinsic rewards as a means of motivating employees.
 - a. Maslow's Hierarchy of Needs
 - b. Locke and Latham's Goal Setting Theory
 - c. Lawrence and Nohria's Four Drive Theory
4. Imagine you are the HR manager in a business employing 40 employees of varying ages and experience. The CEO has identified low levels of motivation in the workforce as a contributing factor to the business not achieving many of its objectives and has asked you to prepare a report on how employee motivation might be improved. Your report must be between 400–500 words and should include:
 - a. a comparison of the three theories of motivation you have studied, their similarities and differences
 - b. a recommendation as to which theory you would adopt for the business
 - c. the reasons why you believe this theory would be the most appropriate.

EXAM practice

5. Describe two differences between Maslow's and Locke and Latham's theories of motivation. **(4 marks)**
6. Distinguish between Maslow's and Lawrence and Nohria's theories of motivation. **(4 marks)**
7. Compare Locke and Latham's and Lawrence and Nohria's theories of motivation. **(4 marks)**
8. Compare Maslow's and Locke and Latham's theories of motivation. **(4 marks)**

Solutions and sample responses are available in your digital formats.

2.8 APPLY YOUR SKILLS Motivation theories — do they work?

PRACTISE YOUR SKILLS

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

In order to increase productivity, it is very important that managers understand the factors that motivate their staff to want to work. The theories of Maslow, Locke and Latham, and Lawrence and Nohria provide us with some guidance as to what motivates staff, but do they work in the real world? Through the following case studies, let us have a look at whether they are just theories, or if they can be put into practice.

A BIKE AND SOME LIGHTS: A STUDY IN MOTIVATION

The Lantern Group is a motivational consulting firm that specialises in working closely with their clients to increase the engagement and motivation of their workforce. In July 2016, the group set up an experiment at the World at Work Total Rewards Conference in San Diego, California, USA. It involved hooking up a stationary bike to a bank of six LED lights on a vertical pole, so that the longer and harder someone pedalled the bike, the more lights lit up. The group offered free promotional T-shirts to anyone who could light up only one of the lights, so there was no requirement for anyone to light up more than one light to receive a reward.

In addition, a leader board was set up to record the names of the five fastest participants to light up the whole board. This was a simple whiteboard that recorded the five fastest participants and their times, and could be changed whenever a new person beat the record of one of the previous participants. A total of 103 people rode the bike over the two days of the conference, and only one of them stopped at the first light. While the offer of a free T-shirt was the key motivator for getting people on the bike, once they were on it, they kept on pedalling to see what they could achieve.

This experiment can tell us a lot about motivation. For most people the offer of a free T-shirt was a motivating factor in encouraging them to get on the bike. It only required a simple extrinsic reward to encourage them to participate. Of greater interest was the fact that only one person stopped at one light, while all the others kept going to see how many lights they could illuminate. The intrinsic reward of achieving something more than the basic level became a motivator. Because they could get instant feedback by seeing how lights were lit up, they were motivated by the activity, rather than the extrinsic reward of a T-shirt.

When applying theories of motivation, we can see the importance of intrinsic rewards. Within the context of Maslow's Hierarchy of Needs, the self-esteem need motivated 102 riders to prove how much they could achieve. As an example of Goal Setting Theory, there was a clear clarity of task (lighting as many LEDs as possible), as well as a challenge, and a need to make a commitment to meet that challenge. In terms of the Four Drive

Once participants were on the exercise bike, almost all were motivated to achieve the highest level of performance possible.



Theory, the drive to acquire was a motivating factor both for the extrinsic reward offered by the T-shirt, but also by the intrinsic reward of having the status of seeing one's name on the leader board. The drive to learn was also activated, with riders wanting to challenge themselves to find out what level they could achieve.

All three theories rely on recognition, and the leader board provided this as it was changed whenever a new record was set. Some riders returned to have second, third or even fourth attempts when their names had been replaced on the leader board. They did not receive a second T-shirt for doing so but were simply motivated by the challenge of improving on their previous attempt, and perhaps returning to the leader board. In doing so, they could see the times achieved by previous riders, and now had a specific goal to aim for. This goal clarity and the fact that they could get instant feedback provided an immediate motivation to do better.

The experiment showed that while an extrinsic reward might be necessary to encourage initial participation in an activity such as this, the intrinsic rewards of meeting a challenge, gaining self-esteem and recognition for meeting a goal, were far more influential in motivating participants to try and achieve their best.

PUTTING THE FOUR DRIVE THEORY INTO PRACTICE

In addition to its experimental work in relation to employee motivation, the Lantern Group regularly publishes informative articles on its website. The following article appeared in one of their online blogs.

What great leaders need to do

Rightfully or not, many employees look to the company to provide them with their motivation for work. While many of these motivations are inherent in a company, good leaders know that they have to work at it constantly to ensure that they are satisfying all four drives.

1. Focus on all 4 Drives

It is important to understand that all the good work that a company or leader does in these four areas can be ruined if one of the four drives is lacking. Research shows that weakness or fulfilling one of the 4-Drives 'casts a negative halo' effect on how the company or leader performs on all the other 3 drives. It is important then for a leader to ensure that they are identifying and addressing any issues that they see in any of the four drive areas.

2. Individualise motivation

It is also important to know that individual employees each have a unique 4-Drive Motivational profile. In other words, some employees will respond or require greater satisfaction of the A drive, while others will focus more on the C drive (or B or D). Each employee will perceive how the company or leader is performing on each of these drives differently. Good leaders are those who understand these differences and can focus specific employees on satisfying the drives of their specific needs.

3. Communicate effectively

Leaders need to effectively communicate how their systems, policies and structure align with the four drives. In other words, they need to be able to explain, or to map out the connections between what the company is doing or providing and how this would satisfy one or more of the drives. For instance, a leader could identify the reasons that they are sponsoring a community service event is not only to help the community (drive D) but also to provide an opportunity for employees to get to know each other and their families (drive B) and to give them a chance to learn a new skill (drive C).

4. Experiment

Good leaders constantly look for ways of enhancing each of the four drives, by being committed to looking for different ways and different opportunities for employees to satisfy their needs. One such way could be to implement new structures and processes and see how they work.

Source: The Lantern Group, <https://thelanterngroup.wordpress.com/2011/04/28/how-leaders-can-impact-the-4-drives-of-employee-motivation/>.

2.8 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

1. What can the experiment with the exercise bike and lights tell us about the relative importance of intrinsic rewards when compared with extrinsic rewards?
2. Why is it important that a leader focuses on all four drives when managing employees?
3. Explain what is meant by 'individualising motivation'.
4. Outline the importance of communication and experimentation in enhancing the use of the Four Drive Theory with employees.

APPLY your skills

5. Outline the ways in which the bike experiment demonstrates the effectiveness of each of the three theories of motivation you have studied in this subtopic.
6. 'Goal setting provides a sense of direction and purpose for employees.' Discuss whether or not you agree with this statement.
7. The task word 'examine' generally requires you to make the details or meaning of something clear (possibly exploring both sides or cause and effect). The task word 'apply' generally requires you to use the information provided or knowledge relevant to a particular situation and make links and connections.
 - a. Examine the use of Maslow's Hierarchy of Needs at Lantern Group.
 - b. Apply the key principles of Lawrence and Nohria's Four Drive Theory to the bike experiment at Lantern Group.
 - c. Explain Locke and Latham's Goal Setting Theory and apply it to Lantern Group.
8. In groups of three, prepare a short role play, demonstrating your understanding of one of the motivational theories. Your play should illustrate situations before and after a motivational theory is applied. For example, if you choose to present the five needs highlighted in Maslow's theory, you might dramatise a scenario where a young, inexperienced employee in a bakery, employed for the Christmas period, is unsure of their long-term job prospects. For example, you could outline whether or not their physiological needs are met, and whether or not their safety and security needs are met. Finish your play by showing how these needs could be resolved.

EXAM practice

9. Amazing is a company offering an online marketplace selling products such as electronics, furniture, toys, and jewellery. Employees complain of long hours and their motivation is low.
 - a Explain Maslow's Hierarchy of Needs and apply it to the situation at Amazing. (6 marks)
 - b Apply Locke and Latham's Goal Setting Theory to motivating employees at Amazing. (4 marks)
 - c Examine the appropriateness of Lawrence and Nohria's Four Drive Theory at Amazing. (6 marks)

Solutions and sample responses are available in your digital formats.

2.9 Motivation strategies

KEY CONCEPTS A business may use a range of strategies to motivate employees. These usually relate to the ways in which managers and leaders respond to the personal needs and ambitions of employees. Motivation strategies including performance related pay, career advancement, investment in training, support, and sanction

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.

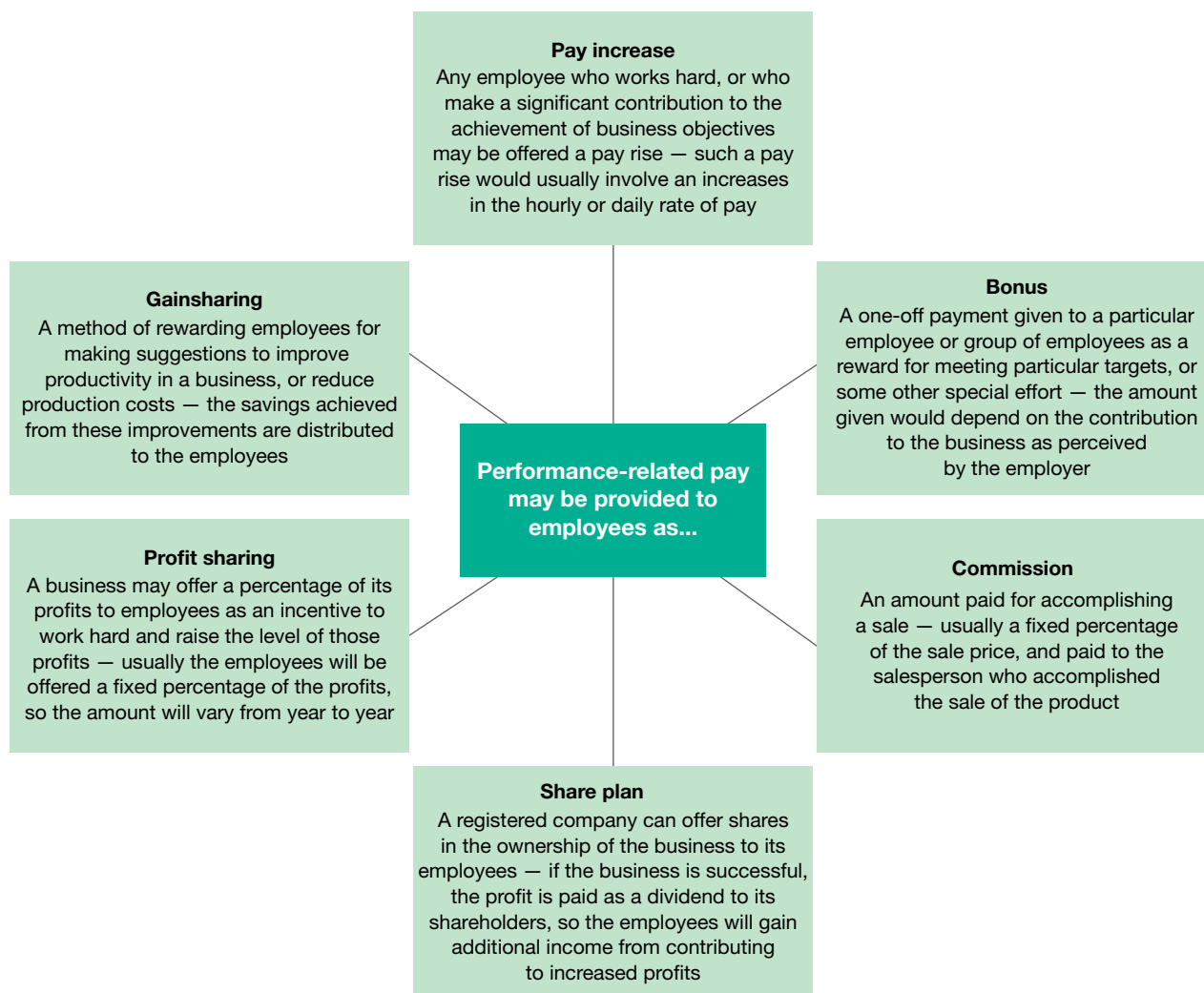
However, as you are already aware, motivation is not as straightforward as this. Not all needs or drives will be met through money. Effective managers and business leaders recognise the importance of going beyond purely financial incentives to provide motivation that reflects the individual needs and 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.

2.9.1 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 (see the following figure). 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.

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.



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.



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 ‘compare and evaluate strategies used for motivation... when managing a business’. This suggests that as well as knowing the advantages/strengths and disadvantages/limitations of each motivation strategy (and being able to then provide an overall conclusion or judgement related to which argument is the more persuasive and why), you should also be able to comment on the similarities and differences between each motivation strategy.

2.9.2 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.

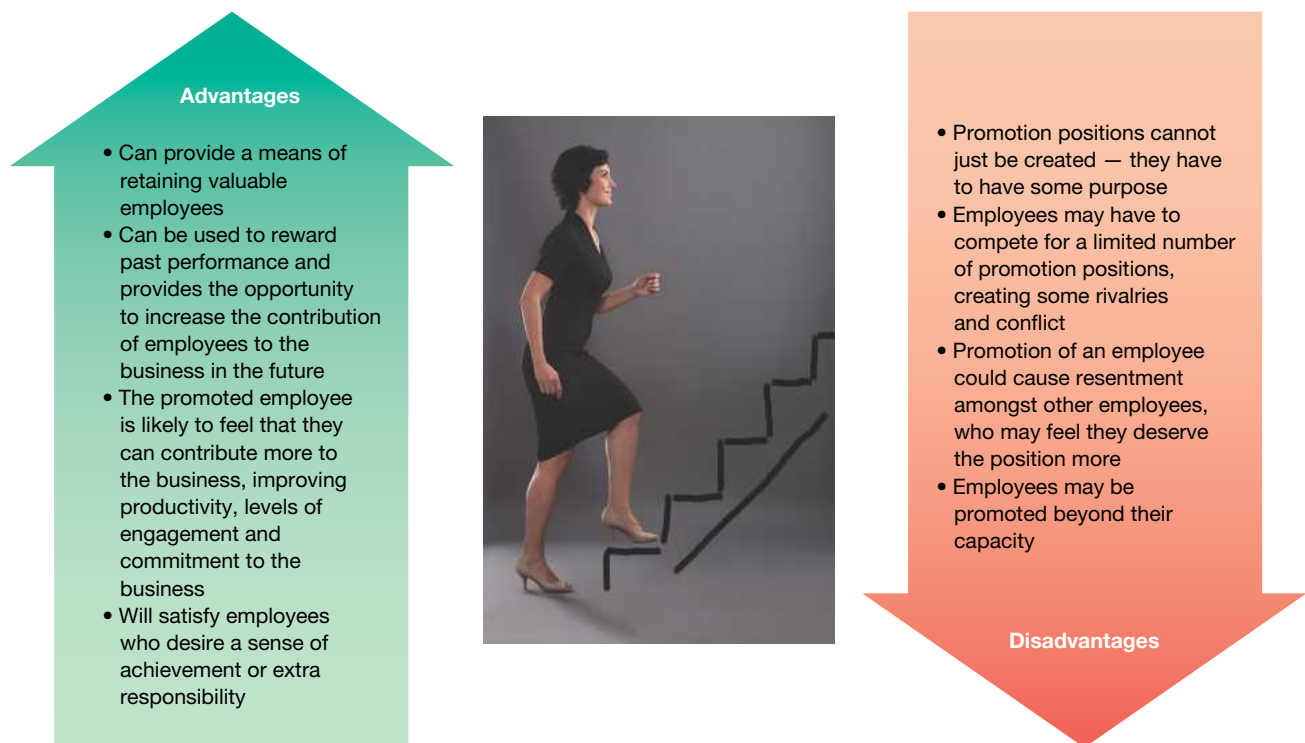


career advancement the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring rewards, such as increased salary, fringe benefits and increased responsibilities

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.

The advantages and disadvantages of career advancement



EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to 'propose and justify strategies to manage employees effectively'. The task word 'propose' suggests that you should put forward a motivation strategy (performance-related pay, career advancement, investment in training, support or sanction) for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the motivation strategy as well as explain a little about it. The task word 'justify' requires you to show how the motivation strategy you have selected is the best choice or to provide evidence to support your argument.

2.9.3 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 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.

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

The advantages and disadvantages of investment in training

Advantages

- Indicates to employees that the business values their contribution, and that the business will support them in advancing their careers
- Benefits the business by improving the skills of employees so that they feel more confident and perform more productively
- Improving skills can satisfy higher level needs in Maslow's hierarchy, as well as providing goals for goal-setting theory, and satisfying some of the four drives
- May improve employee retention as staff loyalty and motivation are improved



- Unless there are sufficient jobs within the business requiring higher level skills, training may be wasted
- A business may be unable to afford the costs of training
- The business may pay the cost of training only to have the employee leave for a position in another business.
- If a business has poor systems, poor facilities or equipment, or if employees are performing the wrong tasks or in the wrong job, training will not motivate them

Disadvantages

2.9.4 Support

Support is the assistance or services (such as counselling and mentoring) provided by the business to help employees cope with difficulties that may impede their work performance. Most employees want to work in a supportive environment. They want to feel that the employer values their contribution to the workplace, and that they will be treated fairly and with sympathy towards their personal needs. A supportive management style can be an important factor in developing and sustaining such an environment.

Effects of support 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.

The advantages and disadvantages of support



2.9.5 Sanction

A **sanction** is a penalty or form of discipline imposed on an individual. It may become necessary when an employee does the wrong thing in the workplace. This is particularly relevant if the error is deliberate or reckless, and may be potentially harmful to other staff or customers. Sanctions may range from verbal warnings to pay cuts, demotion and even termination.

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

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

Effects of sanction 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.

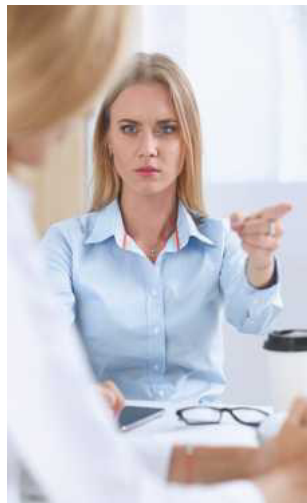
Blaming an employee when things go wrong has very limited value.



The advantages and disadvantages of sanction

Advantages

- Sanctions for poor behaviour in the workplace can motivate some workers to improve their work performance
- May quickly stop inappropriate behaviour of some employees



- Excessive emphasis on sanctions can reduce employee sense of belonging, and therefore have a negative impact on motivation
- May cause resentment in employees, which may result in conflict between management and staff
- Tends to act as only a short-term motivator

Disadvantages

KEY IDEAS

- Performance-related pay refers to the monetary compensation provided to employees relative to how their performance is assessed according to set standards.
- Career advancement is the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring rewards, such as increased salary, fringe benefits and increased responsibilities.
- Investment in training refers to the direction of finances into the teaching of skills to employees.
- The opportunity for career advancement and investment in training can provide levels of personal challenge and satisfaction that will motivate employees.
- Support is the assistance or services (such as counselling and mentoring) provided by the business to help employees cope with difficulties that may impede their work performance.
- Sanction is a form of penalty or discipline for poor performance.
- Support and encouragement will generally produce better results than sanctions in the workplace.

2.9 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain what performance-related pay is.
2. List the six methods of performance-related pay.
3. Outline the possible advantages and disadvantages of performance-related pay.
4. Why is it important for employers to provide career advancement opportunities?
5. Explain why investment in training is able to provide benefits for both employers and employees.
6. Under which circumstances might it be appropriate to use a sanction with an employee?
7. Why is it usually better to use support rather than sanction?

APPLY your understanding

8. If you were managing a business and had the choice of offering permanent pay rises to employees over time, or bonuses once a year for good performance, which would you choose? Provide reasons for your choice.
9. If you were offered a sales job that included a low base pay, but had access to commissions based on the number of sales you achieved, would you be happy to accept those conditions of employment? Give reasons for your answer. What additional information would you want before accepting the position?
10. 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. How can each of the following strategies help her to meet the motivational needs of employees?
 - i. Providing career advancement opportunities
 - ii. Investing in the training of employees
 - b. Identify and explain three of the difficulties Jane may face in implementing these strategies.
11. Heather's mother is suffering from cancer and is in hospital being treated. Heather needs to see her mother frequently, and pretends to be ill so she can take time off work to visit the hospital. She is entitled to paid sick leave but is afraid that visiting her mother does not qualify as a reason for paid leave. If the employer found out about her deception, what would be the possible advantages and disadvantages of each of the following strategies?
 - a. Imposing a sanction on Heather, such as cutting her pay for the time missed from work
 - b. Supporting Heather by giving her paid time off work during her mother's illness

EXAM practice

12. Describe how performance-related pay could be used to improve the performance of employees. **(2 marks)**
13. 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)**
14. Explain the term 'career advancement' and analyse how it might satisfy any two of the four drives identified by Lawrence and Nohria in their motivational theory. **(6 marks)**
15. 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)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

2.10 EXTEND YOUR KNOWLEDGE Financial and non-financial motivation

KEY CONCEPTS It is desirable for an employer to make use of a combination of financial and non-financial motivation to encourage employees to make the maximum contribution to the achievement of business objectives.

Motivated employees will always perform better in the workplace than those who simply turn up, do the bare minimum and collect their pay. Everyone recognises the importance of money as a motivating force, and employees who contribute to business success deserve to be rewarded with appropriate levels of pay. In addition, the use of non-financial motivation strategies can help get the best out of employees, adding to business performance and greatly assisting in achieving business objectives.

MOTIVATING MEANS MORE THAN MONEY

Managers often instinctively resort to financial reward as the main method of motivating their staff. However, many studies have shown that for people with good salaries, non-financial motivators are more effective than offering extra money. Some non-financial motivators that have been found to be very effective include:

1. *regular attention from leadership*. This may occur, for example, through monthly one-on-one conversations, which can nurture the bond between employee and manager as well as improve performance. This involves a manager taking time out to reflectively discuss performance with each employee and create individual action plans. Many businesses have replaced their annual performance appraisals with regular check-ins.
2. *praise or recognition*. Acknowledgement from management is very important for engaging employees. This does not necessarily require the recognition of staff at annual awards nights or functions; however, many businesses do this. A simple thank you note handed to a staff member or an email praising them for a job well done can also have very positive consequences. Employees can also be encouraged to praise or recognise each other.
3. *responsibility*. By giving employees more responsibility, they feel their contribution is more valuable to the business. This might include the opportunity to lead a project or a special task force.
4. *providing creative, challenging and varied work*. Employees will find their jobs more engaging if they are challenging and interesting. Sometimes tasks can be made more interesting simply by removing unnecessary aspects of the job, such as excessive paperwork or bureaucratic systems.

Financial rewards can result in short-term motivation, which can have damaging, unintended consequences. Non-financial motivators can be much more cost-effective. They also have the extra benefit of making employees feel that the business values them, leading to improved productivity. Motivated employees are more likely to be retained by the business, which reduces recruitment and training costs. Research carried out by RedBalloon and AltusQ in 2013 suggests that a highly engaged workforce is a highly productive workforce. Their *Employee Engagement Capabilities Report* found that businesses with the highest levels of engagement outperformed other businesses in performance indicators including sales and turnover, profit, productivity, staff retention, attracting talent, customer loyalty and customer satisfaction.

So why don't more managers make use of non-financial motivators? One factor deterring businesses from using non-financial motivators is the traditional management belief that only money matters as a form of incentive. Another reason is the greater amount of time and commitment required from managers to use the non-financial motivators. Many of these motivators require management to interact with employees, and failing to do so can seriously harm employee engagement.

Optiver

Optiver is a Dutch market-maker trading company. A market maker is a company that quotes a buy and a sell price for financial commodities, such as shares, options and futures. The traders and IT developers who work at Optiver generate large numbers of instructions, using automated trading software, to move in and out of trades very quickly.

The company has created an engaged, highly satisfied workplace at its Australian headquarters in Sydney. It was voted the best place to work in Australia by *BRW* in 2013, and has featured in the top 10 workplaces regularly since then.

Optiver hires talented people and teams new recruits with a buddy to make the induction process work smoothly. It offers flexible conditions and training in ethics, and makes an effort to cut 'red tape' and bureaucracy. Employees are encouraged to pursue interests outside of work. Open communication and teamwork are used to gather and act on the ideas of staff. The use of these motivation strategies at Optiver reflects the positive real corporate culture of the business.

The work that staff do at Optiver is, in itself, interesting. Many employees report a major buzz from the experience of trading.



MOTIVATING EMPLOYEES AT FONDA MEXICAN RESTAURANT

The word 'Fonda' is used in Mexico to describe a house with an open kitchen, where visitors are always welcome. The Fonda restaurant chain was founded in Melbourne by David Youl and Tim McDonald in 2011, and aims to carry on this tradition of a relaxed and welcoming dining experience. Although the restaurant now operates at seven different sites in Melbourne and one in Sydney, David and Tim have chosen not to make use of a franchise model, as they wish to maintain a consistent management culture across each of the restaurants. This culture encompasses the following features:

- Alignment between the business objectives and employee objectives is given highest priority. This means that employees have a direct interest in improving the profits of the business through a system of profit sharing.
- Each branch of the business is managed by a Restaurant Business Leader. This person is paid a base salary, which is augmented monthly by a 7 per cent share of the profit of that restaurant. The higher the profit, the larger the amount paid to the RBL. Base salaries are kept relatively low, but the share in the profits has meant that the actual take home pay is generally higher than the industry average.
- Assisting the RBL in each restaurant is a Senior Assistant Business Leader, who is paid 3 per cent of the profits, and two or three Assistant Business Leaders who are each paid 2 per cent. While base salaries for each of the members of the leadership team is also relatively low, their share of profit inevitably means they actually take home salaries that are higher than comparable employees in other restaurants.
- The leadership teams meet together monthly with the business owners, when profit share payments are made and ideas for improving productivity are shared. Leaders are encouraged to learn from each other and to celebrate the achievement of business goals.
- Every three months, all staff meet for a 'Buzz Breakfast', at which a wide variety of staff achievements are reported and celebrated.
- An annual awards dinner is held each year for all employees, and this is seen as the company's equivalent to a Brownlow Medal celebration.
- Each May, the leadership teams meet to set the objectives for the next financial year. These objectives are broken down into monthly, weekly and even daily goals, and these goals are made measurable and communicated to all staff. It is not unusual for customers in one of the restaurants to see staff stop for 20 seconds and break out into cheering and applause when a daily sales goal or a food preparation time goal has been achieved.
- Staff are known as 'Fondarians', and are encouraged to see themselves as important team members. Ideas and suggestions for improvement from all staff are strongly encouraged, acknowledged regularly and celebrated.

In 2015, Fonda was recognised by the *Business Review Weekly* as the 22nd fastest growing company in Australia, up from 39th the previous year. Aligning staff motivation with business objectives has proved a recipe for success for Fonda in the very crowded and competitive hospitality industry.

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



2.10 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Read 'Motivating means more than money'. Summarise the incentives that have been found to be effective in motivating staff.
2. To what motivational theories do these motivators relate?
3. Outline factors that could deter managers from using non-financial motivators.
4. How do the owners of Fonda Mexican Restaurants make use of both financial and non-financial strategies to motivate staff?
5. In what ways are the business objectives of Fonda Mexican Restaurants aligned with the objectives of employees in those restaurants?
6. Explain why customers at a Fonda restaurant may occasionally see employees break out into cheering, applause, and congratulating each other.

EXTEND your understanding

7. Survey your family and friends about what motivates them in the workplace. Use a selection of the main motivators as categories, including pay, working conditions, setting goals, achievement, recognition, creative and interesting work, and teamwork. Present your results neatly in graphs supported by a written conclusion, then compare and contrast your findings with those of your classmates.
8. Outline the ways in which the Fonda Mexican Restaurant business demonstrates how each of the following theories of employee motivation can be applied in a practical business situation:
 - a. Maslow's Hierarchy of Needs
 - b. Locke and Latham's Goal Setting Theory
 - c. the Four Drive Theory of Lawrence and Nohria.

EXAM practice

9. Define the term 'performance-related pay'. (2 marks)
10. Outline two benefits of career advancement. (2 marks)
11. Distinguish between career advancement and support as motivation strategies. (3 marks)
12. 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. (6 marks)

Solutions and sample responses are available in your digital formats.

2.11 APPLY YOUR SKILLS Evaluating motivation strategies

PRACTISE YOUR SKILLS

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

2.11.1 Employee effort

TURNING UP AT WORK, BUT LEAVING MOTIVATION AT HOME

In September 2016, Business Insider website reported on a survey carried out by the consultancy company CEB, that measured the amount of extra effort employees are putting into their work. The survey, known as the Global Talent Monitor, found that only 19 per cent of Australian workers are putting a high discretionary effort into their work. Discretionary effort is the amount contributed over and above what is basically required to complete a task. The Global Talent Monitor found that most Australian workers are motivated by more than money, with work-life balance, respect in the workplace and location of the work premises rating more highly. In times of economic uncertainty, employees who are not particularly happy at work are not prepared to risk moving to another job. The authors of the report believe that it is essential for employers to engage with their employees, focus on good relationships and effective people management in the workplace, and provide career path opportunities to rebuild trust and motivate the workforce.

Source: Adapted from Business Insider, Sept 23, 2016, <https://www.businessinsider.com.au/australians-turn-up-to-the-office-but-their-motivation-is-increasingly-on-holiday-2016-9>.

A large percentage of Australian workers are not putting in high levels of discretionary effort at work.



2.11.2 Hiring motivated people

THE MOTIVATION DILEMMA

Dr Jana Matthews is Director of the Australian Centre for Business Growth at the University of South Australia. She is an internationally recognised expert on business leadership. She doesn't believe that it's possible to motivate people in isolation. Her view is that businesses should hire motivated people and then make sure they don't demotivate them. Hiring motivated people comes down to finding out what the job applicant wants to do with their life, their personal goals, what type of job they are looking for and what type of business they want to work for. Assuming the applicant has the required skills and experience to actually do the job, it is essential to match the applicant's goals and values with those of the business. If the person is a good fit for the business, they will bring a strong level of motivation with them.

Research carried out by Dr Matthews and her colleagues has indicated that the best prospective employees are motivated (in order) by the company's goals and mission; the level of support they can get from managers and leaders to develop professionally and personally; the people they will be working with; and their pay. People who are motivated primarily by the level of pay will probably not stay long because they will always be looking for

higher pay elsewhere. People who believe that they can achieve their own personal goals by contributing to the achievement of the business's goals will usually be highly motivated employees.

Having hired the best person, how does the business owner or manager keep them motivated and build on their levels of motivation? Dr Matthews has the following hints:

- The first day is absolutely critical. The new employee will arrive with a mixture of excitement, nervousness and uncertainty. Making them feel welcome, introducing them to the culture of the organisation, and providing them with as much information as possible about the business can reduce any first-day nerves. Introducing them to supervisors and co-workers who can support and mentor them can make them feel comfortable and ready to contribute.
- Provision of professional and personal development opportunities can help maintain the enthusiasm and motivation of employees. Keeping employees up to date with the plans and goals of the business can also contribute to the sense of belonging.
- Face-to-face time with managers helps to educate employees in how the business wants its workforce to operate. Employees will often follow an example set by their supervisors, so the examples should always be positive.
- Informal feedback and advice can also help to motivate employees and give them confidence to contribute.
- Recognition for a job well done, and appropriate rewards, are an essential part of maintaining the levels of motivation that will ensure valuable contributions from employees.

Dr Matthews also believes it is essential that the manager or business owner is not a demotivator. Demotivation can be a result of poor management; for example, when a manager claims all the credit for successes, blames everyone else when things go wrong, and refuses to admit to mistakes. Confusion and inconsistency can also be serious demotivators, so having clear goals and making sure everyone understands them is vital. Unhappy workers and poor performers can undermine the motivation of others. It is better to have these workers leave than risk them bringing the whole organisation down.

Source: Adapted from Matthews, J. 'The motivation dilemma', May 2016, at <https://centreforbusinessgrowth.com/news-and-events/the-motivation-dilemma>.

2.11.3 Maintaining motivation

KEEPING YOUR EMPLOYEES MOTIVATED

SEEK began as an online employment website in 1997 and in over 20 years has expanded to become a worldwide company that focuses on needs/solutions and provides educational services in human resource management. Its *Insights and Resources* website offers the following eight suggestions for keeping employees motivated.



1. **Communicate your vision** — at every possible and relevant opportunity.
2. **Get feedback from your employees** — and use their suggestions to develop plans for improvement into the future.
3. **Start planning** — and communicate your plans to your employees.
4. **Reward employees** — and link staff reward programs to performance and positive behaviours.
5. **Small rewards do encourage** — keep rewards small and frequent to give everyone the opportunity to succeed.
6. **Openly reward achievements** — public praise and presentations can encourage everyone to try harder.
7. **Keep them keen** — take opportunities to discuss career progression opportunities with employees and encourage them to develop personal goals.
8. **Celebrate** — set up occasions for all staff to celebrate together.

Source: Adapted from *SEEK Insights and Resources*, at <https://insightsresources.seek.com.au/8-ways-keep-employees-motivated>.

2.11 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Read 'Turning up at work, but leaving motivation at home'. The Global Talent Monitor found that only 19 per cent of Australian workers were putting a high discretionary effort into their work.
 - a. Define the term 'discretionary effort'.
 - b. Why is discretionary effort significant for Australian businesses?
2. Identify two factors in the workplace that Australian workers rate more highly than money.
3. Read 'The motivation dilemma'. How does Dr Matthews believe that an employer can identify a prospective employee who has the right levels of motivation for a job vacancy?
4. Why does Dr Matthews believe that people who are motivated primarily by levels of pay are not the best people to hire?
5. What is 'demotivation'? Outline two types of behaviour that could lead to a manager being a 'demotivator'.
6. Identify three ways listed in the 'Keeping your employees motivated' case study in which communication between employer and employees is seen to be important as a motivating strategy.
7. What are the key features of a successful employee rewards program, as identified in the 'Keeping your employees motivated' case study?

APPLY your understanding

8. The authors of the Global Talent Monitor report focus on the need for employee engagement, good relationships, effective people management in the workplace and the provision of career path opportunities to rebuild trust and motivate the workforce. Apply the key principles of one theory of motivation to these strategies.
9. The task word 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. Based on Dr Matthews' hints for maintaining high levels of motivation in 'The motivation dilemma', propose two motivation strategies that would be consistent with her views.
10. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument. Based on Dr Matthews' hints for maintaining high levels of motivation in 'The motivation dilemma', justify two motivation strategies that would be consistent with her views.
11. To what extent do you believe that each of Seek's eight suggestions can contribute to the following motivation strategies?
 - a. Performance-related pay
 - b. Career advancement
 - c. Investment in training
 - d. Support
 - e. Sanctions
12. The task word 'compare' generally requires you to comment on the similarities and differences between two things.
 - a. Compare performance-related pay and career advancement.
 - b. Compare investment in training and support.
13. 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. The task word 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument. Propose two motivation strategies that will assist the HR manager to motivate the employees. Justify which strategy would be the most suitable for Collins Construction.
 - b. The task word 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate how one motivation strategy will assist the HR manager to motivate employees.

EXAM practice

14. 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)
15. Compare performance-related pay and investment in training. (4 marks)
16. Evaluate the use of career advancement for motivating employees in a business. (5 marks)

Solutions and sample responses are available in your digital formats.

2.12 Training options

KEY CONCEPTS

- Giving a person the right knowledge and skills to perform their job effectively is what training is all about.
- Training options include on-the-job and off-the-job training, which both have advantages and disadvantages.

2.12.1 An introduction to training

Training is aimed at improving employees' skills and abilities — they are necessary for both personal and business growth. New employees may need training, depending on their level of experience, education and expertise. Existing employees also need training and development to continually upgrade their skills. Training is teaching staff to perform their job more productively. In addition, good quality training can also target a broader range of skills such as decision-making, planning and communicating. Employees receiving such training can be developed to take on leadership roles within the business. It is interesting to note that many employees expect their business to provide them with opportunities to grow and learn and ultimately improve their employability. Training benefits both the employee and the employer. These benefits are listed in the 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 rapid technological change and global competition — so critical that many businesses now promote the concept of a learning organisation. A learning organisation is aware of its actions and its environment and tries to improve its understanding of the relationship between the two. All employees are involved in developing knowledge and insights that allow the business to continually grow and improve.

Life is a continual learning curve — once you've finished VCE, you might go to university or start full-time work. In any case you will receive training to help you gain knowledge and learn skills to work productively.



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.

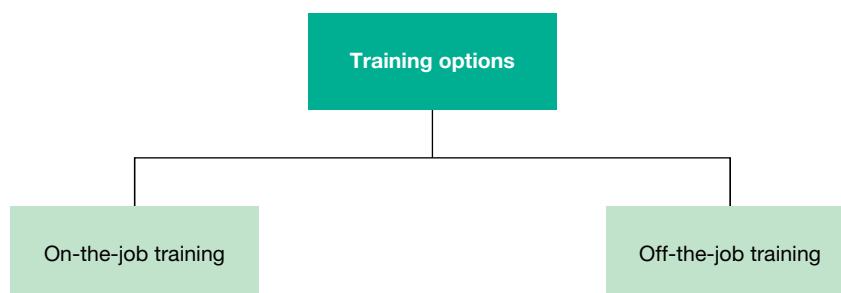


DID YOU KNOW?

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.

2.12.2 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.

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).

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 strategies used for ... training when managing a business'. This suggests that as well as knowing the advantages/strengths and disadvantages/limitations of each training option (and being able to then provide an overall conclusion or judgement related to which argument is the more persuasive and why), you should also be able to comment on the similarities and differences between each strategy.

2.12.3 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.

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.



Programs aimed specifically at training effective managers may focus on the use of:

- *job rotation* — the employee experiences many different aspects of a business. For example, a manager may move from one section of the business to another, taking with them their management skills and applying them to a different situation.
- *mentoring* — a mentor acts a bit like a coach, supporting the employee as they learn. The employee is able to gain from the experience and skills of another person in the business.
- *formal business training* — this may be done through programs such as the Masters of Business Administration (MBA).

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

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

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.

**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.

2.12 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain the purpose of training within a business.
2. Outline how training and development can benefit both the employee and the employer.
3. Outline why advances in technology create a need for the ongoing training of employees within a business.

APPLY your understanding

4. Outline the benefits to a business of promoting a 'learning organisation' concept.
5. Use the **Succession planning** weblinks in the Resources tab to define succession planning and state why many businesses undertake succession planning.

EXAM practice

6. Distinguish between on-the-job and off-the-job training. (3 marks)
7. Virginia has purchased new IT equipment to track the receipt, processing and despatch of orders for her online fashion business. She needs to train her employees to use this system.
 - a. Discuss the use of on-the-job-training to achieve this. (2 marks)
 - b. Discuss the use of off-the-job training in this case. (2 marks)
 - c. Which method would you recommend, on-the-job or off-the-job training, in this situation? Provide a reason for your answer. (3 marks)
8. Explain the advantages and disadvantages of one training option. (4 marks)
9. 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. (6 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

2.13 APPLY YOUR SKILLS Comparing and evaluating training strategies

PRACTISE YOUR SKILLS

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

TIME OFF FOR THE BUSINESS OWNER

Many owners of small to medium businesses find that the running of the business is so dependent on their day-to-day presence that they can barely afford to be out of the office, let alone take time off for a holiday. Hector Henriquez runs a signage business called Visual Graphics, and he faced this problem as his business began to grow. He would find himself working for up to 15 hours per day, and unable to take any time off. His solution to the problem has included the following:

- Hiring multiskilled staff who can be trained to fulfil a number of different roles. By having an overlap of skills, the business does not grind to a halt when any particular employee is absent.
- Sharing knowledge, skills and experience among staff so that no-one has a monopoly on any particular skill or role within the business.
- Engaging staff who he has faith in and who he can trust to complete work without having to be constantly supervised.
- Producing instruction manuals that comprehensively cover all procedures operating within the business. This provides an important reference for all employees to complete tasks that might otherwise be unfamiliar to them.

As a result of this strategy, Hector has been able to take time away from the business, confident that everything continues to run without him.

Business owners such as Hector Henriquez often find that their business is growing and they need to implement a training strategy in order to be able to take time off from running the business.



TRAINING TO IMPROVE STAFF RETENTION

Leah Calnan joined the staff of Metro Property Management in 2000, and now owns the company. As the sole director, she employs a staff of 25 who manage and lease properties across metropolitan Melbourne. The real estate industry is notorious for high staff turnover, so Leah has used a variety of staff training and development strategies to retain a high percentage of her staff for much longer periods than the industry average. The key is staff training, particularly implementing a training program that allows employees to know what to expect each week, and to be able to regularly review their strengths and weaknesses. Much of the direction in staff training comes from the staff themselves, with employees contributing ideas at weekly and monthly staff meetings. Leah also believes in being very open with her team and ensuring they all know what is happening in the business. Adopting good ideas from across the industry and implementing good practice she sees operating in other businesses has also been key to maintaining a dynamic staff training environment.

FROM SECURITY GUARD TO CHEF

The Marriott Resort in Surfers Paradise employs over 350 workers during the peak season, with a number of these workers now reaching mature age. With a number of highly skilled employees approaching retirement, the Marriott had to think about retaining valuable skills while ensuring career paths for some younger employees. One example was the impending retirement of the head Teppanyaki chef. It was important not to lose the skills and experience of this chef, so a retraining program was put in place. A mature-aged former security guard was given the opportunity to train as a Teppanyaki chef. He completed that training and was able to be assigned to that role before the head chef retired. A number of younger trainees were also taken on to train as Teppanyaki chefs. The newly trained former security guard was able to step into a senior role as Teppanyaki chef and the head chef was able to gradually reduce his hours in preparation for retirement without the Marriott losing all of that valuable skill and experience.

A mature-aged former security guard was able to retrain as a Teppanyaki chef.



2.13 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

1. Define the term 'training'.
2. Describe one training strategy implemented by Hector Henriquez to assist him in being able to take time off from running his business.
3. Other than the opportunity for Hector to take time off from his business, what other benefits does Visual Graphics gain from the employment and training strategies utilised?
4. Explain why staff training and development was such a high priority for Leah Calnan at Metro Property Management.
5. Identify two strategies used by Leah Calnan to help her retain staff within her business.
6. What strategy did the Marriott use to deal with the impending retirement of its head Teppanyaki chef?

APPLY your skills

7. The task word (sometimes referred to as command word or instructional word) 'compare' generally requires you to comment on the similarities and differences between two things. Compare on-the-job and off-the-job training.
8. The task word 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct, or to provide evidence to support your argument. Propose and justify two training options that Leah Calnan could use to help her retain staff at Metro Property Management.
9. The task word 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate the use of on-the-job or off-the-job training for managing employees at the Marriott in Surfers Paradise.
10. Visual Graphics, Metro Property Management and the Marriott Resort in Surfers Paradise all used staff training to achieve different purposes. Identify and explain two issues that each of these businesses has in common in relation to their use of staff training.

EXAM practice

11. 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)
12. 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. (6 marks)

Solutions and sample responses are available in your digital formats.

2.14 Performance management strategies

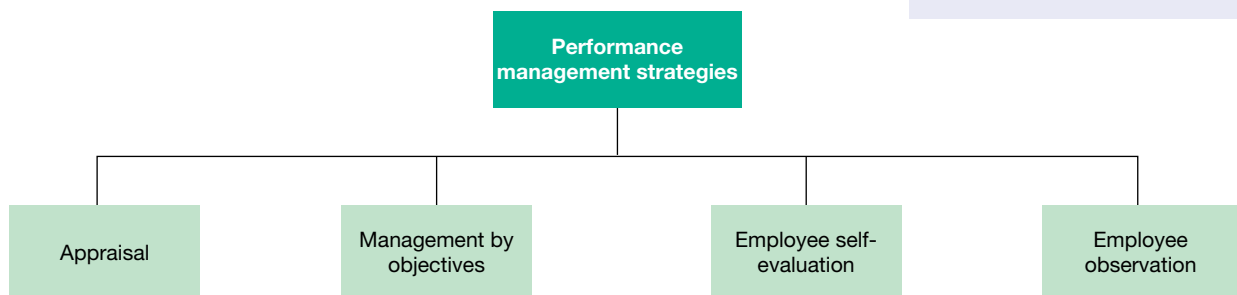
KEY CONCEPT Just as a business will attempt to measure and evaluate the degree to which it is achieving its strategic objectives, it will also attempt to measure how well the performance of its employees is contributing to the achievement of those objectives.

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



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



2.14.1 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.

Performance appraisal typically occurs at frequent intervals, such as every 12 months, every 6 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?

The recruitment firm Hudson found that 42 per cent of Australian employers did not have a way of monitoring staff performance.

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

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, how their performance will be measured and feel confident that their efforts will be recognised.



No matter which appraisal technique is used, the results should be discussed with the employee as soon as possible. The manager should explain both the positive and the negative aspects of an employee's performance, encourage the employee to continue with his or her positive behaviour, and let the employee know what to do to be recognised as a more productive employee in the future. The manager will also be able to identify training needs for the employee so that he or she can improve in areas that may be lacking. Without this performance feedback, performance appraisals are a pointless exercise.

Performance appraisal facilitates communication and allows positive relationships to develop between management and employees. Feedback can help employees to improve their performance. However, the performance appraisal process can be time consuming, particularly if the cycle becomes shorter (such as monthly or weekly). Performance appraisal can be stressful for both managers and employees.

REGULAR FEEDBACK EQUALS SUCCESSFUL PERFORMANCE APPRAISAL

While the end of the financial year provides businesses with an opportunity to do a 'stocktake' on their financial performance, equally important, but often overlooked, are regular reviews of the team's performance.

It is often said employees are the most important asset. If this is accepted, it would also stand to reason that people leaders would also review the performance of their employees....

Performance reviews [or appraisals] are a key aspect of keeping your team engaged and 'buying in' to what the business is trying to achieve. However, for some — both people leaders and employees — performance appraisals can be seen as a tiresome and difficult process, but it need not be.



When both parties know what is expected of them, a performance review should not contain any nasty surprises. However, lack of clear expectations is often where problems begin.

Most employees have a strong work ethic and want to do well... Notwithstanding, feedback from peers and people leaders is an important gauge for what an employee is doing well and what areas need development.

It is important to remember that feedback should not happen only at the end of the year in the form of an official performance appraisal. Feedback should happen regularly to ensure all parties are on the same page and any issues can be addressed quickly.

... this four step process of performance management has traditionally worked well for setting employees up to achieve the best possible results.

Step 1. Ensure expectations are clear, for no other reason than employees are typically more productive when they know what is expected of them and when. These expectations may be set on a weekly basis but also typically cover a longer term, say half yearly or yearly. Some employers fall into the trap of assuming that their staff know what is expected of them. As a people leader, it is your responsibility to be clear.

Step 2. Assess performance regularly. Some people leaders complete an annual performance review and think their job as a people leader is done. Of course, an annual performance review is important to discuss what has been achieved over the year, but performance should be assessed on a regular basis to make sure projects are on track, milestones are being met and any queries resolved. A monthly catch up is a good starting point, to review... not only what is being achieved, but also... how it is being achieved.

Step 3. Provide feedback on a regular basis. Ideally, you should not need a formal catch up to provide feedback, but it is imperative that feedback is provided when performance is assessed. Feedback should include recognition of the effort, improvements and achievements throughout the past month, quarter or year, which is an excellent motivator for many employees. This is also the time to provide constructive feedback for development

areas. Providing constructive feedback to highlight and bridge performance gaps, if delivered in the right way, can be equally motivating, as most employees want to continually improve their knowledge and skills.

Step 4. Continuous development will keep employees engaged and will ultimately result in increased productivity. Development planning looks not only at what the employee needs to do to complete their current role, but also helps to up-skill them for their next role. Development means different things to different people, but typically encompasses learning new skills on the job, mentoring, new responsibilities or stretch targets and formal courses.

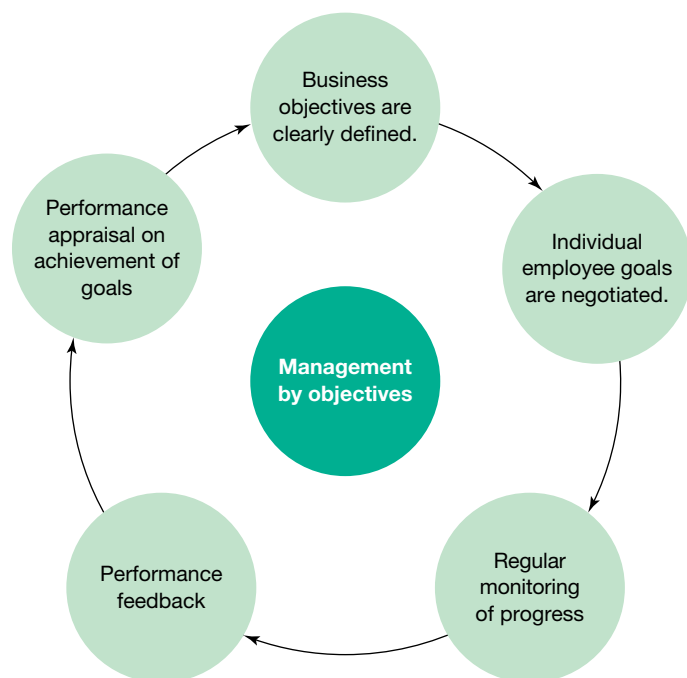
Source: Extracts from 'The benefits of performance reviews', www.probonoaustralia.com.au/news/2014/06/benefits-performance-reviews.

2.14.2 Management by objectives

One method of giving clear purpose to the process of performance appraisal is **management by objectives**. This concept was first popularised by Professor Peter Drucker of New York University in 1954, in his book *The Practice of Management*. It is a process by which management and employees agree on a set of goals for each employee, with these individual goals all contributing to the objectives of the business as a whole. Included in the process are the means of measuring progress towards the achievement of these goals, as well as performance appraisals when goals have been achieved. Each employee should be aware of the objectives of the business, as well as their own responsibilities in achieving those objectives. The process can be summarised as shown in the diagram.

When employees have involvement in setting goals and choosing the course of action to be followed to achieve those goals, they are more likely to work productively and fulfill their responsibilities. The use of management by objectives means that both manager and employee know what is expected of them, reducing ambiguity and confusion in relation to roles. Management by objectives can highlight the area/s where an employee has training needs, which can lead to career development. It can also improve communication and result in employees being more aware of a business's objectives. However, management by objectives can be a costly and time-consuming process. The meetings and reports required can add to the responsibilities and burden of both management and employees. Management by objectives is not always useful for all types of employees.

The process of management by objectives



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

2.14.3 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 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.

Self-evaluation allows employees to be actively involved in the process of performance management and assists them in understanding their role in the business. For the business, self-evaluation provides the opportunity to gain an insight into how employees perceive their performance, as well as understand their strengths and weaknesses. Employee self-evaluation can also highlight the need for training, and allows employees to request training opportunities to assist them to improve work performance and productivity. Employees undertaking the self-evaluation process should be encouraged to keep documentary evidence of their achievements, as this helps provide a factual and measurable basis for that evaluation.

However, employees can often overstate their own performance when completing a self-evaluation, and management may need to take some responsibility for monitoring performance, documenting any weaknesses or strengths, and making efforts to correct poor performance. Some employees may feel ill-equipped to undertake a self-assessment.

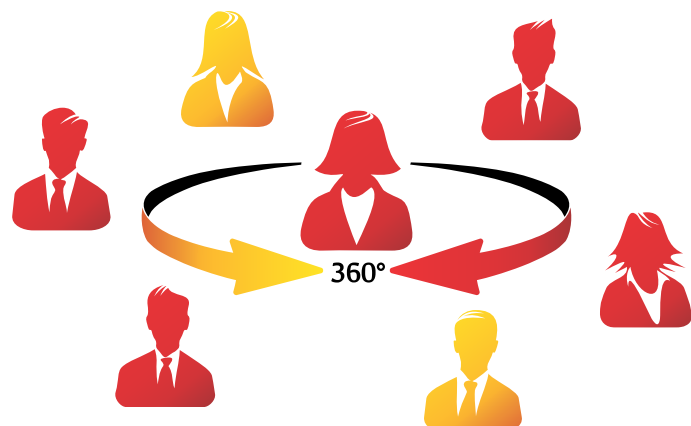
2.14.4 Employee observation

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. The idea is to identify strengths and weaknesses, and the broad range of observations from a variety of different sources can provide a comprehensive picture of employee performance. This process is very useful in evaluating skills such as leadership, teamwork and interpersonal abilities. It is not always as valuable in assessing technical skills, or the achievement of

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

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

360-degree feedback relies on observations from fellow employees.



objectives, as these may not always be fully understood by every participant in the process. Further, employee observation will need to be applied in businesses with a high degree of trust. The process could be damaging if any one of the participants has a personal vendetta against the employee. The process can also be expensive and time consuming.

KEY IDEAS

- Performance management focuses on improving both business and individual performance through relating business performance objectives to individual employee performance objectives.
- An appraisal refers to the formal assessment of how efficiently and effectively an employee is performing their role in the business.
- Management by objectives is a process by which management and employees agree on a set of goals for each employee, with these individual goals all contributing to the objectives of the business as a whole.
- Self-evaluation involves employees carrying out a process of self-assessment, based on a set of agreed criteria.
- Employee observation involves gathering feedback on past and current performance from a range of stakeholders including management, other employees and customers.

2.14 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Define the terms 'performance management' and 'performance appraisal'.
2. Read the 'Regular feedback equals successful performance appraisal' case study. Outline the benefits of a regular informal catch up with employees.
3. How does the author of 'Regular feedback equals successful performance appraisal' believe performance appraisals can contribute to ongoing employee development?
4. Briefly outline two different methods of conducting a performance appraisal.
5. Describe each of the key steps in the process of management by objectives.
6. What are the two main advantages of employee self-evaluation?
7. Outline the process used in 360-degree feedback.

APPLY your understanding

8. Have you been asked to appraise your own learning or performance? Research how self-appraisal could be used as a part of a performance appraisal process.
9. Survey five people, asking them to respond to the following statements. Collate the results as a class and write a paragraph about what the survey has revealed about performance management.

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

EXAM practice

10. Define the term 'performance appraisal'. (3 marks)
11. Fatima is keen to introduce a staff performance management process into her restaurant. Explain how each of the following might operate in her workplace. (3 marks)
- a. Employee self-evaluation (3 marks)
 - b. Management by objectives (3 marks)
12. Distinguish between management by objectives and employee observation as performance management strategies. (3 marks)
13. 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. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

2.15 EXTEND YOUR KNOWLEDGE Getting value from performance management

KEY CONCEPTS 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 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.

DELOITTE GETS RID OF ANNUAL REVIEWS

Multinational accounting and business consulting firm Deloitte has scrapped annual performance reviews for its 6000 Australian staff, following a similar move for 10 000 of its US employees. The move has been led by Deloitte Australia's head of people and performance, Alec Bashinsky, who recently likened annual reviews to a drive-by shooting. 'You never know when you're going to get hit!' he commented. Like many in human resource management, and with expertise in the psychology of large organisations, Bashinsky believes the annual review is not just pointless, but can be a demotivating experience.

Deloitte is moving to a less formal, continuous appraisal and feedback approach. Employees will be given ongoing feedback, and coaching and mentoring where appropriate, with a view to promoting ongoing staff engagement and development. The starting point is a weekly 10-minute check-in with the manager or supervisor. This will often be initiated by the employee, who may have just finished a particular task or project and seeks to have a chat about it. Employees have embraced the new system enthusiastically, as the regular check-in provides immediate feedback, which is usually positive.

Bashinsky has pointed out that approximately 97 per cent of Deloitte employees are good at their job, with only 2 to 3 per cent underperforming. The old system was set up to identify those 2 or 3 per cent, and yet everyone was subjected to it. The new Deloitte process centres around weekly and monthly check-ins, quarterly surveys of 10 questions the manager sends out to employees, and regular talent reviews. There are no forms to fill in and the key factor is the continuous interaction between supervisor and employee.

2.15 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Identify and explain two problems that have arisen with the use of annual reviews as a method of performance management.
2. What type of approach is considered to be preferable to annual reviews of employees?
3. Why did the head of people and performance at Deloitte describe annual reviews as being like a 'drive-by shooting'?
4. In addition to weekly 'check-ins', what other strategies has Deloitte put in place as part of its performance management strategy?

EXTEND your understanding

5. Why might a 'tick-the-box' activity have little value in appraising employee performance?
6. One of the issues identified as a problem with annual reviews is an unwillingness of some managers to rate some employees poorly for fear of demotivating them. Is this a real problem, or should managers be brutally honest with their employees? Discuss this issue in small groups and formulate arguments for and against the 'brutal honesty' approach.

7. The weekly 'check-in' at Deloitte can be initiated by the employee rather than the employer. Why is this a positive approach, and what benefits can both the employer and employee gain from such an approach? Discuss these issues in small groups and report your findings to the rest of the class.
8. In terms of your own experience at school, what have you valued most: immediate feedback from a teacher, or the end of term or mid-year report? Discuss in small groups which you believe has the greater motivating (or demotivating) effect on your performance. Are the classroom and workplace similar or completely different when it comes to performance feedback?

EXAM practice

9. Distinguish between appraisals and self-evaluation as performance management strategies. **(3 marks)**
10. 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. **(4 marks)**
11. Analyse the benefits of appraisals as a performance management strategy. **(4 marks)**
12. Other than appraisals, evaluate the use of one other performance management strategy to achieve business and employee objectives. **(6 marks)**

Solutions and sample responses are available in your digital formats.

2.16 Termination management

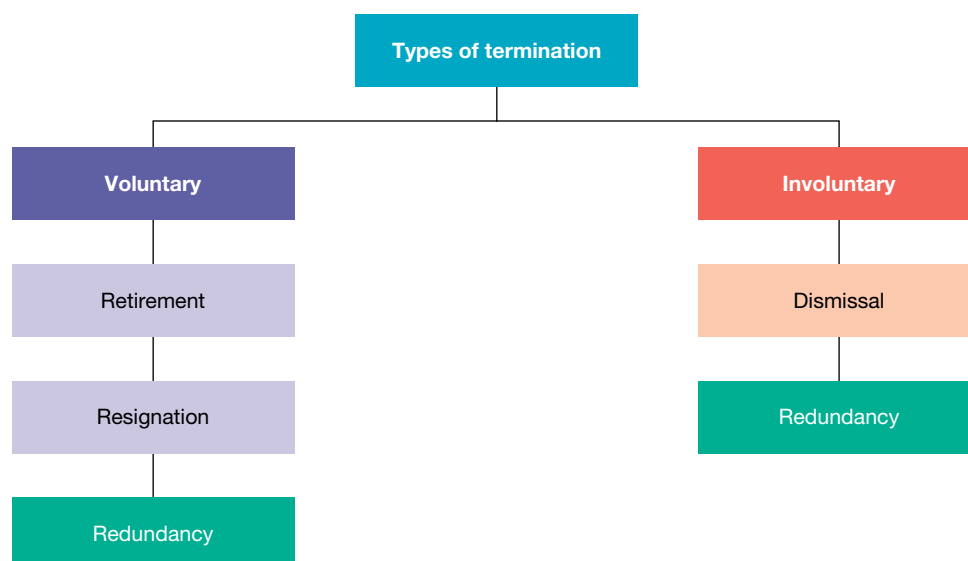
KEY CONCEPT The employment relationship between the business and employee will eventually end. This stage, known as termination or separation, involves workers leaving the workplace on a voluntary or involuntary basis. Termination must be handled carefully and sensitively by the human resource manager. It occurs in one of four ways: retirement, redundancy, resignation and dismissal. Termination management also involves a number of entitlement and transition issues.

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 the ending of the employment of an employee

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. As a result, there has been a marked increase in the number of voluntary (retirement or resignation) and involuntary (dismissal) redundancies being offered.

2.16.1 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.

The choice to retire normally depends on whether an employee can afford to. A person thinking about retirement will need to consider whether they have repaid their mortgage, amassed enough superannuation and if their retirement savings will fund their intended lifestyle. The way businesses have approached employee retirement has also changed. Today, many businesses provide advice and assistance to employees to help them prepare for retirement.

Early retirement allows people to enjoy a high quality of life for many years after their working life.



2.16.2 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).

2.16.3 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.

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

Redundancy can be either voluntary or involuntary. Voluntary redundancy occurs when employees are informed of the situation and given the opportunity to nominate themselves for voluntary redundancy. Involuntary redundancy occurs when an employee is asked to leave the business against his or her will because their job no longer exists. In this case, the employee is not at fault in any way; the decision to make the employee redundant is purely based on the ongoing needs of the business.

The human resource manager must be aware of the rights of an employee in relation to redundancy and retrenchment, and must follow correct procedures and the law. These procedures might include providing necessary information to the employee being made redundant or retrenched, a consultation process, time off leading up to the final day when the employee leaves, and organising redundancy pay (sometimes referred to as severance pay). The amount of redundancy pay will usually depend on how long the employee has been continuously employed in that workplace. Other entitlements, such as payment for accrued annual leave or long-service leave, may also be owing to the employee when they leave the business.

Ethical employers also take responsibility for assisting departing employees in finding new employment, particularly if the employee is leaving as a result of redundancy or retrenchment. Providing references and recommendations to other employers in the same industry can be of assistance to departing employees. Those being made redundant can also be given paid time off work to attend interviews with potential new employers.

An employee may leave a business for many reasons. If an employee is retrenched (laid off) or dismissed, it can lead to feelings of disappointment and rejection. Fear of not getting a replacement job and being able to pay the bills make termination difficult to bear for some people.



2.16.4 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.

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

An employee who believes they have been unfairly dismissed may lodge an unfair dismissal claim with an industrial tribunal, such as the Fair Work Commission.

More businesses are recognising that managers need to be trained to handle dismissals in a way that:

- takes account of the legal and financial implications
- minimises the trauma for both parties
- does not have adverse effects on the morale of the remaining staff.

DID YOU KNOW?

- An employment contract is legally binding. Therefore, employers must terminate the contract in a legally compliant manner. Gone are the days when a boss can simply shout: 'You're fired!' on a whim.
- Many colloquialisms are used to describe involuntary termination: 'given the bullet', 'shown the front door', 'fired', 'booted out', 'told to pick up my pay and go', 'no longer required' and 'given an offer I couldn't refuse'. They all have one feature in common: the business requests that the employee leaves the business.



2.16.5 Entitlement issues

At the time of leaving the business, whether through retirement, resignation, redundancy or dismissal, the employee will have a number of rights to certain benefits (or entitlements). In general, these entitlements are required by law. **Entitlement issues** can include any wages or salary owing, as well as leave entitlements such as accrued annual leave and long-service leave. These leave entitlements will usually be paid out at the employee's normal rate of pay. In the case of an employee being made redundant, a redundancy payment may also be included in that employee's entitlements. This will usually be calculated on a pro rata basis, determined by the number of years of service. Allowing four weeks of pay for every year of service is an example of this. Further, employees who have been made redundant or dismissed must be given notice of their termination.

2.16.6 Transition issues

When an employee leaves the business, whether through retirement, resignation, redundancy or dismissal, managers must consider the issues that relate to the process that the employee will go through in changing from one job to another, or from one set of circumstances to another. These issues or considerations are referred to as **transition issues**. As mentioned in 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 issues

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

transition issues the process or a period of changing from one job to another or from one set of circumstances to another

are generally offered above and beyond the requirements of the law. Businesses that decide to provide such services choose to do so to assist their employees to move forward in a positive manner. In this way, the business is acting responsibly.

In the case of retirement, the transition issues that may be considered involve a gradual reduction in days worked over a period of time to allow the employee to make a smooth transition to retirement. The transition may also involve counselling and support on issues such as superannuation and government pension entitlements. Advice and assistance regarding income planning and future lifestyle choices might be provided. When an employee has been made redundant, the employer may provide assistance in the form of help with writing job applications for other positions, the provision of references for potential employers, as well as time off to attend job interviews. Employees who have been made redundant, or those who have been dismissed, may also require exit interviews or counselling before they leave the workplace.

Many responsible businesses ensure that employees are provided with outplacement services — assistance given to employees who are exiting the business (voluntarily or involuntarily). An external organisation will typically provide the outplacement services, paid for by the business. Outplacement services may be completed one-to-one or in groups depending on the needs of the business and/or employees. The services will usually consist of helping employees to transition to a new job or career, and may include:

- job interview training
- career coaching
- assistance with improving resumes
- career counselling.

EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to ‘propose and justify strategies to manage employees effectively’. The task word ‘propose’ suggests that you should put forward a termination management strategy (retirement, redundancy, resignation, dismissal, an entitlement issue or a transition issue) for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the termination management strategy as well as explain a little about it. The task word ‘justify’ requires you to show how the termination management strategy you have selected is the best choice or to provide evidence to support your argument.

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

2.16 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain the difference between voluntary and involuntary termination of employment, and give an example of each.
2. In what ways has the process of retirement changed in recent years?
3. Outline two reasons why a person may decide to resign from their current employment.
4. How can a business use the resignation or retirement of employees as a means of downsizing its workforce?
5. Explain what redundancy is.
6. Which of the following scenarios would be most likely to lead to summary dismissal?
 - a. John bribes another employee not to tell his manager that he had been accessing pornographic websites during office hours.
 - b. Peter arrives for work drunk. He has just been out to see a client, driving a company car. It is the third time this week he has arrived in such a condition.
 - c. Jane is just not very good at her job. She frequently makes mistakes and does not have the knowledge or skills to perform the job satisfactorily.
7. Explain how a dismissal would be considered to be unfair.
8. Outline the entitlements that may be owed to an employee who has been made redundant. How can a business assist that employee to find alternative employment?

APPLY your understanding

9. Rather than retire completely from work, many people now transition to retirement by gradually reducing their hours and working part-time before giving up work completely. Outline two advantages for a business and two advantages for the employee of allowing such a process to occur.
10. 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.
11. Termination management is about managing the final phase of the employment cycle, when the employee leaves. Give a general outline of the issues a human resource manager must be aware of when dismissing an employee.
12. Outline the difference between summary dismissal and dismissal on notice, and provide an example of each.
13. Use the **Termination of employment** weblink in the Resources tab to summarise the latest employee rights and rules that apply to termination of employment.

EXAM practice

14. Define the term 'redundancy'. (1 mark)
15. Distinguish between retirement and resignation. (4 marks)
16. Define the term 'dismissal'. (1 mark)
17. Using examples, distinguish between entitlement and transition issues. (4 marks)
18. Josh has had 15 sick days off work in the past three months. He phones in sick again on a day when the business is under pressure to meet some large orders and needs everyone available. Thomasia, his boss, is also aware that Josh was recently caught stealing money from another employee in the workplace. Propose and justify a termination management strategy to deal with this situation. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

2.17 Workplace relations — participants in the internal environment

KEY CONCEPTS The key workplace relations participants in the internal environment of a business are the employer and the employees. Human resource managers form the key link between these two groups.

2.17.1 Workplace relations

Workplace relations refers to the interaction between employers and employees, or their representatives, to achieve a set of working conditions that will meet the needs of employees as well as allowing the business to achieve its strategic, tactical and operational objectives. It encompasses the total relationship between employers (and their representatives) and employees (and their representatives) in regard to the establishment of conditions of employment such as levels of pay, working hours, duties, responsibilities and entitlements. Workplace relations also involves the resolution of disputes between employers and employees. It is understood that legitimate differences may exist in workplaces, but the aim is to reduce conflict through effective procedures and relationships.

DID YOU KNOW?

The proportion of employees who are trade union members has dropped to around 16 per cent according to Australian Bureau of Statistics figures. Over 38 per cent of government employees are members of a union, while only 10 per cent of private sector employees are union members. Over two-thirds of union members have been members for more than five years, while only 11 per cent had been union members for less than 12 months.

Resources

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

2.17.2 Employers

In a small or medium business, workplace relations issues are among the many responsibilities that will be handled by the business owner as the employer. With a larger business employing greater numbers, responsibility for workplace relations matters will often become the responsibility of a human resource manager and an entire human resources department. Employers and human resource managers handle workplace relations issues on a daily basis, including their involvement in developing programs that focus on improving business performance. Many large businesses will employ one or more workplace relations specialists within their human resource management departments. Such specialists are particularly valuable as the legal responsibilities of business in relation to workplace relations matters have become more complex.

2.17.3 Employees

Employees today are, on average, more highly educated than in the past. They demand more challenging, interesting work, greater involvement in decision-making processes and autonomy in their workplace. The increasing practice of negotiating employment agreements at the workplace level means that employees will be more closely engaged in the process of developing new or changed agreements. This may happen if they are required to negotiate individual employment conditions directly with the employer. Alternatively, they may be called on to vote to approve a new agreement that has been negotiated on behalf of all employees in that workplace by a representative organisation, such as a union (a collective agreement). In either case, employers

are likely to want improved productivity, or the achievement of specified objectives, in return for improved wages or conditions, so the process may involve employees having to modify existing work practices to achieve those objectives.



DID YOU KNOW?

Negotiating agreements at the workplace level where workers collectively bargain for better working conditions with their employer is one way of improving working conditions, and can mean that both the employer and employee 'win'. Often employees negotiate to improve productivity in some way in order to get better working conditions.

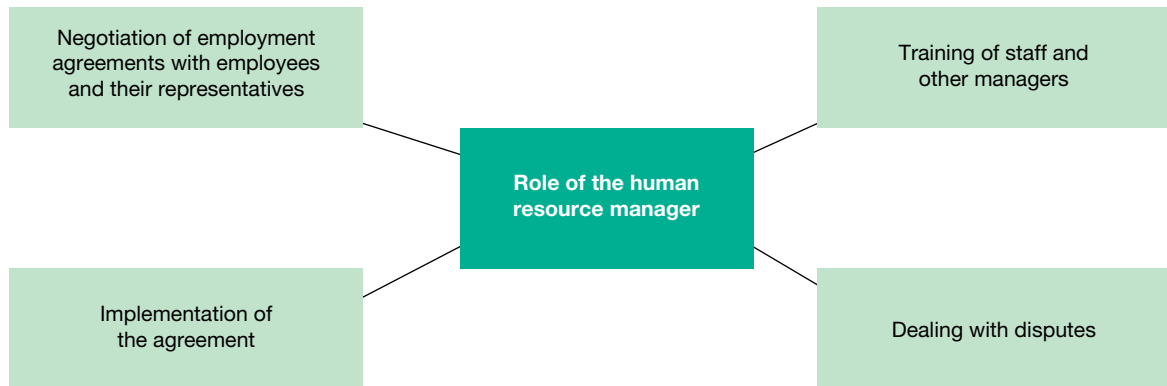
2.17.4 Human resource managers

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 HR department. In order to carry out this task, the relevant managers need to be aware of all legal issues, Awards, and National Employment Standards (see subtopic 2.19), 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 2.22.

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.

2.17 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. What does 'workplace relations' refer to?
2. Identify and explain two ways in which:
 - a. employers will be involved in the employee relations processes
 - b. employees might be directly involved in the employee relations processes at their workplace.
3. Outline the role of human resource managers in the workplace.
4. What would be the benefits of providing a business's financial reports to employee representatives during the negotiation process?
5. What role will a human resource manager have in:
 - a. the negotiation of an employment agreement
 - b. the implementation of an employment agreement?

APPLY your understanding

6. Hannelore Wuth is the Human Resource Manager for Delite Cakes and Pastries, which has a factory supplying supermarkets throughout Victoria. The current employment agreement with employees is due to expire in three months. Hannelore is new to the company and was not involved in negotiating the current agreement.
 - a. Identify and explain the key issues Hannelore needs to be aware of before she begins the process of negotiating a new agreement.
 - b. What are the three most important issues that she needs to keep in mind during the negotiation process?
7. Use the internet to research possible sources of information from outside the business that could assist in the development of an employment agreement.
8. Use the internet to research the ways in which management might be able to determine the success of an employment agreement.

EXAM practice

9. Define the term 'workplace relations'. (1 mark)
10. Define the term 'employee' and explain their role as a participant in the workplace. (3 marks)
11. Genuine Energy Ltd is determining new levels of pay and conditions of work for its employees. Explain the role of the human resource manager during this process. (3 marks)
12. Distinguish between the role of employees and the role of human resources managers as participants in the workplace. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

2.18 Workplace relations — participants in the external environment

KEY CONCEPTS In dealing with workplace relations issues, businesses have to be aware of the influence of external organisations that can affect decisions made at the business level.

External organisations within both the operating and macro environments can have an impact on workplace relations decisions within a business.

2.18.1 Participants in the operating environment

Trade unions

Trade unions that have members employed by a business will have a direct stake in the employee relations processes of that business. They will often be called to represent their members in the development of new or changed employee agreements, with the aim of getting the best possible deal for the employees. Another role is to work with management to help resolve workplace issues, acting as an advocate for employees. Unions will also investigate suspected breaches of workplace laws, discrimination laws or workplace safety laws.

Historically, the centralised industrial relations system in Australia gave unions a powerful role in employee relations. Working conditions were often determined for entire industries, rather than for individual businesses, and this provided unions with an official bargaining position in the making of industrial agreements. Through test cases, unions won major improvements in terms and conditions of employment. These established key principles that flowed on to other workers. Union membership, as a proportion of the total workforce, has been falling in recent years. In 1986, 46 per cent of employees were union members. By 2018, the proportion of employees who were union members had declined to 15 per cent of the total workforce. This figure is boosted by the fact that 38.5 per cent of government employees are union members while only 10.1 per cent of private-sector employees belong to a union. The typical image many of the public may have of unionists is that of militant construction workers, but in fact only 9.4 per cent of construction workers are members of the CFMEU. Data from the Australian Bureau of Statistics suggests that more union members identify as having ‘managerial’ or ‘professional’ occupations than all the trade and technical workers, sales workers, machinery operators or drivers, and labourers combined.

Employer associations

Employer associations 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 through the centralised employee relations system. Just as unions originally represented employees in particular trades or industries, employer organisations represented employers in those industries. Organisations such as the Master Builders Association, the Australian Retailers Association and the Australian Mines and Metals Association represent the interests of employers in those industries. Over the years they have assisted employers in formulating policies and processing **logs of claims** served on their members by unions.

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

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.



Australian
Retailers
Association



Since the late 1980s, legislative changes decentralising employee relations processes have placed greater emphasis on the negotiation of working conditions at the individual workplace level. Employer associations have taken on the responsibility of keeping their members informed of the implications of these legislative changes, and assisting their members to negotiate workplace agreements that are consistent with the legislation.



DID YOU KNOW?

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

2.18.2 Participants in the macro environment

Employers and employees, and their unions and employer associations, will be influenced by government policies and legislation as well as the policies and activities of peak employee and employer organisations.

Peak union bodies

Most unions are also affiliated with state bodies such as the Victorian Trades Hall Council, and federal bodies such as the Australian Council of Trade Unions (ACTU). The ACTU formulates and coordinates national union policies, and represents the union movement in courts and tribunals and in dealings with government and other organisations. The ACTU often assists in the settlement of disputes, particularly those involving large companies, or those in which a dispute in one business is likely to have an impact on other related businesses. It also campaigns politically on behalf of unions and their members.



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



Peak employer bodies

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.

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).

2.18.3 Governments and government organisations

Governments have five key roles in employee relations processes:

1. *Legislator.* State and federal parliaments pass laws that provide the legal framework for employee relations. The Commonwealth *Fair Work Act 2009* is the major legislation governing the operation of employee relations in Australia.
2. *Employer.* Federal and state governments employ almost one-third of Australian workers, as teachers, nurses, clerks, police officers, postal workers, transport workers and in other roles.
3. *Economic manager.* Governments are concerned to ensure that wages costs do not lead to inflationary pressure in the economy.
4. *Administrator of government policies on employee relations.* Governments implement legislation by publishing information and guidelines, and providing advice to employers, employees and their representatives (see the 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 2018, the Fair Work Commission lifted the national minimum wage by 3.5 per cent to \$719.20 per week. Employer groups criticised the decision, suggesting that the increase was too great and that it would stifle growth in jobs. Unions were also not happy with the decision, arguing that the rise would do nothing to help people who are living in poverty.



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 Commission

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

Fair Work Act. The FWC is responsible for making and varying Awards in the national workplace relations system. It approves agreements reached between employers and employees at the enterprise level, ensuring all parties comply with those agreements. The FWC can also:

- help parties to resolve workplace disputes when no agreement can be reached through conciliation, mediation and arbitration
- deal with applications in relation to unfair dismissal
- administer the regulation of industrial action
- review and set a minimum wage level for the lowest paid workers through its Minimum Wages Panel (MWP).

More information about the role and functions of the FWC can be found in subtopics 2.19, 2.21 and 2.22.

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.

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.

KEY IDEAS

- 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 and determines and maintains minimum wages, it approves agreements and ensures that all parties comply with those agreements, and helps to resolve a range of collective and/or individual workplace disputes through conciliation, mediation and/or arbitration.

2.18 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Describe what a trade union is.
2. Why were employer associations originally created?
3. What functions are performed by the peak employer and employee organisations?
4. List and briefly explain the five key roles played by government in employee relations.
5. What is the role of the Fair Work Commission in the employee relations system?

APPLY your understanding

6. 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 6 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.
 - Australian Manufacturing Workers Union
 - Printing Industries Association of Australia (employer organisation)
 - Under what circumstances might either a peak union body or a peak employer body become involved in the process?

EXAM practice

- Define the term 'employer associations'. (1 mark)
- Explain the role of unions in workplace relations. (2 marks)
- A major participant in workplace relations is the Fair Work Commission. Describe what the Fair Work Commission is and explain its role in workplace relations. (4 marks)
- Distinguish between the role of employer associations and the role of unions as participants in the workplace. (3 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

2.19 Awards and agreements

KEY CONCEPTS In the past, employment conditions were determined by sets of rules known as Awards. Awards now provide only a safety net of minimum conditions, while collective and individual agreements provide the opportunity for employees to gain improved pay and conditions in return for improvements in productivity.

2.19.1 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.

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

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.

Award modernisation

Under the *Workplace Relations Amendment (Transition to Forward with Fairness) Act 2008* a process was set in place to modernise all Awards, removing inconsistencies and amalgamating overlapping Awards that previously covered different parts of an industry. In carrying out this process, a consultation structure was set up to gain assistance and input from relevant unions and employer associations. The process commenced in April 2008. By the end of 2009, the Fair Work Commission had reviewed more than 1500 Awards, and created 122 industry and occupation Awards. These Awards came into effect on 1 January 2010, but most of the Awards include transitional provisions to phase in changes in wages, loadings and penalties over a 5-year period. The aim of the process was to reduce the number of Awards to cover just over 100 industries.

What do Awards include?

Modern Awards combine with the 10 National Employment Standards to provide the safety net of basic employment conditions for all employees. The following table summarises the National Employment Standards and the matters included in modern Awards.

All modern Awards that came into effect on 1 January 2010 are to be reviewed by the Fair Work Commission every four years, a process that occurred in 2014, and again in 2018. The National Employment Standards and modern Awards provide minimum working conditions for all employees. Enterprise bargaining allows employees to negotiate better pay and conditions over and above the Award, particularly when linked to changes in work practices that can deliver improvements in productivity within the business.

DID YOU KNOW?

Modern Awards are new and streamlined and created to replace thousands of existing ones. The new Awards apply to many employees and employers in the national workplace relations system. For example, the security industry will see a reduction from 10 Security Awards to just one National Security Award.

2.19.2 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

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.

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.

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

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.
- 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.

Both sides must voluntarily approve of the terms for a collective agreement to be made.



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.

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 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.

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

When two parties negotiate they should bargain in good faith. This means they are to meet regularly, and discuss issues honestly and with a willingness to reach an agreement. Where an employer refuses to bargain, and the Fair Work Commission determines, via a ballot or petition, that there is majority employee support for pursuing an enterprise agreement, the Fair Work Commission can force the employer to bargain collectively with the relevant employees.

Can your Employer Refuse to Bargain?



FAIR WORK COMMISSION CUTS PENALTY RATES

In February 2017, the Fair Work Commission brought down a finding that began a process of cutting penalty rates for some employees working on Sundays and public holidays. Workers employed under the Retail, Hospitality, Restaurant, Fast food and Pharmacy Awards would be affected. The changes came into effect on 1 July 2017, although in many cases the reductions in penalty rates were to be phased in over a three-year period.

Full-time and permanent part-time workers saw their penalty rates for public holidays reduced from 250 per cent to 225 per cent, effective from 1 July. Casual employees saw a reduction to 250 per cent for public holidays, which includes the casual loading.

Sunday penalty rate changes are being phased in between 2017 and 1 July 2020 under each of the above Awards. The intention is that these will be the same as Saturday penalty rates by 2020. In the Retail and Pharmacy Awards, Sunday penalty rates were cut from 200 per cent to 195 per cent on 1 July 2017, 180 per cent on 1 July 2018, 165 per cent on 1 July 2019 and 150 per cent on 1 July 2020. Saturday penalty rates under these Awards remain at 150 per cent. Sunday penalty rates under the other four Awards considered were to be reduced by similar amounts to bring them into line with Saturday penalty rates by 2020.

Political reaction to the Fair Work Commission decision was varied, with then Prime Minister Malcolm Turnbull declaring that, 'We think it was the right decision and we believe it would do the industry good'. The Leader of the Opposition, Bill Shorten, took an opposing view, saying, 'This is an appalling decision and comes at a time when wages are falling in real terms'. ACTU secretary Sally McManus said any pay cut would be devastating for families.

Resources



Weblink Fair Work Commission

KEY IDEAS

- Modernised Awards now provide only a safety net of minimum conditions.
- Collective agreements are now the key instruments for employees to gain improved pay and conditions in return for improvements in productivity.
- Individual agreements apply in only a minority of workplace situations, and must conform to Award standards.

2.19 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain the role of industry-wide Awards in the current employee relations environment.
2. What is the purpose of the Award modernisation process?
3. What mechanism is in place to ensure that Awards remain relevant into the future?
4. Identify two advantages and two disadvantages of Awards.
5. List and explain the key elements that must be included in an enterprise agreement.
6. Explain the meaning of the term 'bargaining in good faith'.
7. What requirements must be satisfied before the Fair Work Commission will approve an enterprise agreement?
8. Identify two advantages and two disadvantages of enterprise agreements.
9. Explain what an individual common law employment contract is.
10. Explain the special provisions that apply to employees earning over \$153 600 per year.
11. Explain the effect of changes to penalty rates made by the Fair Work Commission in 2017.

APPLY your understanding

12. Use the **Fair Work Commission** weblink in the Resources tab to find the modern Award relevant to the retail or hospitality industry, or any other industry in which you or your classmates have part-time employment. List and briefly explain the key matters that are covered by this Award.

13. Obtain a copy of either an enterprise agreement that applies to an employer in one of the industries mentioned in question 12, or an individual common law contract as provided by your own or a classmate's employer, and compare it with the relevant Award.
- What features does this document contain that are the same as the relevant Award?
 - Identify those provisions, if any, that improve on the basic conditions allowed for in the Award.

EXAM practice

14. Define the term 'Award' as a method of establishing wages and conditions of work. (1 mark)
15. Distinguish between Awards and agreements as methods of determining wages and conditions of work. (4 marks)
16. 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. (2 marks)
 - Compare awards and agreements as methods of determining wages and conditions of work. (4 marks)
17. Identify two considerations that the Fair Work Commission must examine when approving an enterprise agreement. (2 marks)
18. Discuss the use of enterprise agreements as a method of establishing wages and conditions of work. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

2.20 EXTEND YOUR KNOWLEDGE Determining enterprise agreements and Awards

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

2.20.1 The importance of negotiation in employee relations

If you have ever convinced someone to give you what you want, even though they may not have wanted to, you will have used your negotiation skills. Negotiation is a process where one party (such as a union), asks for something (for example, change to work hours) from another party (such as a manager). With the move towards a more decentralised employee relations system, the human resource manager and other managers increasingly have to negotiate with their employees. The employer and employee may negotiate on a range of issues, some of which might include:

- benefits
- date when employment is to commence
- compliance with HR policies, such as equal employment opportunity policies
- hours of work
- standards of performance
- termination procedures
- overtime
- pay
- probationary periods.

The negotiation process

Effective managers will understand that negotiation is a process, such as the one shown in the figure on the right. The negotiator must understand not only *what* they want to achieve but *how* they want to achieve it.

Effective negotiators

Research suggests that the skills required to be an effective negotiator include:

- *communication* — listening and asking questions, providing information and demonstrating empathy
- *preparation* — knowing that negotiation is a process and preparing and anticipating how a meeting might proceed puts the negotiator in a strong position
- *problem solving* — creatively looking for the most effective ways to solve problems. In today's economic climate, some creative solutions are being negotiated to find deals that are right for both the employer and employee (such as the one in the 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.

Approaching negotiation from the right angle



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.

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



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.

2.20.2 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>. © Commonwealth of Australia (Fair Work Commission) 2020.

MAKING OR VARYING AWARDS

Modern Awards

Four-yearly review

The Fair Work Commission must conduct 4-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>.
© Commonwealth of Australia (Fair Work Commission) 2020.

2.20 Exercise

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Why is being able to negotiate even more important considering we have moved to a more decentralised employee relations system?
2. Define 'negotiation'.
3. To be an effective negotiator, what skills are important?
4. Give four examples of the types of things that may be negotiated between an employer and an employee.

EXTEND your understanding

5. According to the 'Preparing for enterprise agreement negotiations' case study, in what way can each of the 10 steps for a successful enterprise agreement contribute to a win-win for both parties in a negotiation process?
6. Outline why a win-win attitude is important for negotiation in today's workplace?
7. Construct a flow chart outlining 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 'Enterprise agreement approval process'.

EXAM practice

8. Eastern Water is a company with an excellent industrial relations record that results from its positive corporate culture. The business decided 3 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)
9. Explain two similarities and two differences between Awards and agreements as methods of determining wages and conditions of work. (4 marks)

Solutions and sample responses are available in your digital formats.

2.21 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.

2.21.1 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.

'Sickies', or 'mental health days', are part of the Australian workplace culture. A recent survey by Gallup found that the main reason people take a 'sickie' is because they are unhappy with the style used by their manager. Employees who are unhappy at work, or who do not feel adequately rewarded or appreciated, use the 'sickie' as a form of hidden revenge.



The Australian Bureau of Statistics publishes statistics on industrial dispute in Australia. The number of working days lost through industrial dispute has decreased over the past 35 years or so, as can be seen in the figure on the following page, largely due to the trend towards enterprise bargaining.

2.21.2 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.

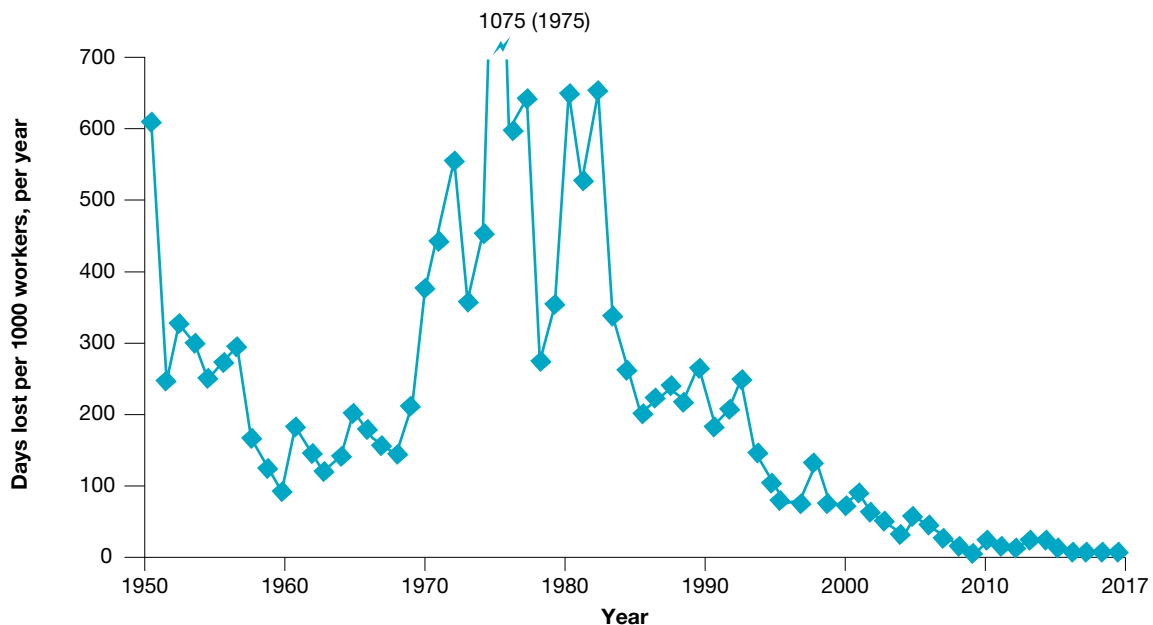
disputes a result of disagreements or dissatisfaction between individuals and/or groups

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

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, 1950–2017



Source: J. Stanford, *Historical Data on the Decline in Australian Industrial Disputes* (The Australia Institute, January, 2018).

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.

2.21.3 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.

The MUA picket at Webb Dock was supported by many other unionists.



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.

2.21 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Differentiate between a strike and a lockout.
2. Unscramble the following terms, and then use each of them in a sentence to explain their meaning.
 - a. tpikce enil
 - b. krwo snab
3. Outline the main causes of industrial conflict.
4. Explain why industrial disputes over 'managerial policy' are the most common in Australia when compared to the other causes of industrial conflict.
5. Under what circumstances will industrial action be 'protected' under current legislation?
6. Describe the steps that the Fair Work Commission could take to deal with unprotected industrial action.
7. Read the 'Blockade of Melbourne wharf by Maritime Union' case study. Many members of other unions came to support the MUA picket. Why do you think this occurred?

APPLY your understanding

8. Jules works for Empire Engineering. His union is currently negotiating a new enterprise agreement with the employer, but negotiations are not going well. The union wants to arrange for the employees to take industrial action in the near future.
 - a. What type of action might the employees take?
 - b. What might they hope to achieve by taking this action?
 - c. What has to happen for this action to be 'protected'?
 - d. Three other businesses that rely on Empire Engineering for supplies are concerned that industrial action at that company will affect their businesses. What can they do to address the problem?

Solutions and sample responses are available in your digital formats.

2.22 Dispute resolution

KEY CONCEPT A number of different approaches are available to resolve industrial disputes when they arise. The successful resolution of conflict will often depend on the styles and skills of managers, particularly human resource managers.

All enterprise agreements must contain dispute resolution procedures to gain the approval of the Fair Work Commission. If the relationship between the employer and the employees and their representatives is likely to be hostile, these procedures are likely to be very formal, with strict procedural rules and clearly defined roles for the employer, employees, unions, employer organisations and any third parties that may be brought in to assist with the resolution. Where the workplace relationship is positive, through a consultative or participative culture, disputes can often be resolved informally through discussions between the local employee representatives and human resource management without any involvement of external third parties. In the case of an autocratic management style, more formalised dispute resolution methods are likely to be preferred.

2.22.1 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.

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

2.22.2 Grievance procedures

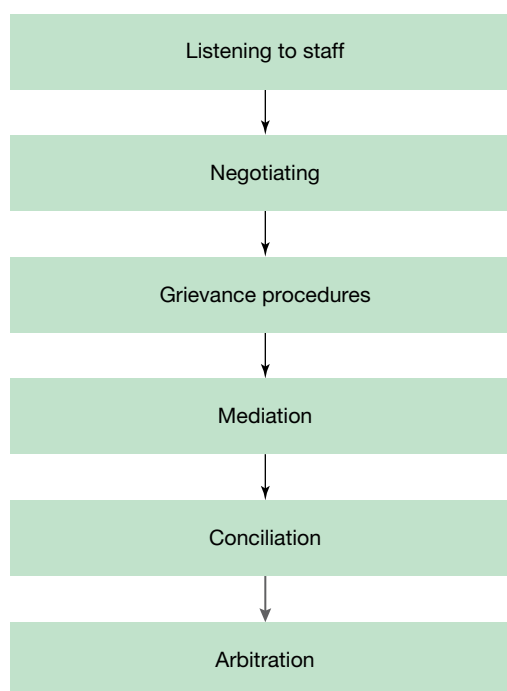
A grievance is a complaint submitted officially to a supervisor or manager. It is important that complaints or concerns be taken seriously, listened to and acted on. **Grievance procedures** are a formalised set of steps that can involve management, local union representatives and/or external advisers. It is very likely that the human resources area and manager will have an important role to play in resolving a grievance.

Since the introduction of enterprise bargaining, most businesses have established a formal process by which issues can be handled. Around 70 per cent of managers are involved in grievance handling and cite the most common issues as being personality conflicts, allowances/pay and discipline. The main aim of grievance procedures is to reduce the risk of conflict and possibly avert a serious dispute. A typical formalised grievance procedure can be seen in the following figure.

If the grievance cannot be resolved using internal procedures, it is likely that the matter will be referred to external conciliation or arbitration, such as the Fair Work Commission.

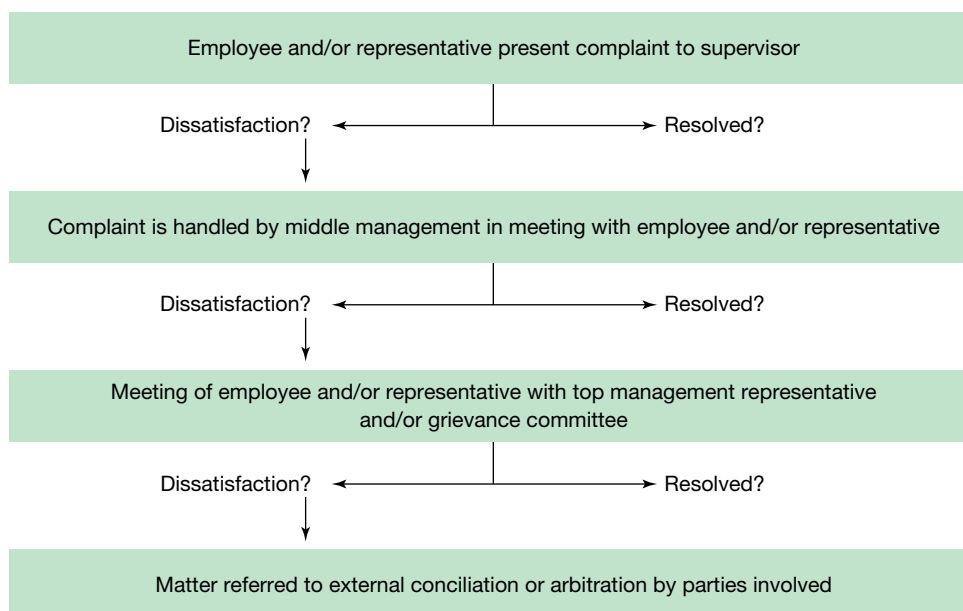
Awards will specify procedures for the resolution of a dispute (grievance procedures). An enterprise agreement must have a provision for dispute resolution procedures (grievance procedures) allowing the Fair Work Commission (or another independent person) to settle disputes. The differences between dispute resolution procedures for awards and for enterprise agreements can be seen in the case studies that follow.

A typical dispute resolution process



grievance procedure a formalised set of steps whereby the employee and employer can resolve matters relating to complaints about wages, hours, working conditions or disciplinary action

A typical formalised grievance procedure



DID YOU KNOW?

Around 84 per cent of workplaces with over 20 employees have formal grievance procedures, and these procedures are used all or most of the time.

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>.

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>.

2.22.3 Mediation

Mediation is a more formal method of dispute resolution, in that it involves the assistance of a third party. The third party helps the parties in dispute to work towards their own agreement, but will usually not offer suggestions or solutions, preferring to allow the parties to develop the agreement in their own terms. The third party may either be independent and agreed upon by key parties in a dispute, or a representative from a business, tribunal or government agency, such as the Human Rights and Equal Opportunity Commission.

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

2.22.4 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 private and, subject to the agreement of the parties, confidential.

2.22.5 Dispute resolution at the Fair Work Commission

The Fair Work Commission is the national independent workplace relations tribunal and can help parties resolve workplace disputes in a variety of ways, particularly through **conciliation**, mediation and, in some cases, arbitration. In a conciliation at the Fair Work Commission, a tribunal member (or a member of staff trained as a conciliator for unfair dismissal matters) brings both sides together, either in person or over the phone, and attempts to help them reach an agreement. This may include assisting to clarify the issues, asking the parties to continue negotiations and report back, or developing strategies to resolve the dispute. Mediation is a similar process, but the tribunal member may take a less proactive role than they would in conciliation. Depending on the type of workplace dispute, conciliation and mediation at the Fair Work Commission may be voluntary or compulsory.

In some circumstances, a dispute may be referred to the Fair Work Commission for arbitration by a tribunal member. Arbitration at the Fair Work Commission involves a tribunal member considering the arguments of each side and, unlike conciliation or mediation, making a decision that resolves the dispute. Examples of when the Fair Work Commission may arbitrate a dispute include where it is authorised to do so under an enterprise agreement or where an employee has been unfairly dismissed. An arbitration 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.

2.22.6 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.

During arbitration, an independent third party is brought in to hear submissions from parties who are in dispute.



A human resources manager must have a thorough understanding of workplace laws and procedures, as detailed preparation will be necessary if a dispute is referred to the Fair Work Commission.



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

conciliation a process that occurs when a third party participates in the resolution of a dispute and attempts to resolve the differences through discussion

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 grievance procedures, mediation and arbitration.
- Grievance procedures are a formalised set of steps whereby the employee and employer can resolve matters relating to complaints about wages, hours, working conditions or disciplinary action.
- 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.

2.22 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain the differences between negotiation, mediation and conciliation as alternative means of resolving industrial conflict.
2. What are grievance procedures and why do around 84 per cent of workplaces with more than 20 employees have established grievance procedures?
3. Explain the conciliation and arbitration procedures utilised by the Fair Work Commission.

APPLY your understanding

4. Identify the term used to describe the way in which the following disputes have been resolved.
 - a. A third party is called in to assist the employer and employee to work towards a mutually beneficial solution themselves.
 - b. A Fair Work Commission tribunal member orders Sener Sofas to reinstate 12 workers who were sacked last month.
 - c. Millar Machines finally reaches agreement with the union after regular meetings with a Fair Work Commission tribunal member and the union. The tribunal member actively works with all parties, helping them to reach a solution.
 - d. Lafitani is fed up with his workmates playing practical jokes on him. He complains to Rhonda Pok, his supervisor, who records the complaint and, because it is serious, takes it to the company's group specially established to help deal with such problems.

EXAM practice

5. Distinguish between mediation and arbitration. **(4 marks)**
6. Ellen believes she has been overlooked for a promotion because of her gender, particularly as she has higher qualifications and more experience than the man who received the promotion. She wants to have the matter resolved through a grievance procedure.
 - a. Explain the term 'grievance procedure'. **(2 marks)**
 - b. Outline a process that could be implemented by the human resource manager to attempt to resolve Ellen's grievance. **(4 marks)**
7. Compare mediation and arbitration as a means of dispute resolution. **(4 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

2.23 APPLY YOUR SKILLS Dispute resolution and methods of determining wages and conditions of work

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of management related to managing staff in a business
- Interpret, discuss and evaluate business information and ideas
- Apply knowledge about managing employees to practical and/or simulated business situations
- Propose and justify strategies to manage employees effectively

2.23.1 Dispute resolution and grievance procedures

WORKPLACE DISPUTES: HOW TO EXTINGUISH THE FLAME AND AVOID A FIRE

When an employee has a grievance, it means they have a complaint about a situation in the workplace they perceive as unfair. It may be a situation where the employee feels they are working in an unsafe environment. For example, an employee grievance was soon referred to the union when management ignored the complaints made by employees who constantly tore their clothing on the old wooden furniture in the office. This issue finally came to a head when an employee suffered from a splinter in their knee. The frustrated employee went to their union and that was the catalyst for management to agree to purchase new furniture.



Research has shown that a manager's skill in averting the escalation of such workplace disputes is critical. According to a senior human resource management executive at ANZ, encouraging communication and listening to staff is one way to avert potential problems in the workplace. He says: 'What we have done quite consciously is to build better communications with our staff — direct relationships face to face with our staff for matters that affect them in the workplace and there is no substitute for that'. Supervisors and human resource managers are recommended to approach grievances in the first instance at the workplace level in the following ways:

- Treat the grievance seriously and in private.
- Listen to what the employee is saying.
- Establish exactly what the problem is.
- Identify the source or sources of dissatisfaction.
- Remain calm. Lost tempers and accusations can only escalate bad feeling.

After the manager has heard the grievance, some time should be set aside for establishing the facts. This could mean visiting the workplace to see firsthand what the problem is and talking to witnesses that the employee has identified. Lengthy delays in responding to the employee grievance should be avoided and a decision, once made, must be communicated. The reason behind the decision should be clearly articulated. It is considered unhelpful to just pass off the decision by saying to the employee that it is 'management policy'.



The procedure described is based on the concept of natural justice, which means that employees must be given a fair hearing and that decisions should be made without bias.

DID YOU KNOW?

Dealing with bullying in the workplace is one conflict that needs to be handled carefully. Bullying may take the form of yelling, offensive language, excluding or isolating employees, giving employees impossible tasks to perform or assigning them meaningless tasks. A 2010 Productivity Commission report found the total cost of bullying and harassment to be about \$14.8 billion a year. In 2010, a case of bullying in the workplace was decided in the Magistrates' Court against the owner of Cafe Vamp in Hawthorn. The owner pleaded guilty to failing to provide and maintain a safe working environment, and the company was fined \$220 000. In this case, bullying resulted in a waitress committing suicide. Managers have a legal and a moral obligation to ensure that bullying is appropriately dealt with in the workplace. Education about bullying is one step in the right direction, and ensuring that proper grievance procedures are in place to handle bullying complaints when they occur can help avert a crisis.

2.23.2 Methods of determining wages and conditions of work

When a job applicant accepts an offer from an employer, a contract is established between the two parties. An employment contract is a legally binding, formal agreement between an employer and an employee. Let us examine two different types of employment contracts: enterprise agreements and individual contracts.

EMPLOYMENT CONTRACTS FOR BUSINESS MANAGEMENT STUDENTS

Imagine that your Business Management class has the opportunity to negotiate a set of working conditions for the students in your class.

Enterprise agreement

All the students in your Business Management class need to meet with a representative of the school to negotiate a set of working conditions for your class. Apart from the essential conditions, such as completing all the work and respecting each other's opinions, you might negotiate a homework-free month in return for one extra assessment task.

Remember that an enterprise agreement is a negotiated agreement between an employer and a union or a group of employees. The agreement deals with the pay and conditions of people employed in that workplace or enterprise.

Your class will need to decide if you will meet with the representative of the school as a group, or if you will choose a group of students to represent the students. If the class does decide that a group will represent the students, this group will become 'the union'.



Your class can also need to decide who will represent the school — this could be your teacher or a group of students.

The final step is for the school representative (or group of representatives) to meet with the students (or 'the union') and negotiate the enterprise agreement.

Someone will need to record the details of the enterprise agreement.

Common law individual contract

Now the school and you, after a period of negotiation, will come to an agreement about your conditions of work for this subject. The conditions agreed on will apply only to you. The new contract will do away with the classroom conditions agreed to in the enterprise agreement. For example, the new agreement may offer you a 'classroom (employment) package' that includes more homework in return for the right to attend only two Business Management lessons each week. You will have entered into a common law individual contract.

Remember, a common law individual (employment) contract covers employees who are not under any Award or enterprise agreements. They are most common among professional and managerial employees. Such contracts are signed individually and are secret; that is, not open to public scrutiny.

Again, your class can decide on who will represent the school — this could be your teacher or a group of students. Each individual student then needs to meet with the representative of the school to negotiate a contract. This could occur outside the classroom in private.

The final step is for the school representative (or group of representatives) to meet with each individual student and negotiate separate common law individual contracts. (Note that individual students in the school representative group should also negotiate contracts. They may need to come out of the group, and meet individually with remaining students in the group to negotiate their contract.)

You will need to record the details of your common law individual contract.

2.23 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Read 'Workplace disputes: how to extinguish the flame and avoid a fire'. Define the term 'grievance procedure'.
2. Describe a typical formalised grievance procedure.
3. Explain why a manager's skill in resolving disputes at the workplace level is crucial in avoiding the escalation of an industrial dispute.
4. Suggest why a manager who adopts an autocratic management style may find it difficult to resolve disputes at the workplace level.
5. Describe the steps a manager should take when confronted with an employee grievance in the first instance at the workplace level.
6. After completing the 'employment contracts for Business Management students' activity, define the term 'common law individual contract'.
7. Describe what an enterprise agreement is.
8. Outline how the enterprise agreement was negotiated in your classroom.
9. What was the outcome of the enterprise agreement (what conditions were in the agreement)?
10. Outline how the common law individual contracts were negotiated in your classroom.
11. What was the outcome of your individual contract?
12. Compare the conditions of the enterprise agreement to the conditions of your individual contract. Which has the better conditions? Why do you think that this is the case?
13. Compare the conditions of your individual contract to the conditions of the individual contracts negotiated by other students in your class. Which has the better conditions? Why do you think that this is the case?

APPLY your skills

14. Read the following scenarios and identify in each case:
- why the dispute was not resolved adequately
 - what skills the manager lacked.
- 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.
 - Tran told his manager that he wanted to talk to him because he thought the equipment he was using was dangerous. Tran's manager said he was more than happy to talk about it, but that it would have to wait at least 3 weeks because he was so busy. He also added that it has never been a problem in the past.
 - Tough cost-cutting at the firm meant that John had to pay for his own tea and coffee. John thought that this was ridiculous and spoke to his manager. John's manager informed him that it was just 'tough luck', and that he couldn't do anything about it because it was a decision made by head office.
 - 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.'
 - 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.
15. Choose one of the scenarios from question 14 and conduct a role play demonstrating the appropriate way workplace level grievances should be handled.
16. Read the following scenario. Role-play the negotiations that take place between management and the union regarding Mark's work. Remember to prepare well for your negotiation and know your objectives, strategies and tactics.
- Mark works for a large supermarket chain, packing shelves. In the past, he could always be relied on to turn up to work on time and put in a good day's work. However, over the last two months he has had a lot of time off. His co-workers have had to make up the work that he has not completed and there have been several occasions when Mark has lost concentration on the job and has said that he feels ill and needs to go home. It's getting to a point where the other workers are fed up and Mark's employer feels that no work is being done in return for the wage that is being paid.
17. In your opinion, which method of determining wages and conditions of work produces better outcomes for employees — enterprise agreements or common law individual contracts? Explain your response.
18. 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.
19. The task word (sometimes referred to as command word or instructional word) 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument.
- Imagine now that legislation has just been introduced allowing students to be paid for the work they complete at school. Propose and justify a method of determining wages and conditions of work that your school could use to manage students (employees) effectively.

EXAM practice

20. Describe the role of a human resource manager in a dispute in a workplace. **(2 marks)**
21. Outline the steps in a typical grievance procedure. **(3 marks)**
22. Explain two characteristics of enterprise agreements. **(4 marks)**
23. 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.
- Explain awards and agreements as methods of establishing employee wages and conditions of work. Recommend and justify which method Bill's Burgers should adopt. **(5 marks)**
 - Explain a dispute resolution process to resolve the conflict between the employees at Bill's Burgers and management. **(3 marks)**

Solutions and sample responses are available in your digital formats.

2.24 Review

2.24.1 Summary

Human resources and business objectives and strategy

- Human resource management involves effectively managing employees in a business and the relationship between employees and the business, as well as the motivation of employees, with the aim of ensuring the business objectives are successfully met.
- The overall business objectives of the business will determine the objectives and strategies adopted by human resources.
- The relationship between managing employees and business objectives is very important as it is staff who achieve the business's objectives and HR strategies that help ensure objectives are achieved.

Motivation and Maslow's Hierarchy of Needs

- In order to achieve business objectives, staff must be motivated. A number of theories have been developed proposing how workers can be motivated.
- Maslow's Hierarchy of Needs theory requires that managers understand where each worker is situated according to a hierarchy of needs in order to try to satisfy employee needs appropriately.

Motivational theories — Locke and Latham's Goal Setting Theory

- Locke and Latham's Goal Setting Theory involves the establishment of clear, challenging goals as a way to motivate staff and improve their performance.
- Clarity, challenge, commitment, feedback and task complexity are the essential principles of Goal Setting Theory.

Motivation theories — Lawrence and Nohria's Four Drive Theory

- Lawrence and Nohria's Four Drive Theory identified four basic human drives that determine all human behaviour and applied these to the motivation of employees in the workplace.
- These drives are the drives to acquire, bond, learn and defend.

Motivation strategies

- 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.

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.
- An appraisal refers to the formal assessment of how efficiently and effectively an employee is performing their role in the business.
- Management by objectives is a process by which management and employees agree on a set of goals for each employee, with these individual goals all contributing to the objectives of the business as a whole.
- Self-evaluation involves employees carrying out a process of self-assessment, based on a set of agreed criteria.
- Employee observation involves gathering feedback on past and current performance from a range of stakeholders including management, other employees and customers.

Termination management

- Termination refers to when an employee leaves a particular workplace, ending the employment relationship. An employee may leave the business voluntarily through resignation, retirement or accepting redundancy. Sometimes an employee will be forced to leave the business because they have been made redundant or have been dismissed.
- Entitlement issues are the rights to benefits that employees have when leaving the workplace, either on a voluntary or an involuntary basis.
- Transition issues relate to the process or a period of changing from one job to another or from one set of circumstances to another.

The roles of participants in the workplace

- Employers and employees are major stakeholders in employee relations processes.
- As human resource managers negotiate employment agreements, they need to be aware of relevant Awards, ensure that all parties are kept informed, check that a completed agreement meets legislative requirements, and arrange lodgement with the Fair Work Commission. Implementation of employment agreements may involve regular monitoring, training of fellow managers and other employees, and dealing with any disputes that may arise.
- Unions, employer 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 and determines and maintains minimum wages, it approves agreements and ensures that all parties comply with those agreements, and helps to resolve a range of collective and/or individual workplace disputes through conciliation, mediation and/or arbitration.

Awards and agreements

- Modernised Awards now provide only a safety net of minimum conditions.
- Collective agreements are now the key instruments for employees to gain improved pay and conditions in return for improvements in productivity.
- Individual agreements apply in only a minority of workplace situations, and must conform to Award standards.

Dispute resolution

- Even with the most positive employee relations environment, conflict between employers and employees can still occur, leading to industrial action by either employees or employers.
- A variety of avenues are available for the resolution of disputes in the workplace.
- A typical dispute resolution process includes grievance procedures, mediation and arbitration.
- Grievance procedures are a formalised set of steps whereby the employee and employer can resolve matters relating to complaints about wages, hours, working conditions or disciplinary action.

- 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

on Resources

studyon

To access key concept summaries and past VCAA exam questions, download and print the **studyON: Revision and past VCAA exam question booklet** (sonr-0133).

2.24.2 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, gaining more experience

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

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

employee observation a strategy where a variety of opinions on the performance of employees is sought with the aim of arriving at a more comprehensive picture of past and current performance

employer associations organisations that represent and assist employer groups

enterprise agreement an agreement on pay and conditions of work made at the workplace level and negotiated between groups of employees (or represented by their union) and employers

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

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

grievance procedure a formalised set of steps whereby the employee and employer can resolve matters relating to complaints about wages, hours, working conditions or disciplinary action

Hierarchy of Needs Maslow's sequence of human needs in the order of their importance

human resource management the effective management of the formal relationship between the employer and employees

human resource manager coordinates all the activities involved in acquiring, developing, maintaining and terminating employees from a business's human resources

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 a process of self-assessment, based on a set of agreed criteria

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

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 issues the process or a period of changing from one job to another or from one set of circumstances to another

unfair dismissal when an employee is dismissed because the employer has discriminated against them in some way, such as firing someone because she is pregnant

Resources

-  **Digital documents** Key terms glossary (doc-35209)
Missing word glossary quiz (doc-35210)
Crossword (doc-35211)

2.24.3 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)

1. Define the term 'retirement'. (1 mark)
2. Distinguish between dismissal and redundancy. (3 marks)
3. Outline the relationship between managing employees and business objectives. (2 marks)
4. Discuss the use of on-the-job training or off-the-job training. (4 marks)
5. Explain how management by objectives can be used to achieve both business and employee objectives. (3 marks)
6. Besides management by objectives, propose and justify a performance management strategy for managing employees effectively. (4 marks)
7. Dana's children's party business is struggling financially. She realises that she must terminate a number of her employees in order for the business to survive. Analyse one termination management strategy that Dana could implement to effectively manage her business and employees. (4 marks)

Impending strike action

Members of the Manufacturing Workers Union employed at Supa Dupa Foods Ltd yesterday voted to take strike action, if they have received no response to their log of claims for a new enterprise agreement by the end of the work week.

A union spokesman claimed that although an offer had been received from the company in June, company representatives had not been prepared to enter into negotiations to develop a new agreement, and the current agreement was due to expire at the end of this month.

'The company's offer is completely unacceptable to our members employed at the Dandenong factory,' the spokesman said. 'They have only offered a 2 per cent pay rise for each of the next three years, and have not responded to our superannuation claims.'

The union spokesman went on to claim that the workforce had achieved productivity gains of over 6 per cent per year over the last two years, and that the company had made record profits over the last three years.

It is understood that the union is seeking a 5 per cent pay rise per year over the next three years and an increase of employer contributions to the employees' superannuation from 9 per cent to 12 per cent.

Mr James Moore, Human Resources Manager for Supa Dupa Foods, described the union's claim as excessive. He claimed that the company could not afford to meet the union demands.

Spokespeople for both Coles and Woolworths last night expressed concern at the possible impact of the proposed industrial action on the supply of a variety of food lines to their supermarkets.

8. Read the case study on 'Impending strike action' and answer the following questions.
 - a. Identify and explain two possible means of resolving the dispute that have not yet been used by the parties. (4 marks)
 - b. If the parties cannot reach agreement, name the workplace participant that could become involved, and explain the processes that participant could use to arrive at a resolution. (3 marks)

Section B (13 marks)

Use the case study provided to answer the questions in this section. Answers must apply to the case study.

Part of the furniture

Dani is the Human Resources 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. He has been supervisor in his section of the factory for several years, but recently he seems to have lost some interest in his work, especially after being overlooked for promotion to the position of production manager 3 months ago.

Veronica is a single mother with young children. She works in the sales and marketing department of the business and is responsible for promoting new products to furniture retailers, and ensuring orders from retailers are filled promptly. She is scheduled to start work at 8.00 am, but is often late to arrive. She says she is unhappy with the poor pay she receives and is looking for a new job. She is a very good worker, who produces good results, is well liked in the company and has developed good relationships with many of the furniture retailers who sell the company's products.



1. Explain what you think currently motivates the two workers referred to in the case study. (3 marks)
2. Apply the key principles of one theory of motivation you have studied to the motivation of the employees at the furniture company. (6 marks)
3. Compare the use of performance-related pay and investment in training at the furniture company. (4 marks)



Resources



Digital document School-assessed coursework (doc-35329)

2.24 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

2.24 Exercise 1: Test and apply

TEST your understanding

1. Devise your own definition of 'human resource management'.
2. Explain how human resource objectives and strategies are linked to overall business objectives.
3. Choose one motivational theory and explain how it could be used by a business to motivate staff.
4. Explain how an employer can use performance-related pay to improve employee motivation.
5. How can career advancement be used to align business objectives with the personal objectives of employees?
6. Other than performance-related pay and career advancement, outline two motivation strategies that can be used to motivate employees.
7. Distinguish between on-the-job and off-the-job training.
8. Explain the advantages and disadvantages of on-the-job training.
9. Explain the advantages and disadvantages of off-the-job training.
10. Define the following terms.
 - a. Management by objectives
 - b. Appraisals
 - c. Self-evaluation
 - d. Employee observation

11. Outline one entitlement issue and one transition issue related to retirement.
12. Outline one entitlement issue and one transition issue related to redundancy.
13. Explain the difference between resignation and dismissal.
14. Explain the role of the following participants in the workplace.
 - a. Human resource managers
 - b. Employees
 - c. Employer associations
 - d. Unions
 - e. The Fair Work Commission
15. Distinguish between Awards and agreements.
16. Give three examples of additional matters that can be included in workplace agreements.
17. Under what circumstances might the Fair Work Commission not approve an enterprise agreement?
18. List and explain the key steps that should be followed by a human resource manager in the negotiation of an enterprise agreement.
19. Outline the matters that must be considered by a human resource manager in implementing an enterprise agreement.
20. Describe a step-by-step process that a human resource manager could use to resolve a dispute.

APPLY your understanding

21. 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.
22. Examine the advantages and disadvantages of each motivation strategy and describe the three most effective strategies that you would recommend a business use to maximise the motivation of its employees. Give reasons for your choices.
23. A performance appraisal of a worker indicates a lack of computer competency. What should the business do about this?
24. Compare 'voluntary' and 'involuntary' departures in terms of:
 - how difficult each is for the business to manage
 - effects on the business
 - effects on the staff leaving
 - effects on the staff remaining.
25. Read the hypothetical case study below 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.

26. Read the ‘Supporting staff in regional business’ case study and answer the questions that follow.
- Describe the key features of the workplace environment at Timboon Fine Ice Cream.
 - Propose and justify an appropriate training option for Timboon Fine Ice Cream.
 - 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.



2.24 Exercise 2: Exam practice

on Resources

 **Teacher-led video** Topic 2 Exam practice solutions (tlvd-1841)

Question 1 (4 marks)

Stacey is responsible for human resource management in a food processing factory in regional Victoria.

- Define the term ‘human resources’. (1 mark)
- Outline how the management of employees can contribute to the achievement of the business objectives of the food processing factory. (3 marks)

Question 2 (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.

- Propose and justify one motivation strategy that Cathy could use to improve the performance of her employees. (4 marks)
- 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 3 (6 marks)

'Motivated employees will always produce better results for a business than those lacking in motivation.'
Discuss this statement, with particular reference to the use of Maslow's Hierarchy of Needs in motivating employees.

Question 4 (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 5 (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 6 (5 marks)

Evaluate either on-the-job training or off-the-job training as an option for effectively managing employees.

Question 7 (4 marks)

Describe the relationship between performance management and training.

Question 8 (5 marks)

Identify and explain two roles of the Fair Work Commission in workplace relations in Australia.

Question 9 (4 marks)

Using examples, distinguish between grievance procedures and arbitration.

Question 10 (4 marks)

Propose and justify one performance management strategy for managing employees effectively.

studyon

Past VCAA examinations **online only**

Sit past VCAA examinations and receive immediate feedback, marking guides and examiner's report notes.
Access Course Content and select 'Past VCAA examinations' to sit the examinations online or offline.

Solutions and sample responses are available in your digital formats.

teachon

Test maker

Create unique tests and exams from our extensive range of questions, including past VCAA exam questions.
Access the Assignments section in learnON to begin creating and assigning assessments to students.

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

3.1	Overview.....	216
3.2	The relationship between operations management and business objectives	218
3.3	EXTEND YOUR KNOWLEDGE Efficiency and effectiveness of operations	224
3.4	Key elements of an operations system.....	228
3.5	Technological developments	233
3.6	Materials management	241
3.7	The management of quality	248
3.8	Waste minimisation.....	255
3.9	APPLY YOUR SKILLS Managing technological developments, materials, quality and waste minimisation	263
3.10	Corporate social responsibility considerations in an operations system.....	267
3.11	EXTEND YOUR KNOWLEDGE Socially responsible operations management.....	271
3.12	Global considerations in operations management	274
3.13	APPLY YOUR SKILLS Comparing, evaluating, proposing and justifying operations management strategies	279
3.14	Review	284



3.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS, and at www.jacplus.com.au.

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 8 hours. Mars Australia sources its cocoa beans from Rainforest Alliance certified farms. Most of the process of chocolate making is automated (done by machines) — just picture huge vats of melting chocolate and caramel with lots of workers in white coats. When you learn about operations management in this 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.



TOYOTA'S OPERATIONS SYSTEM

Operations is the part of the business that 'gets the job done'. At Toyota, that means producing almost 9 million vehicles each year, of which approximately 14 000 are manufactured each day in Japan. The process of producing vehicles at Toyota's many manufacturing plants around the world is similar to producing a cake (or any other product for that matter). You need inputs (resources used in the production process, such as labour and raw materials). The next step is to transform those raw materials into output (finished products). Many of the components used to build an engine, such as pistons and cylinder head covers, are produced in-house by Toyota. Some parts are sourced from local and global suppliers. What else is needed to make a car? Lots of steel panels that are welded, painted and undergo a multitude of processes to finally reach the assembly line.

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



Operations is not just about making goods or producing services though. Many businesses strive to produce the best good or service on the market. Toyota uses the concept of continuous improvement to do this (referred to in Japanese as *kaizen*). This means that all company activities — from the assembly line to customer service — are continually scrutinised, so that new and better ways of doing things are introduced if needed.

Just In Time (JIT) production is also used at Toyota. This means that the right parts and materials are manufactured and provided in the exact amount needed, and when needed. The number of cars produced is directly related to customer demand.

Toyota uses technology to its advantage. For example, the welding required for making the shell of a car involves hundreds of welding processes and parts. Robots on the automated production line do many of the welding jobs and the remainder are carried out by workers. Toyota says they are automated, but ‘with a human touch’.

3.1.2 What you will learn

Key knowledge

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



Key skills

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

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

Source: VCE Business Management Study Design (2017–2022) extracts © VCAA; reproduced by permission.

on Resources

 **Digital document** Key terms glossary (doc-29448)

studyon

To access key concept summaries and past VCAA exam questions, download and print the **studyON: Revision and past VCAA exam question booklet** (sonr-0134).

3.2 The relationship between operations management and business objectives

KEY CONCEPTS

- Operations management is about producing goods and/or services based on business objectives.
- The characteristics of operations management within manufacturing businesses are different to those of service businesses.

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.



operations management all the activities in which managers engage to produce goods or services

HOW IMPORTANT IS OPERATIONS TO A BUSINESS?

Operations is vital to any business, because this area of management produces the good or service. Without a product to sell there would be no business.

South32 is a global mining and metals company that operates in Australia, Southern Africa and South America. The area of operations is vital to its performance. In a statement to the ASX in 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.

Source: Based on South32 Financial Results and Outlook Half Year ended 31 December 2019.

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?

- Businesses can become more competitive by looking at their production processes. For example, the 'Better Mangoes project' identified why so many mangoes were arriving at retail outlets bruised or overripe. Improved handling techniques and temperature control have resulted in more consistent fruit quality and better profits.
- In 1913, Henry Ford developed an approach to car assembly that involved a chassis moving down an assembly line on a conveyor belt. A small team of workers would move with the car, fitting the various components that had been carefully set out along the production line. The end result was a reduction of the hours spent on the assembly of a car, from 728 to just 1.5.

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

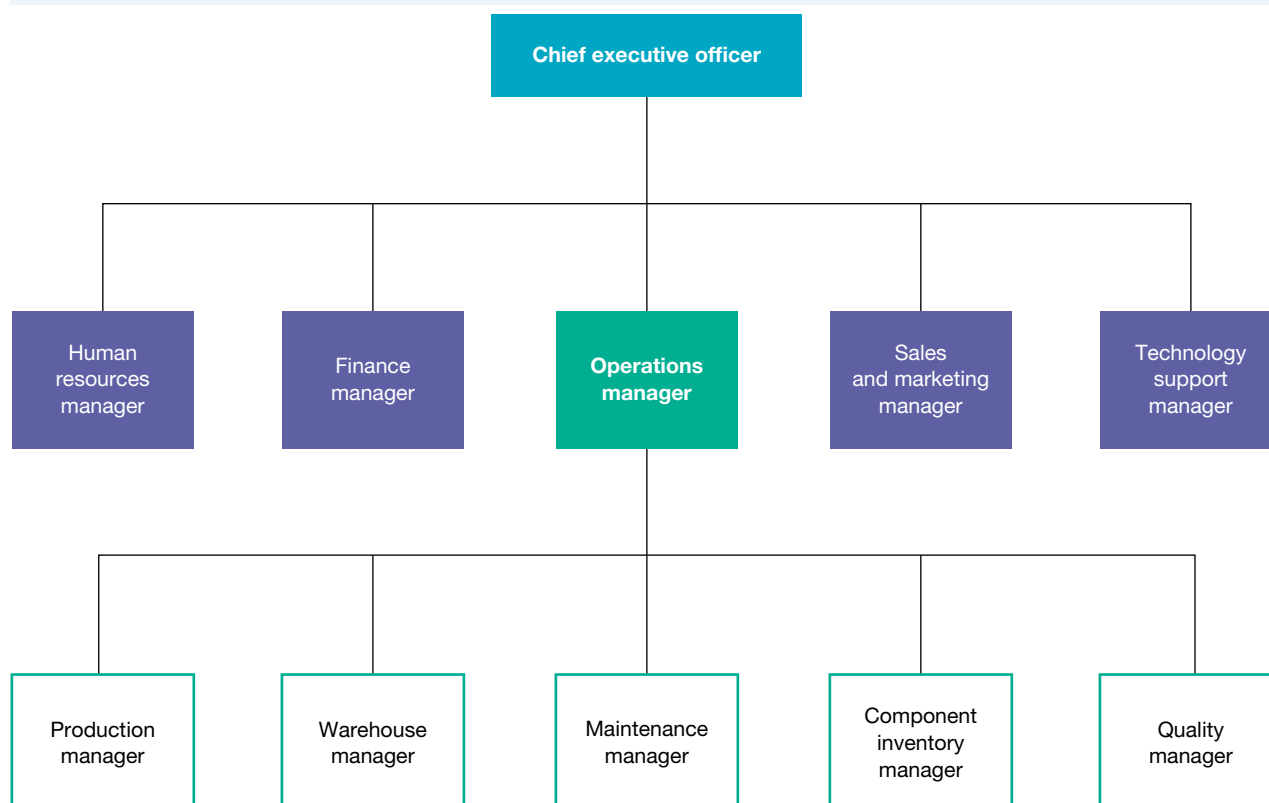
The operations area also contributes to the attainment of business objectives in less obvious ways. Keep in mind that the nature and type of operations will vary considerably from one type of good or service to another and from one type of business to another. For example, the responsibility for the 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

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.



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.

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.

3.2.4 Characteristics of operations management within both manufacturing and service businesses

A manufacturer will transform inputs into tangible products. **Tangibles** are physical products that can be handled and stored before they are sold to the consumer, such as bread, clothing or a car. The production process and consumption are not linked. That is, there is little customer involvement in production.

A service business will transform inputs into services. Services are **intangible**, which means that they cannot be touched. For example, if you attend a training course, you cannot physically touch it, but you benefit from gaining knowledge and learning new skills. Services cannot be stored and the customer may actually need to be present when the service is being delivered. For example, the customer must be present when receiving a haircut.

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 and other services. When a customer enters a contract with an internet provider, they will receive a service (their broadband connection), a modem and other goods necessary to enable the connection.

Regardless of whether a business manufactures a good or produces a service, most large businesses will have an operations function or department. Sometimes, it may be referred to by other names, such as production or supply. The strategies that the operations area uses will differ according to whether the business manufactures a good or provides a service. A bank, for example, would not be as concerned with the management of materials as a car manufacturer would be.

Training courses are an example of a service, as they are not a physical product.



DID YOU KNOW?

An operations manager can select strategies from four areas to achieve optimal operations: use of technology, materials management, management of quality and waste minimisation.

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.
- 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.

3.2 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Define what you understand by the term 'operations management'.
2. 'Operations management is the part of the business that actually gets the job done.' Demonstrate this concept on a smaller scale by describing the materials you would need and the process you would undertake to make a pizza (your finished product).
3. Outline some of the tasks that Harry Souris carries out as National Operations Manager.
4. In your own words, describe the relationship between operations management and business objectives.
5. Explain the main differences between goods and services.
6. Outline the differences between the characteristics of operations management within a manufacturing business and a service business.
7. Why do modern businesses combine goods and services?

APPLY your understanding

8. One strategy to produce goods more quickly is to use better technology. For example, using a manual grater to grate cheese might not be as efficient as using an electric grater. Fill in the table below and list some strategies that an operations manager might use to achieve the listed business objectives. The first entry has been completed for you.

Business objective	Operations strategy
Increase the quality of service provided	Introduce Total Quality Management
Increase the quality of the product	
Reduce production costs	
Minimise impact on the environment	
Increase profit	

9. 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.
10. Use the internet to find a job advertisement for an operations manager (sometimes called a production manager or a factory manager). The advertisement will probably outline responsibilities involved in the position. List the skills required to fulfill these responsibilities.

EXAM practice

11. Explain the importance of the relationship between operations management and business objectives. (2 marks)
12. 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. (4 marks)
13. Compare the main characteristics of a manufacturing business with those of a service business. (4 marks)
14. With reference to a contemporary business case study, explain how operations management relates to business objectives. (4 marks)
15. Describe how the operations area of management responsibility can support a business in achieving objectives such as 'to make a profit' and 'to meet shareholder expectations'. (6 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

3.3 EXTEND YOUR KNOWLEDGE Efficiency and effectiveness of operations

KEY CONCEPTS

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

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

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

EFFECTIVENESS

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

Operations strategies should support the business in achieving objectives such as to make a profit. For example, one materials strategy is 'Just In Time'. By ensuring that the right amount of materials arrive just as they are needed, storage costs are reduced and the risk of waste occurring is reduced (also minimising costs). Reduced costs impact positively on profit (profit is defined as what remains after business expenses have been deducted from revenue). Further, the right materials arriving in the right places, in the right quantities and at the right times mean that a business's production process will operate as planned. Effective operations will contribute to the attainment of business objectives such as profit.

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

Effectiveness refers to achieving the objectives or goals of the business.

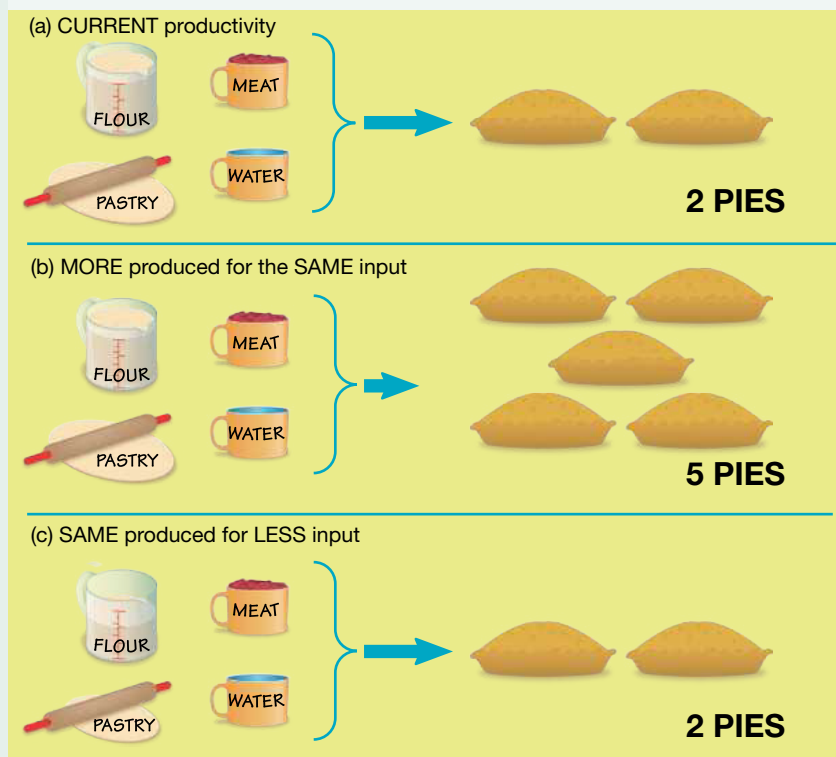


EFFICIENCY

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.

Current productivity (situation a) may be improved by producing more output from the same input (situation b) or by reducing the level of input for the same output (situation c).



It is worth noting that productivity is more straightforward to measure in a manufacturing business than it is for a service business. A manufacturer may measure productivity by simply comparing the amount of goods it produces to its inputs; for example, machinery used, equipment, staff hours. A car manufacturer may improve productivity by producing more cars with the same amount of input, or the same number of cars using a smaller amount of input. Measuring the productivity of a service business is slightly more complex. It is not always possible to increase output because so much of the input will be staff hours. An increase in the number of customers might correspond with a decline in customer service as employees rush to complete as many tasks as possible. For this reason, one of the ways that a service business measures productivity is by gauging customer service and satisfaction.

There are a number of strategies that businesses can use to produce more output from the same input or reduce the level of input for the same output. Improved communication between management and employees can boost production. Management styles (see subtopic 1.17) 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 also a strategy used in many businesses. The use of robots in car manufacturing plants is now commonplace.

Returning to our discussion on efficiency, operations strategies should support the business in using resources efficiently in achieving objectives. Just In Time can be used by a business to improve efficiency. By ensuring that the right amount of materials arrives just as they are needed for production, the business does not need to maintain inventory. This reduces the risk of inputs becoming damaged, lost or perishing, or never used, thereby minimising waste. Because the business does not need an oversupply of materials, the actual amount of inputs used can be reduced, improving productivity. Just In Time ensures that the operations process only produces what is needed, when it is needed, and in the quantity required at the right time.

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

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

However, for any given time period, it is possible for a business to have been effective (that is, it has achieved its objectives, such as profit) yet inefficient (for example, productivity may have declined over the same period). Nevertheless, efficiency and effectiveness will usually move in the same direction.

Businesses that can improve effectiveness and efficiency are likely to be more competitive, because they are able to produce more outputs at lower cost, provide higher quality products to customers and deliver them without delay.

The relationship between efficiency and effectiveness

		Use of resources — efficiency	
		Inefficient	Efficient
Pursuit of objectives — effectiveness	Effective	Effective in achieving objectives, but inefficient use of resources at the same time (for example, 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 (for example, not producing enough products, at high cost)	Efficient in the use of resources but ineffective at meeting the businesses objectives (for example, not producing enough but at low cost)

3.3 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

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

EXTEND your understanding

6. Productivity can be calculated by using the formula $\text{Productivity} = \frac{\text{Output}}{\text{Input}}$.
 - a. Calculate the labour productivity (output per employee) of bakeries A–D in the following table.
 - b. Working in groups of three or four, suggest why:
 - 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. Research and explain why it can be easier to increase productivity in a manufacturing business than in a service business.
8. In your own words, explain how a business can be both:
 - a. effective and efficient
 - b. effective but not efficient
 - c. efficient but not effective.
9. Use the internet to research a business that has improved productivity. You could search for either a private limited company or a public listed company. Prepare a report that covers:
 - 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.

EXAM practice

10. Define the term 'efficiency' in relation to operations management. (2 marks)
11. Explain how a business could implement Just In Time to improve the efficiency or effectiveness of its operations system. (3 marks)
12. Identify one technological development and outline how it could be used by a business to improve the efficiency and effectiveness of its operations. (3 marks)
13. Explain two reasons why it might be easier to increase productivity in a manufacturing business than in a service business. (4 marks)
14. Distinguish between efficiency and effectiveness. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

3.4 Key elements of an operations system

KEY CONCEPTS

- The elements of an operations system are inputs, transformation processes and outputs.
- The operations system used in a manufacturing business will be different to the operations system used in a service business.

The key elements of an operations system are inputs, processes and outputs. These elements differ between manufacturing and service businesses. The management of the operations system is important because it will determine how efficiently and effectively the business produces goods or services to meet the needs of customers.



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 five categories of inputs:

1. *Materials* includes raw materials, components and parts consumed or converted by the transformation process.
2. *Capital equipment* includes the plant, machinery, equipment and property necessary to conduct operations.
3. *Labour* refers to people involved in the operations function.
4. *Information from a variety of sources* contributes to the transformation process.

Businesses do not always account for the value of this resource, because it cannot be easily quantified as an asset.

5. *Time* and its efficient use are critical to all businesses. Coordinating resources within appropriate time frames limits costs and wastage. Operational planning may involve achieving production tasks ranging in duration from one year to merely hours.

In a hospital the inputs include labour, such as the doctors and nurses who work there, the equipment and materials they use to care for patients, as well as the hospital facilities themselves.



inputs resources used in the process of production

Differences between the inputs of manufacturing and service businesses

Inputs differ between manufacturing businesses and service businesses. Manufacturers tend to make more use of capital equipment and materials and use less labour and information. A hospital is an example of a business that provides medical services. The inputs to provide these services involve medical equipment and products such as tape, injections, sheets, towels and hand-wash solutions. Labour, in the form of medical supervision by nurses and doctors, is also required. For a service provider such as a hospital, information is a very important input. For example, information about medical practices and patients are combined with the other inputs in the transformation process to improve patient health.

3.4.2 Processes/transformation

The main concept of operations management is **transformation** — conversion of inputs (resources) into outputs (goods or services). Sony, for example, takes plastic, metal, glass and electronic parts, and transforms them through design, manufacturing and assembly into numerous electronic products.

The term ‘transformation’ implies physical changes, but, today, it also includes the conversion of resources into services. Your school takes its main inputs — students, the syllabus, staff and buildings — and produces educated, employable graduates.

Differences between the processes of manufacturing and service businesses

It is important to understand that the transformation process differs between manufacturing businesses and service providers. A manufacturer transforms inputs into tangible products (goods that can be touched). A service business transforms inputs into intangible products (services that cannot be touched). The operations system of a manufacturer tends to be highly automated or mechanised. Manufacturers use machinery, robots and computers to transform inputs into outputs. Service providers rely heavily on interaction with the customer and their processes tend to be more labour intensive; that is, staff are crucial to the operations.

The transformation process involves using resources to produce the final goods or services. Many businesses continually work to improve the way they transform resources into finished products.

The production of yoghurt goes through a transformation process, where inputs such as labour, raw materials and machinery are combined and converted into output.



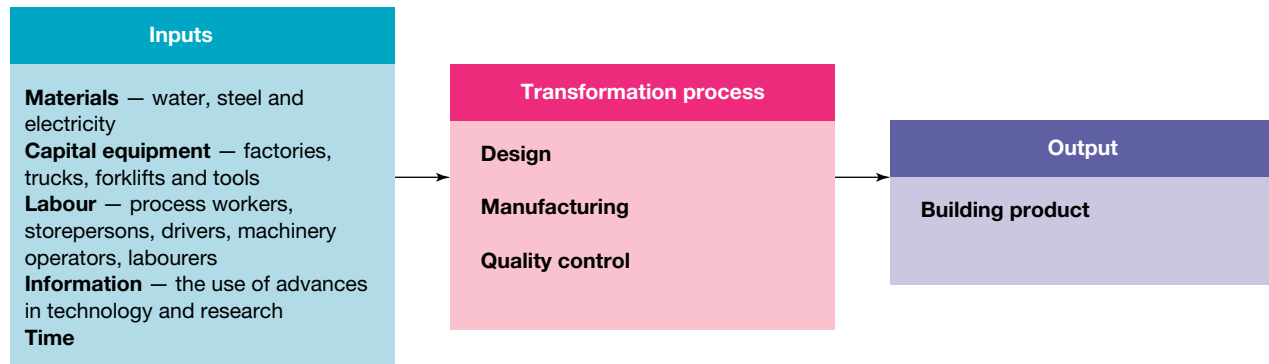
transformation the conversion of inputs (resources) into outputs (goods or services)

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.

outputs the end result of a business's efforts — the service or product that is delivered or provided to the consumer

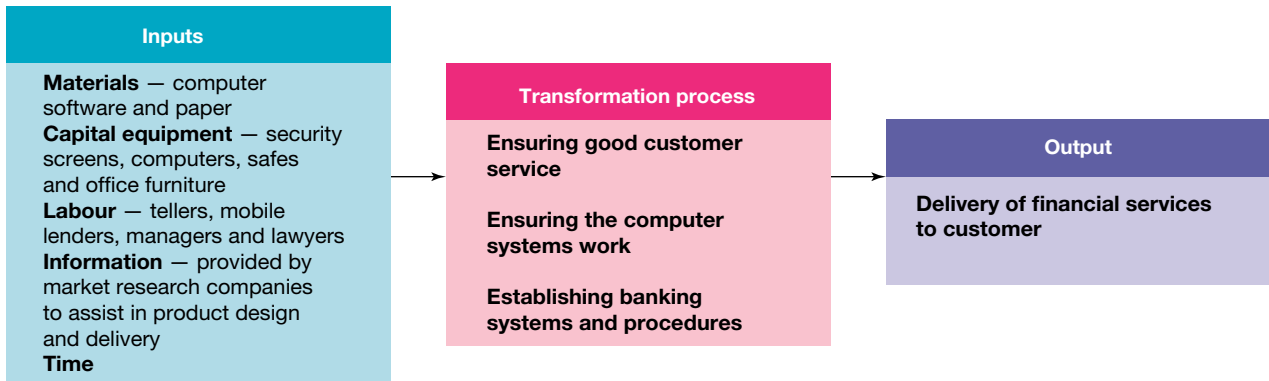
An operations system for a manufacturing company producing building products



A car is an output that requires many individual processes. There may be several thousand inputs, such as nuts and bolts, supplied by hundreds of businesses.



An operations system for a bank or financial institution, delivering financial services



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.

Operations management is a delicate balancing act.





KEY IDEAS

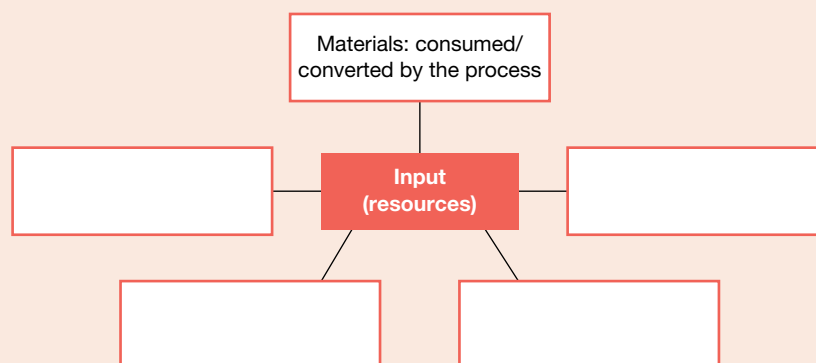
- The elements of an operations system are inputs (materials, capital equipment, labour, information and time), the transformation process, and outputs (the finished good or service).

3.4 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

- Outline the three key elements of an operations system.
- Distinguish between 'input', 'process' and 'output'.
- Using the process of completing homework as an example, draw a diagram that describes the operations component (that is, the transformation from no homework done to *all* homework completed).
- Identify the inputs, processes and outputs of the following businesses.
 - Coles supermarkets
 - Four'n'Twenty pies
 - RACV
- Miriam's Interior Decorating Service is a business specialising in home redecorating. Outline the range of operations activities offered in such a business.
- Construct a mind map to illustrate the five categories of inputs. The following mind map has been started for you.



APPLY your understanding

- 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.
- Monash Health provides health services through major hospitals and community health facilities across south-eastern Melbourne. Use the **Monash Health** weblink in the Resources tab to identify the inputs, transformation processes and outputs that Monash Health would use to provide its services.

EXAM practice

9. Explain the difference between inputs and outputs. (2 marks)
10. Describe the key elements of an operations system. Illustrate your answer using a service business. (4 marks)
11. T&A Windows and Doors Pty Ltd is a manufacturer of timber and aluminium windows and doors. Explain the key elements of T&A Windows and Doors' operations system. Provide an example for each element. (6 marks)
12. Distinguish between the three key elements of the operations system of a manufacturing business and a service business. In your response, use examples for each key element. (6 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

3.5 Technological developments

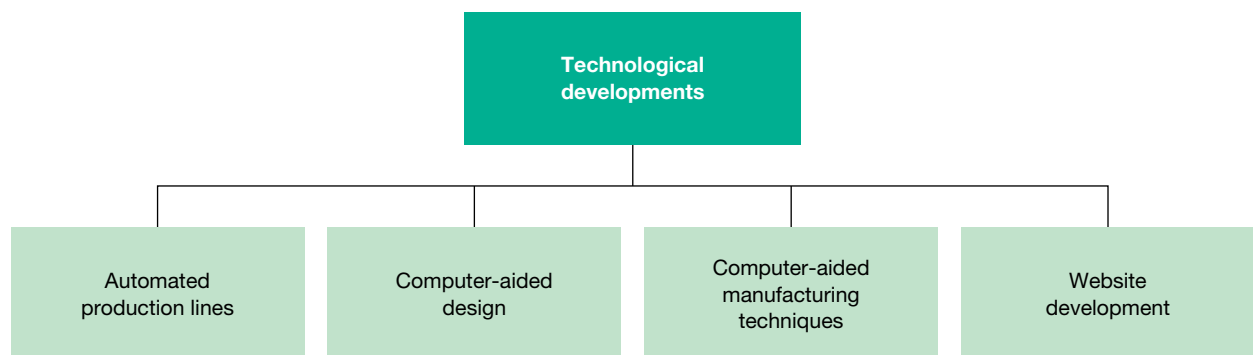
► KEY CONCEPTS

- The use of technological developments is one strategy that operations managers use to improve the efficiency and effectiveness of operations.
- Four strategies related to technological developments are the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development.

Imagine if Toyota tried to produce all of its cars with absolutely no technology, or if Telstra attempted to maintain customer records without the assistance of computers. It just could not be done. Businesses need to utilise up-to-date technology in order to compete with other businesses. In both the service and manufacturing sectors, technological developments can be used to speed up (or shorten) processes and maximise the use of materials. The use of technology means that goods and services can be produced using less labour. These factors reduce costs and maximise efficiency. The use of technological developments can also improve quality; as sales increase and as costs are reduced, a business should increase its profitability (or effectiveness).

There are a huge range of technologies available to a business. For VCE Business Management, four strategies that you must be aware of related to technological developments are the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development.

Four strategies related to technological developments

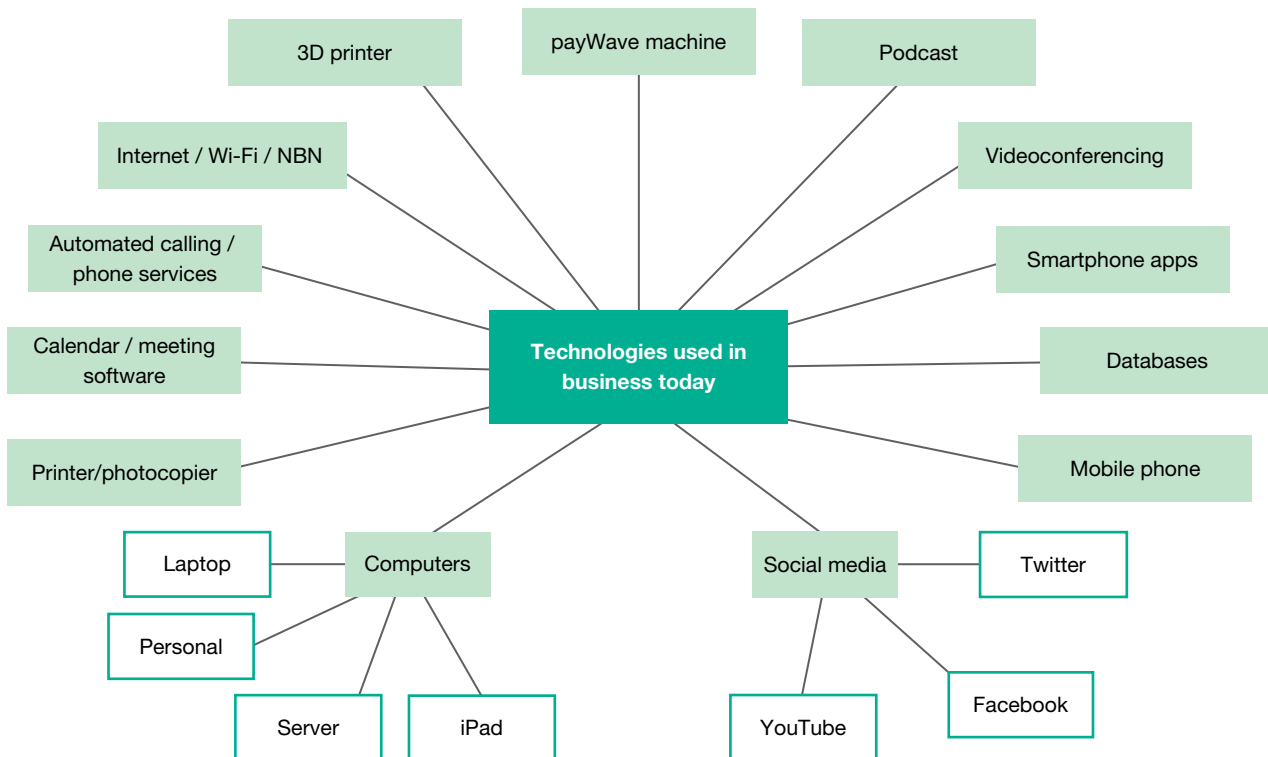


EXAM TIP

- 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.

3.5.1 Office technology

Both service and manufacturing operations use office technology, but businesses providing a service are likely to make greater use of it. Office and communication technologies have enabled whole markets to open up as businesses can reach more customers around the world. Developments in business technologies have created the opportunity for people to do more work in less time, which means a greater range of tasks can be completed in work time. These technologies have also enabled office workers to work from locations outside the office. Some technologies used in business are shown in the following diagram.



3.5.2 Website development

Most modern 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. **Website development** refers to the creation and/or improvement of a business's website. For instance, the operations department may work with technology support to develop ways to make it easier for customers to purchase goods or services online or to share information. Online sales functions may be added to the website or upgraded. For example, an upgrade might involve improving a shopping cart or a checkout process. A website can be developed to allow customers to make bookings or appointments. Many restaurants allow customers to reserve a table online for example. A business will need to ensure that a website that will handle private

website development the creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products

and sensitive personal information provided by customers can effectively protect this information. Additionally, a business may make use of website development to increase the amount of information it gets from its customers and analyse this information.

A business may also develop its website to provide information to employees, customers and suppliers. A section for policies, such as a privacy policy or a returns policy, and an FAQ section for addressing the most frequently asked questions of a support team could be included on a website for customers.

A website can provide detailed information to suppliers. For example, it can make **procurement** activities available to potential suppliers. Furthermore, a portal for suppliers might be established to identify and obtain qualified suppliers.

A website can be used by a business to enable customers to purchase products online or communicate with the business. It can also be used to improve communication with employees and suppliers.



Advantages and disadvantages of website development

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 do crash, so the loss of access to the business when there is a malfunction may prevent customers or other stakeholders dealing with the business. • Operation of a website may require employees to be trained in website design and maintenance – this training may prove costly to provide. • Lack of the skill set required to work with a website may lead to employees losing their jobs.

3.5.3 Automated production lines

An **automated production line** is comprised of machinery and equipment arranged in a sequence with components added to the good as it proceeds through each step. The good usually moves along the line on a conveyor belt. An automated production line does not need employees directly involved in its operation as all or part of the process is controlled by automation; that is, it is self-operating or controlling. Computers manage the process and humans are likely to be given the task of monitoring the operations system.

A typical key feature of an automated production line is the use of **robotics** — a form of technology that is capable of complex tasks (as shown in the figure on the following page). 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.

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

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

robotics highly specialised form of technology capable of complex tasks

The car manufacturing industry makes use of automated production lines which 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.



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 and accuracy, as well as 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 of time, as robots work without complaint or demands for wage rises, in conditions that might be considered unacceptable for employees (conditions that might be repetitive, difficult or even dangerous for employees). • Minimises waste • Can improve standardisation	• Automated production lines, and their use of robotics, are high-cost forms of technology that can be unaffordable for many small and medium-scale manufacturers. • Automated production lines will be costly to maintain or replace. • Training is required so that employees are familiar with the utilisation of the automated production line – 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. • An automated production line can break down, halting production.

3.5.4 CAD/CAM

Computer-aided design (CAD) software generates three-dimensional diagrams from a set of given input data (parameters). Once the design has been created, it can be viewed from multiple angles, assisting both the designer and the end user to visualise what will be produced. It is used in a range of businesses.

From the design, material use can be calculated, as can time for the task to be completed. This enables costings of the project to be quantified. If the cost is too high, or if the design is too limited, the input parameters can be altered to reflect these requirements. CAD software can customise a series of options that meets the client's or customer's needs. Normal drafting processes would cost much more, take longer and be less accurate. CAD software can also design the sequence of steps that would need to be taken to create the desired product in the shortest possible lead time using the least material.

computer-aided design 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
• Allows a business to produce at faster rates at reduced cost – for example, designs can be altered without the need to erase and redraw • Allows a business to generate three-dimensional diagrams from a set of given input data (parameters), allowing the user to inspect a product or object and then alter the design by changing relevant parameters • Allows a business to view a design from multiple angles, assisting both the designer and the end user to visualise what will be produced, enabling both to gain a broader sense of the product or object	• 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.

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 is typically a subsequent computer-aided process to CAD — the code used in CAM can generally be created using data extracted from CAD. In this way, a business may link CAD software to CAM software to manufacture designs that are acceptable to clients. CAM can also be used more broadly to calculate how much of each input would be required

computer-aided manufacturing 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 always crash, resulting in production ceasing. - CAM-enabled machinery is generally designed for a specific task, such as milling, routing or lathing, and is typically not versatile. - The costs of 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.

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.

Computer-aided design allows more scope to design complex structures such as giant waterslides.



DID YOU KNOW?

Australian Waterslides and Leisure Pty Ltd uses the latest computer-aided design programs to provide quality and safety in its waterslide projects. The information can be collated quickly for a very accurate presentation of ideas and information.

on Resources

 **Weblinks** Telstra
Toyota

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. Office and communications technology has enabled new markets to open up, costs to be cut and productivity to be improved.
- A website can be developed for operations purposes. A website can make it easier for customers to purchase products or to find information online. A business may develop its website to increase the amount of information it gets from its customers and analyse the information. A business may also develop its website to provide information to employees and to communicate with suppliers.
- An automated production line is comprised of machinery and equipment arranged in a sequence with components added to the product as it proceeds through each step. The product usually moves along the line on a conveyor belt and computers control the process.
- Computer-aided design (CAD) is a computerised design tool that allows a business to create products and modify them. Computer-aided manufacturing (CAM) is software that directs and controls the process of producing a product.

3.5 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. How can technology improve operations?
2. Explain the impact of technology on service businesses.
3. In what ways can the development of a website be beneficial to the operations area of a business?
4. Outline the main features of an automated production line.
5. Explain the impact of technology on manufacturing businesses.
6. Outline two benefits and two costs of technology.
7. Match each of the following terms with its definition.

Term	Definition
a. Website development	A. A computerised design tool that allows a business to create product possibilities from a series of input parameters
b. Automated production line	B. The creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products
c. Computer-aided design (CAD)	C. Machinery and equipment arranged in a sequence with components added to the product as it proceeds through each step, with the process controlled by computers
d. Computer-aided manufacturing (CAM)	D. A method of manufacturing in which the entire production process is controlled by a computer

APPLY your understanding

8. Explain how technology can be used to improve the efficiency and effectiveness of operations in a business. Include the terms 'website development', 'computer-aided design', 'computer-aided manufacturing', and 'automated production lines' in your answer.
9. Use both the **Telstra** and **Toyota** weblinks in the Resources tab to list the types of technology these companies use and then make a comparison. Explain how the technologies used differ.

EXAM practice

10. Define the term 'website development'. (1 mark)
11. Distinguish between automated production lines and computer-aided design. (3 marks)
12. Discuss the likely consequences of a business introducing technological developments to improve its operations. (6 marks)
13. Describe how computer-aided manufacturing could help a business to improve the efficiency and effectiveness of its business operations. (4 marks)
14. 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. (5 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

3.6 Materials management

🔑 **KEY CONCEPT** Materials management is used by operations managers to improve the efficiency and effectiveness of operations. It involves managing the use, storage and delivery of materials to ensure the right amount of inputs are available when required. Four strategies related to materials are forecasting, master production schedule, materials requirement planning and Just In Time.

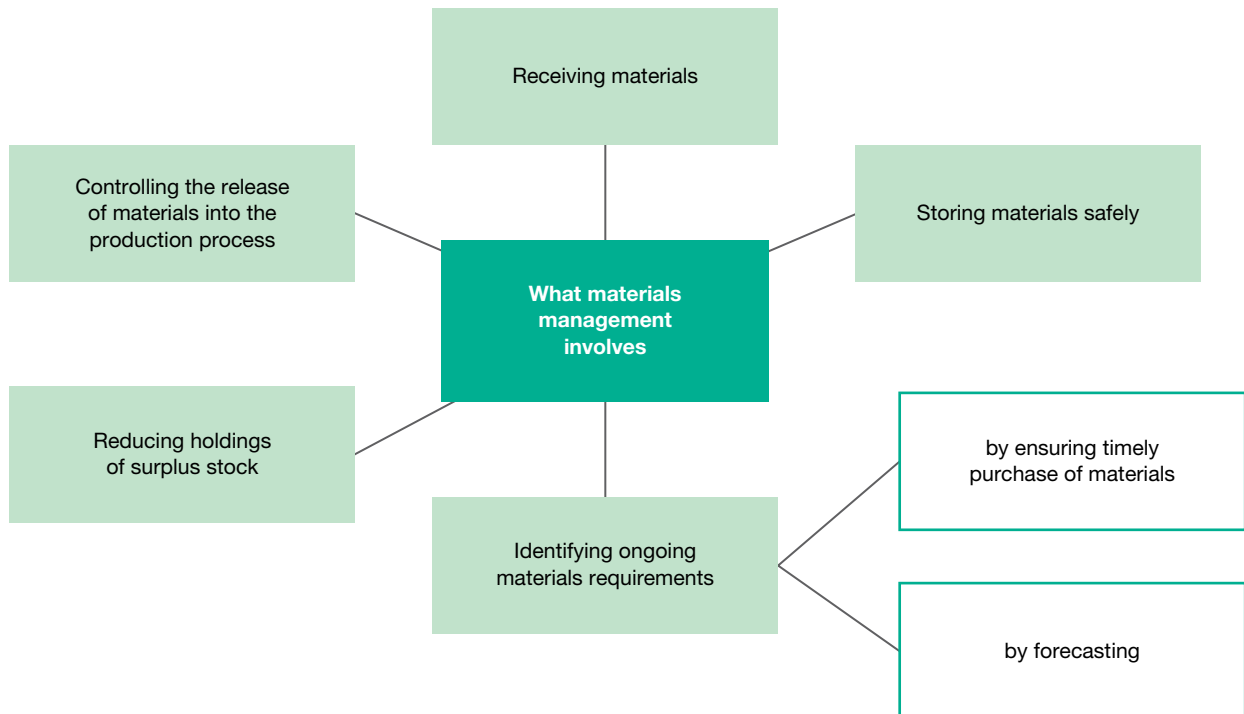
3.6.1 Materials management

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 2019, Toyota was forced to suspend production at its plant in Durban, South Africa, because manufacturing employees working for a number of its suppliers went on strike. **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.

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

Materials management is an intricate strategy. It involves several critical activities.



Some businesses, such as Toyota, reduce costs by having fewer materials held as inventory. Its efficient handling of materials keeps costs down, but when materials don't arrive on time (as in the case of a supplier 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

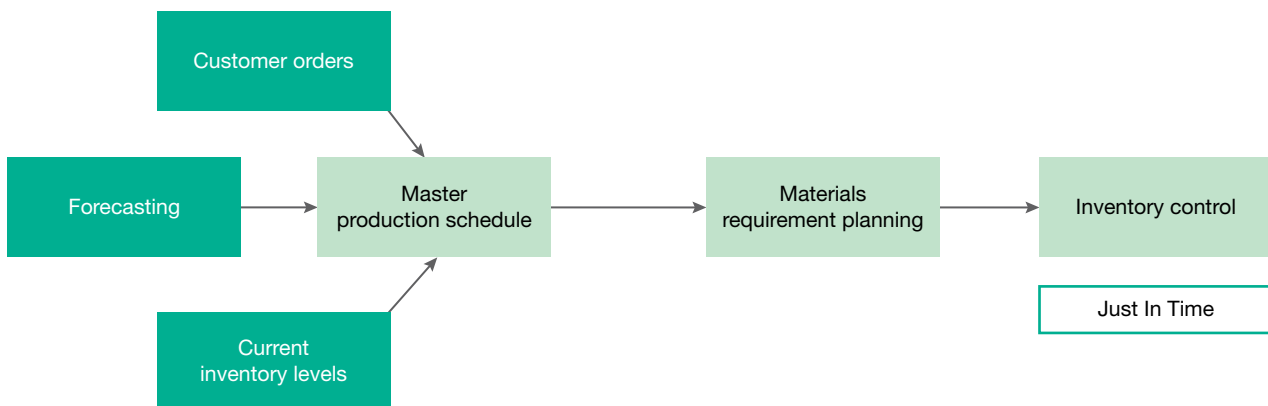
Huge warehouses holding inventory represent a cost to a business.



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?

Boeing had over 900 orders for its new plane, the 787 Dreamliner and was expecting to deliver the new plane to its customers before the end of 2008. This did not happen. Delays were caused by production problems, strikes and a shortage of fasteners. The shortage of fasteners occurred because the fastener industry was not able to keep up with Boeing, and Boeing's competitors, boosting plane production rates to record levels. Boeing actually made the first delivery in 2011, but the delays cost the company billions of dollars.

3.6.2 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, a week, month or year; or for the longer term, for example for the next three to five years or for the life of a product.

Forecasting methods fall into two broad categories: qualitative and quantitative. Qualitative forecasting is subjective, that is, it gathers information that is usually based on the opinions of people, such as through market research and open-ended questions on questionnaires. Quantitative forecasting makes use of data in numerical form. For example, a business might develop a forecasting model where it would try to predict future demand for its good based on an analysis of numerical facts or historical patterns in statistics from the previous five years.

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

Strength	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 future conditions is vital for the success of business and materials planning. By the end of World War II, Curtiss-Wright was the largest aircraft manufacturer in the United States. Unfortunately, the management of the company failed to accurately forecast the market for jet aircraft and instead invested in improved piston engines. This eventually led to the closure of its entire aeroplane division.

3.6.3 Materials planning

The **production plan** provides the basic information necessary for detailed materials management planning. Modern businesses typically complete materials planning by using software. Such planning includes a master production schedule (MPS) and materials requirements planning (MRP).

Master production schedule

A **master production schedule** (MPS) is a plan that describes what is to be produced, in what quantities, how and when. The plan is linked to specific delivery dates or contracts for delivery in the future. Inability to meet this schedule may have serious business implications. It is important, therefore, that the productive capacity of the business has been correctly assessed. A business cannot increase its rate of production without increasing the amount of necessary inputs, as Boeing found (see the ‘Did you know?’ feature at the end of section 3.6.1). 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.

3.6.4 Inventory control

Inventory control is a system used to ensure that costs associated with maintaining an inventory of materials are kept to a minimum. Costs can be minimised by not allowing materials to remain idle and by making sure that inputs are available for the operations system when needed. An operations system that runs out of materials will not perform at optimal level.

Modern businesses use bar coding and computerised stock records to control inventory. Computerisation can help to minimise loss or theft of stock and it provides precise, up-to-date information about stock levels. Signals can alert management when it is time to order new materials, and how much to order. Businesses also conduct stocktakes, physically counting stock and then comparing the count against what was expected to be available. Any differences would indicate problems with stock control.

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 only have 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 just identifying or suggesting the strategy. You should be able to define the materials strategy as well as explain a little about it.



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.

3.6 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

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. List the benefits and any possible limitations of using forecasting.
5. Briefly outline the two key steps or strategies involved in materials planning.
6. **a.** Identify the benefits of MPS and MRP.
b. Suggest any possible limitations for a business using MPS and MRP.
7. What is meant by the term 'inventory'?
8. What is the main benefit of inventory control?
9. Explain how the Just In Time approach can improve productivity and reduce costs.
10. List potential problems that you can see with the Just In Time approach.
11. Match each of the following terms with its definition.

Term	Definition
a. Forecasting	A. An inventory control approach that ensures that the exact amount of material inputs will arrive only as they are needed
b. Materials requirements planning (MRP)	B. A materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events
c. Master production schedule (MPS)	C. Details what is to be produced and when
d. Just In Time	D. Developing an itemised list of all materials involved in production to meet the specified orders

APPLY your understanding

12. Chan is the Operations Manager of a small clothing manufacturer. Recently, the business has been experiencing financial troubles as retail customers begin to recognise it as being a very poor supplier. The clothes are rarely delivered on time, and are always delivered in the wrong quantities. The main problem is that materials for the popular clothing lines keep running out, while the storage areas are filled with materials for the unpopular clothing lines.
- What are the costs of having too many materials in storage?
 - What problems can occur when there are not enough materials on hand?
 - Explain how Chan could use MPS and MRP to improve materials management.
 - Suggest any other materials strategies you think would help Chan to improve the efficiency and effectiveness of his operations. Explain your answer.
13. Explain how can materials management can be used to optimise operations.
14. To find out how a business might deal with forecasting, use the **Role of forecasting** weblink in the Resources tab. Why do businesses need to forecast? How can a business create a forecast and what should be done with it?

EXAM practice

15. Define the term 'master production schedule'. (2 marks)
16. Explain the difference between materials requirement planning and Just In Time. (2 marks)
17. Describe a strategy that a business could use to improve the efficiency and effectiveness of its operations in relation to materials. (3 marks)
18. Describe how forecasting could assist a business in improving its operations. (2 marks)
19. Discuss the use of forecasting for managing operations in a business. (4 marks)
20. 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. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

3.7 The management of quality

KEY CONCEPT Businesses use quality management to make sure that their products meet customer expectations. Quality strategies are used to improve the efficiency and effectiveness of operations. Three quality strategies are quality control, quality assurance and Total Quality Management (including employee empowerment, continuous improvement and improved customer focus).

Quality basically means that the customer gets what they wanted. A quality product has a high degree of excellence and achieves the purpose for which it was designed. A quality product should be reliable, easy to use, durable, well designed, and delivered on time. It should include after-sales services and have an agreeable appearance. Quality is very important to Tatura Milk Industries, a wholly owned subsidiary of Bega Cheese Limited. The business manufactures quality dairy products from milk supplied by dairy farms in regional northern Victoria. In the following sections, we will examine how Tatura Milk manages quality.

When managing quality, a business will:

- minimise waste and defects
- strictly conform to standards
- reduce variance in final output.

quality the degree of excellence of goods or services and their fitness for a stated purpose

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.

3.7.1 Quality control

Businesses use **quality control** to maximise efficiency and effectiveness in its operations process. Quality control reduces problems and defects in the product, using inspections at various points in the production process. Many businesses such as Tatura Milk minimise errors and waste by ensuring that standards are met. Specifications or benchmarks are set before the physical checks are completed. Actual performance is then compared to the established criteria. If the established standards are met, it is likely that the business will be meeting customer expectations. Efficiency, and therefore competitiveness, increases as the costs associated with waste and faulty products are reduced. Effectiveness should increase as sales increase and as costs are reduced — improvements in quality should lead to an increase in profit.

Quality control is a traditional approach to quality management and is product orientated. The strategy is generally said to be a reactive one because it detects defects in goods and services that have already been produced. It is important to note that not every business will use quality control to inspect absolutely every product — quality control typically involves the selection of samples.

Businesses such as Tatura Milk conduct testing or inspections throughout the operations process — this strategy is known as quality control.



quality control the use of inspections at various points in the production process to check for problems and defects

At Tatura Milk, every load of milk is individually tested as it is delivered to the factory. Data can be provided back to the farmer through a secure website. The plant has an onsite laboratory where teams of scientists and technicians conduct routine quality testing at all stages of the production process. A service business such as a bank might use customer service accuracy, speed and courtesy as quality-control measures.

While quality control is able to find and reduce problems and defects in a business's product, using this quality strategy does represent a cost. Rejected products will end up as waste, unless they can be reworked, and more time needs to be added to the production process to inspect products.

Qualified professionals, such as chemists or engineers, may be employed by the business to carry out testing or inspections. Furthermore, because quality control often involves the selection of random samples that are subjected to inspections, it is possible that poor-quality products will still be provided to customers (as a sample may not be representative of an entire batch of products).

DID YOU KNOW?

Northrop, a US company involved in the production of B-2 aircraft, required each employee to sign a giant scroll that was then hung over the plant assembly line. The inscription on the scroll read: 'Total quality control on the B-2 begins with me'.

on Resources

-  **Video eLessons** Quality control — Capilano (eles-1050)
Comparing operations strategies (eles-2930)

3.7.2 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.

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

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

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.

3.7.3 Total Quality Management

Total Quality Management (TQM) is a commitment to excellence that emphasises continuous improvement in all aspects of a business's operation by sharing responsibility among all the members of the business. Quality becomes both a commitment and the responsibility of every employee in the business. The aim of TQM is to create a defect-free production process, and maintain a customer focus in operations. 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.

DEMING'S QUALITY PHILOSOPHY

W Edwards Deming is known as the 'founder of the quality movement'. His Total Quality Management concept, developed after World War II, focuses on managing the total business to deliver quality to customers. Deming advocated a shift away from an inspection-oriented approach to quality towards an emphasis on employee involvement in the prevention of quality problems. He argued that if employees tried to build a product in the right way in the first place, then businesses would avoid the expense of inspection and the waste of rejected products. Improving quality, said Deming, can also help businesses increase their market share (as a result of better quality and lower priced products), ensure their future and provide more jobs.

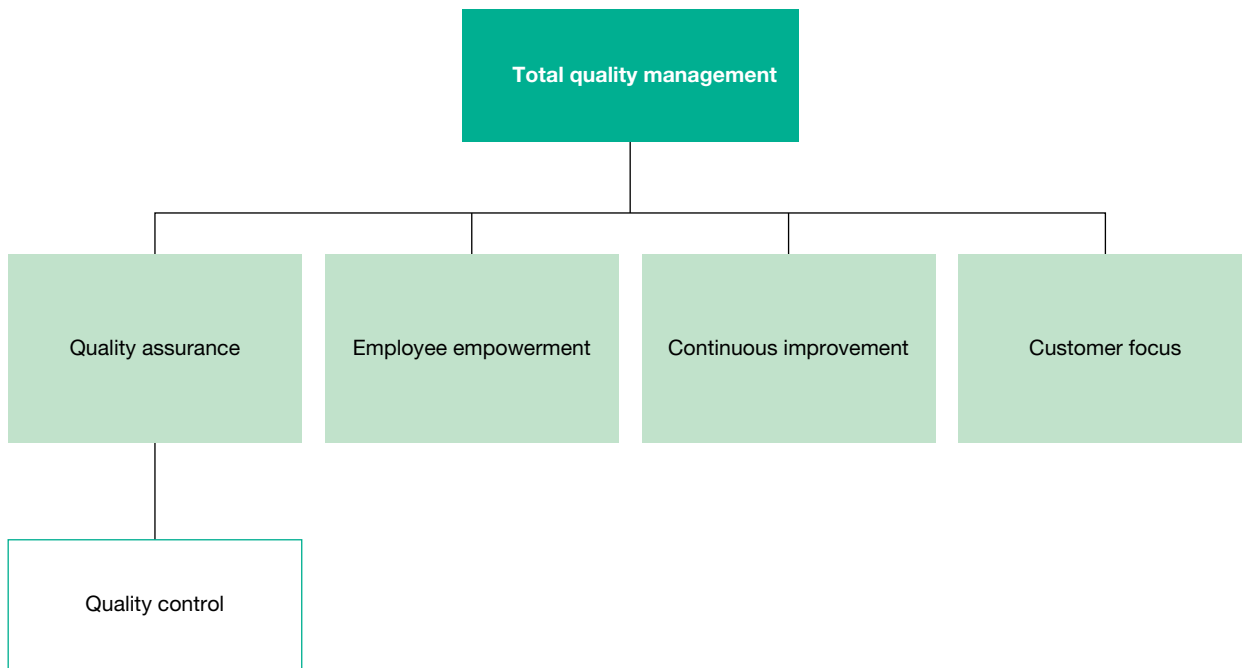
The ideas of Deming were originally ridiculed in America, but the Japanese embraced them. Japanese managers modified his ideas to help rebuild their companies into world leaders. Eventually, during the 1980s, American companies adopted Deming's principles of statistical quality control.

Deming's approach instils quality values throughout every activity in a business, with frontline employees closely involved in the process. He stressed that most quality failings result from the production system. Committing to Total Quality Management, he insisted, means committing to a change in the business's culture.

As can be seen in the figure on the following page, to achieve TQM objectives businesses will make use of a number of approaches. These approaches include the empowerment of employees, continuous improvement and improved customer focus. It can also be seen that quality assurance is very 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

Deming believed that quality problems would be best solved with an emphasis on employee involvement. Many businesses use **quality circles** as a means of achieving employee empowerment. Under this approach, teams of up to 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.

Quality circles improve the quality of production.



quality circles groups of workers who meet to solve problems relating to quality

DID YOU KNOW?

Australian Arrow Pty Ltd, a designer and manufacturer of automotive products, uses quality circles as a method of problem solving. Issues such as product quality, employee performance and costs are discussed by team members who meet regularly under a 'Circle facilitator'.

Continuous improvement

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.

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 300 million pallets and containers for manufacturers, distributors and retailers in more than 60 countries. Brambles is committed to continuous improvement and this has led to increases in its cash flow. Continuous improvement is achieved by monitoring best practice, minimising its environmental impact and supporting local communities.

Customer focus

Deming believed that quality should be the responsibility of every employee. The TQM approach considers one of the most important questions a business should ask: ‘What does the customer require?’ All teams need to realise that they are serving a customer. This is as true for the employees that deal directly with external customers as for those that simply pass work on to other employees within the business.

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.

continuous improvement an ongoing commitment to achieving perfection

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 TIPS

- The **Unit 3, Area of Study 3** outcome states that you need to 'propose strategies to improve the efficiency and effectiveness of business operations'. This suggests that you should put forward a quality strategy for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the quality strategy as well as explain a little about it.

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.

3.7 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Outline the main features of 'quality management'.
2. Explain why quality control is important to businesses.
3. Briefly outline the benefits and limitations of quality control.
4. In what ways can businesses offer quality assurance to customers?
5. List the benefits and limitations for a business using quality assurance.
6. Explain what is meant by 'Total Quality Management'.
7. Outline the three approaches that make up Total Quality Management.
8. Suggest possible benefits and limitations for a business making use of Total Quality Management.
9. Read the following definitions. If a definition is false, write out the correct definition.
 - a. Quality control involves the use of inspections at various points in the production process.
 - b. Quality assurance involves the use of a system where a business achieves set standards in production.
 - c. Total Quality Management is a commitment to quality that is applied to the business's operations department.
 - d. Continuous improvement involves an ongoing commitment to the use of inspections.

APPLY your understanding

10. Kevin is the Production Manager for IBX technology, a manufacturer of internet security software. Recently, the level of product defects has increased, although the production process has not changed.
 - a. Advise Kevin on strategies that he should use to determine the cause(s) of the defects.
 - b. Explain to Kevin the value of introducing a TQM approach.

11. The name of the Reject Shop suggests that it could not possibly sell quality products. Is this true? Use internet sources to find the Reject Shop website. Search its website and see how many references to quality you can find. How does the Reject Shop ensure that it receives quality products from suppliers?

EXAM practice

12. Distinguish between 'quality control' and 'quality assurance'. (3 marks)
13. Describe a strategy that a business could use to improve the efficiency and effectiveness of its operations in relation to quality. (3 marks)
14. MRC Accountants' objective is to provide quality, independent advice. However, it has recently been suffering quality issues and the director of the business has decided to implement Total Quality Management in response. Explain and justify the use of Total Quality Management at MRC Accountants. (4 marks)
15. Describe how quality control could assist a business in managing operations. (2 marks)
16. Discuss the likely consequences of a business introducing Total Quality Management to improve its operations. (4 marks)
17. The CEO at Ballarat Tools Company is concerned about increased complaints about its products. She has asked the Operations Manager to investigate the possibility of implanting a new quality strategy. Propose and evaluate one quality strategy for meeting the needs of stakeholders. (6 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

3.8 Waste minimisation

KEY CONCEPT Operations managers make use of waste minimisation in the production process to improve the efficiency and effectiveness of operations. One waste minimisation strategy is lean management.

Waste minimisation is a process that involves reducing the amount of unwanted or unusable resources created by the business's production process in an attempt to improve the efficiency and effectiveness of operations.

Waste minimisation strategies include:

- redesigning products and packaging
- procurement of materials made from recycled materials
- reusing scrap material
- improving quality control
- exchanging waste with other businesses
- introducing all systems approaches, such as lean production.

Minimising waste reduces the costs of production of the business, such as the costs of waste removal, and also improves productivity across the operations area. Furthermore, minimising waste demonstrates concern for the natural environment; this can contribute to improving the reputation of the business.

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

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.



3.8.1 Lean management

The concept of **lean management** derived from the Toyota production system. Lean production, or lean manufacturing as it is also known, was originally developed in post-war Japan for Toyota and the manufacturing of automobiles. Lean management is an approach to operations management that attempts to improve efficiency and effectiveness by eliminating waste and improving quality — ‘lean’ in this case means no excess, just as lean meat has as little fat as possible. A business using this approach would carefully analyse each stage of the operations system and remove any inefficiencies that do not add value to the product. According to the principles of lean management, waste is anything that reduces the speed of production or stops production occurring at the lowest possible cost. As waste is reduced, production times and costs are cut. Today, the approach is used widely in the automobile industry as well as many other industries, both in manufacturing and in the production of services.

Jaguar, the high-quality British car brand, has also incorporated lean manufacturing into the way it produces its motor vehicles.

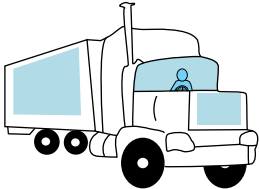
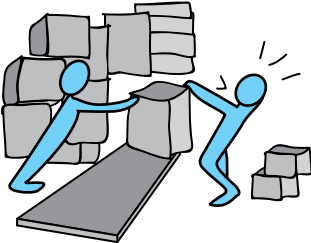


There are a number of different areas of waste that a business can focus on, as seen in the following diagram. A business may choose to eliminate, reduce or avoid any one or more of the following wastes: excess transport, defects (or errors), excess motion, overproduction, excess inventory, waiting time and overprocessing. For example, a manufacturing business could attempt to

lean management an approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality

minimise waste through the avoidance of excess motion by reducing unnecessary movement of workers and materials between production processes. A service business might also endeavour to avoid excess motion by reducing unnecessary movement. For example, rather than making customers queue several times in order to receive a service, a service business could provide a one-stop service. Reducing the time that employees wait for work to come through in a manufacturing business could eliminate the waste that may occur during waiting time. This could be achieved by ensuring that production flows continuously. Similarly, a service business might reduce or eliminate waiting time by cutting the time that customers have to wait for service by removing queues completely from the operations process. This may be achieved, for example, by using technology so that customers sign in to a digital kiosk instead of waiting in line, and receive an SMS when it is their turn. Alternatively, a business may make use of self-service checkouts.

Lean management identifies seven wastes that a business should work towards eliminating: excess transport, excess inventory, excess motion, waiting time, overprocessing, overproduction and defects (or errors).

1. Reducing excess TRANSPORTATION	2. Avoiding excess INVENTORY	3. Avoiding excess MOTION		
				
Reducing unnecessary movement of machines and products between 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)

A LEAN HISTORY

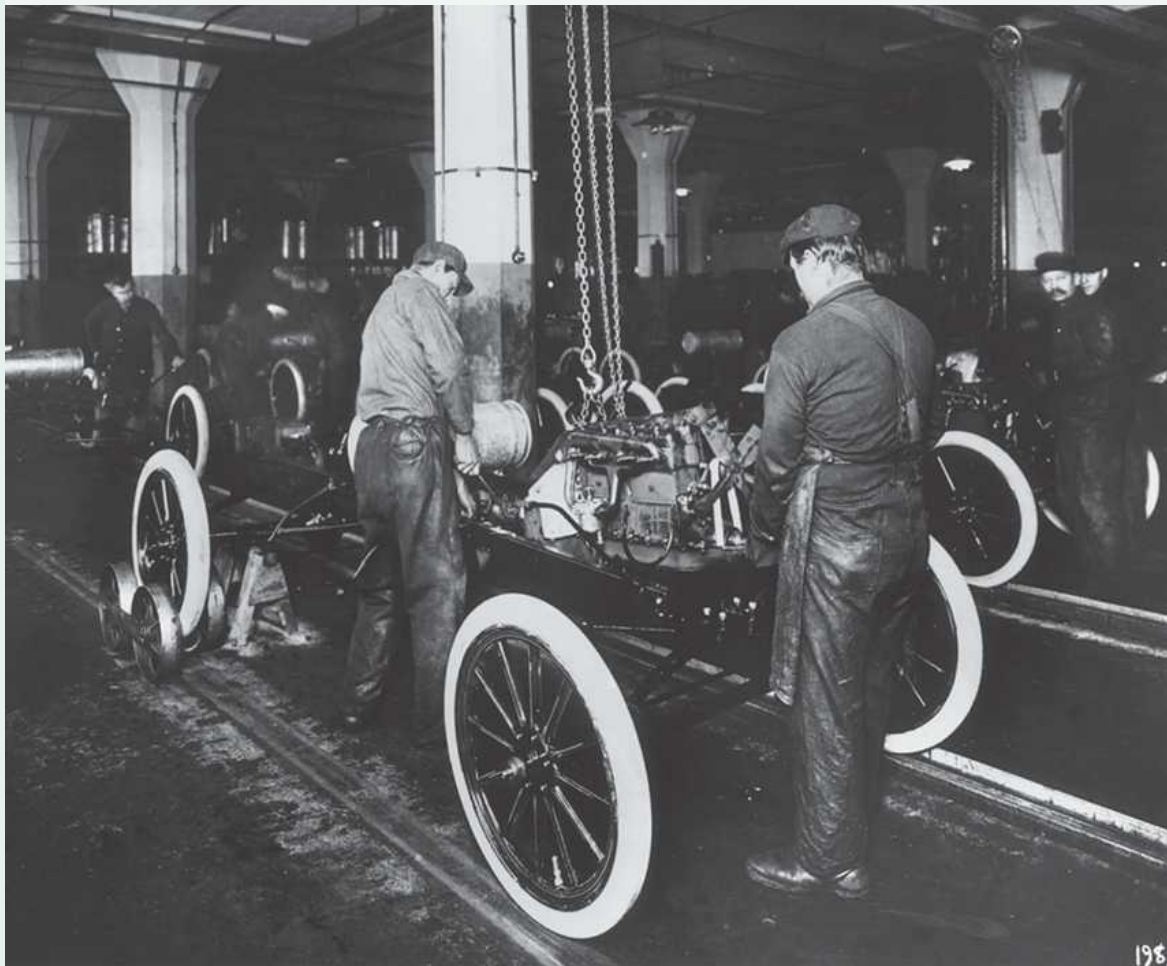
A good understanding of lean management can be gained by understanding its history. Given that lean manufacturing has its origins in the automobile industry, it is necessary to consider the development of the car, which was invented in 1880.

Early in the twentieth century, mass production became an important focus for businesses. In 1910, Henry Ford developed an assembly line approach to automobile manufacturing that involved employees, components, machines and tools arranged along a production line called a conveyor belt system. This approach reduced the hours spent on the assembly of a car from 728 to just 1.5.

The assembly line approach to manufacturing emphasised efficiency. For the following 50 years it was assisted by developments in technology such as automation and computers. The United States became the largest producer of goods and services in the world, but after World War II, Japan began to compete with the Americans by developing a new manufacturing approach. This new approach arose out of necessity.

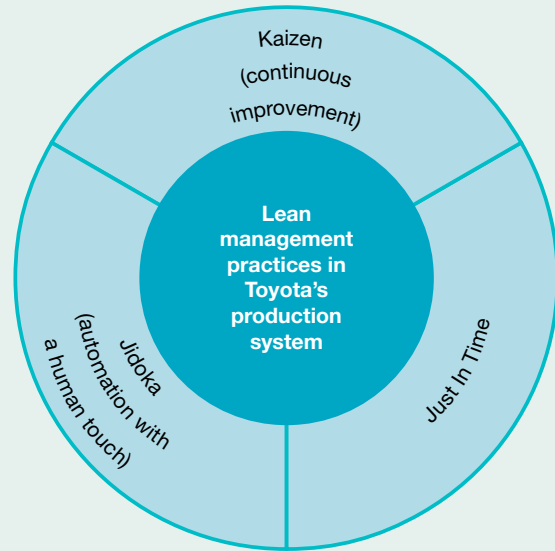
The development of lean manufacturing was based on the needs of Japan's economy. Demand was low and there was little point in focusing on economies of scale (mass production at the lowest cost per item). Toyota realised that production should be driven by actual sales of vehicles and that overproduction should be avoided. The company could not afford to have resources locked up in excess equipment or materials in production. Originally named Just In Time production (JIT), the Toyota production system was developed with the aim of minimising waste and fully utilising the capabilities of employees so that only minimal inventory was needed. Part of Toyota's philosophy of waste minimisation was the use of cellular manufacturing — efficiencies were gained through grouping machines and people into separate 'cells' that produce similar items or require a similar process of production.

Workers constructing a Model-T car on an assembly line in a Ford Motor Company factory, circa 1914.



There are three main lean management practices involved in Toyota's production system:

1. *Kaizen* — a practice focused on making positive changes on a regular basis, often referred to as continuous improvement.
2. Just In Time (JIT) — the right amounts of materials are delivered to the operations system just as they are needed for production, in the exact amount needed and where they are needed.
3. *Jidoka* — a Japanese word that means automation. However, Toyota interprets the word as meaning 'automation with a human touch'. This basically means that quality is embedded in the company's operations system. If, for example, a Toyota employee sees an abnormality such as a defect, they are able to intervene and bring production to a halt. This allows the defect to be corrected before more problems can occur, and can prevent further damage or even injury.



Cochlear, a medical device manufacturer, employs the 'lean' philosophy in its manufacturing process. Systematically eliminating waste enables Cochlear to reduce overproduction, reprocessing and defects, and increase recycling and paperless operation documentation. Redesigned packaging and flexible printing have also reduced packaging waste. Cochlear adopts continuous improvement programs, which incorporate lean manufacturing principles and ongoing investment in new manufacturing technologies.

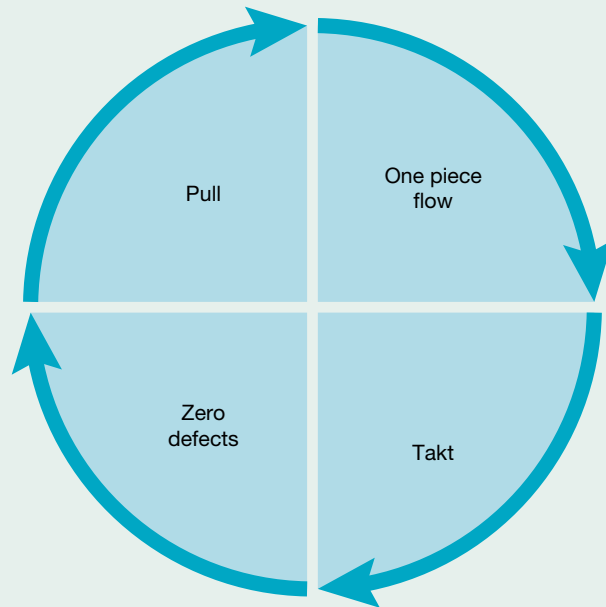


FOUR PRINCIPLES' APPLICATION OF LEAN MANAGEMENT

Four Principles is a business that was created in 2010 to make the philosophy of *kaizen* (continuous improvement) more accessible and simpler to implement. The founders of the business took the lean principles of the Toyota Production System and distilled them into four core principles. The result is a more memorable structure that can easily be adopted by businesses in any industry — whether in manufacturing, retail, banking, health care, government, electronics or transportation.

The business uses its lean methodology to help other businesses to establish lean programs and eliminate waste, reduce costs and increase profitability. Four Principles' application of lean management involves four complementary, interconnected principles:

- **Pull** — this relates to avoiding overproduction and stockpiling. By enabling customer demand to dictate the rate at which products are delivered, a business is more likely to minimise waste as it will only be producing the outputs that will be sold. The costs of inventory will be reduced, as will the likelihood of stock becoming lost, damaged or perishing. In this way, customers 'pull' value through the production process, leading to efficiency and effectiveness.
- **One piece flow** — this largely relates to eliminating waiting time or idle time. One piece flow involves a piece of production moving through the operations process one at a time. All steps in the operations process must be focused and aligned to adding value, one piece at a time, removing all wasteful and unnecessary activities. By producing in a smooth, uninterrupted manner, idle time is minimised. This improves efficiency, as costs are reduced and waste minimised. Quality is improved, enabling the business to be more effective.
- **Takt** — this refers to the rate of production needed to meet customer demand. Takt time is the average time that passes between production starting on one unit of a product and the start of production of the next unit, in order to meet demand. If a business, for example, has a takt time of 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 diagram below. 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 TIPS

- The **Unit 3, Area of Study 3** outcome states that you need to 'evaluate strategies to improve the efficiency and effectiveness of business operations'. This suggests that you should know the advantages/strengths and disadvantages/limitations of waste minimisation strategies including lean management, as well as the strategy's impact on improving the efficiency and effectiveness of operations.
- The **Unit 3, Area of Study 3** outcome states that you need to 'propose strategies to improve the efficiency and effectiveness of business operations'. This suggests that you should put forward a waste minimisation strategy (such as lean management) for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the waste minimisation strategy as well as explain a little about it.

HALLMARK GOES LEAN

Hallmark Cards adopted lean management with great results. In the 1980s, the company took two years to produce a greeting card. Card designs were shifted from building to building in its Kansas complex in the United States. Hallmark's president was asked to dismiss 20 per cent of the staff to reduce costs. Instead, he reorganised production and maintained faith with his employees.

Managers came together from all sections of the business to solve the problem. The company's 'shoe box' card line was chosen for a new cellular manufacturing approach, and artists and writers were grouped on one floor into work cells, with production directly below them. Production time of a new card was reduced from 2 years to about 3 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

- Waste minimisation is a process involving the reduction of the amount of unwanted or unusable resources produced by a business in an attempt to improve the efficiency and effectiveness of operations.
- One strategy for minimising waste is lean management. This approach improves the efficiency and effectiveness of operations by eliminating waste and improving quality.

3.8 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. What is waste minimisation and how can it be practised by a business?
2. Define the term 'lean management'.
3. List the seven wastes according to the principles of lean management.
4. Briefly outline where the idea of lean management originated.
5. Outline the three main lean management practices involved in Toyota's production system.
6. Briefly describe Four Principles' lean management methodology.
7. What are the benefits or strengths of lean manufacturing and what are its limitations or weaknesses?

APPLY your understanding

8. Read the 'Hallmark goes lean' case study.
 - a. Explain how Hallmark was able to reduce the time it took to make a greeting card just by changing the design and layout of its facilities.
 - b. How did Hallmark develop this solution?
9. The work cell approach relies on workers being able to do a variety of tasks, not just one task. Outline one advantage and one disadvantage associated with workers becoming multiskilled.
10. Why do you think work cells would rely more heavily on teamwork than individual achievement?
11. Imagine that you are the president of Hallmark in the early 1980s, and you have just been asked to make redundant almost one-quarter of your staff. Evaluate the issues involved in making this decision. What would be your solution?
12. Use the **Lean manufacturing** weblink in the Resources tab to describe how creating brilliant processes for producing goods or delivering services is just as important as finding brilliant workers.

EXAM practice

13. Explain the principles of lean management. **(2 marks)**
14. Describe one strategy to improve the efficiency and effectiveness of operations through waste minimisation in the production process. **(4 marks)**
15. 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. **(4 marks)**
16. Discuss the use of lean management for managing operations in a business. **(4 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

3.9 APPLY YOUR SKILLS Managing technological developments, materials, quality and waste minimisation

PRACTISE YOUR SKILLS

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

3.9.1 Six Sigma

SIX SIGMA AT BORAL

Six Sigma is a measurement-based approach and methodology designed to achieve near perfection in the operations process through the elimination of defects. It was originally developed by former US telecommunications company Motorola Inc. in the mid-1980s. Six Sigma is used to identify and remove the causes of problems in the operations process, so that a business produces only 3.4 defective parts per million products. This translates to a perfection rate of 99.9997 per cent. It uses typical quality management methods, including statistical tools to measure variations in the operations process, empowerment of staff and training, a commitment to improving quality through the whole business and continuous improvement.

A special team of people within the business is established. This is composed of staff who have been given Six Sigma training, and are able to coordinate others in adopting methods to improve quality. A five-step process to problem solving applies to Six Sigma, commonly referred to as DMAIC. This is shown in the diagram on the following page.

Boral Limited produces and distributes construction materials and building products. With almost \$5 billion worth of sales, Boral has more than 14 000 employees working across 700 operating sites. In 2007, Boral introduced Six Sigma throughout its construction materials division in Victoria, New South Wales, the ACT and Tasmania.

Regional General Manager of Boral Australian Construction Materials (ACM) NSW/ACT, Tony Charnock, claimed that in its first year, Six Sigma helped the New South Wales business achieve a profit of \$5 million. In 2009, Boral announced that the implementation of Six Sigma led to the construction materials division identifying \$45 million of cost reduction initiatives and predicted that these would deliver three years of

The fur seals and sea lions at the Great Southern Oceans exhibit at Taronga Zoo put on a spectacular show for up to 950 people in their new home. Boral supplied substantial quantities of concrete to the project. Boral is a company that has successfully implemented Six Sigma.



benefits. Boral continues to make use of Six Sigma, as well as lean management and continuous improvement.

Boral has a strong focus on continuous improvement, and Six Sigma gave it a structured way to make cost savings and improvements. Tony Charnock regarded Boral's improvement program as a never-ending process. 'Once you start making improvements, new ones keep presenting themselves. That is the experience of major companies elsewhere with Six Sigma.'

At Boral, Six Sigma training is available to staff. Staff trained as Six Sigma project leaders are known as 'black belts' and 'green belts'. Yellow-belt training provides workplace team leaders with basic problem-solving skills. For projects to succeed, staff with belts must have the support of managers ('project champions').

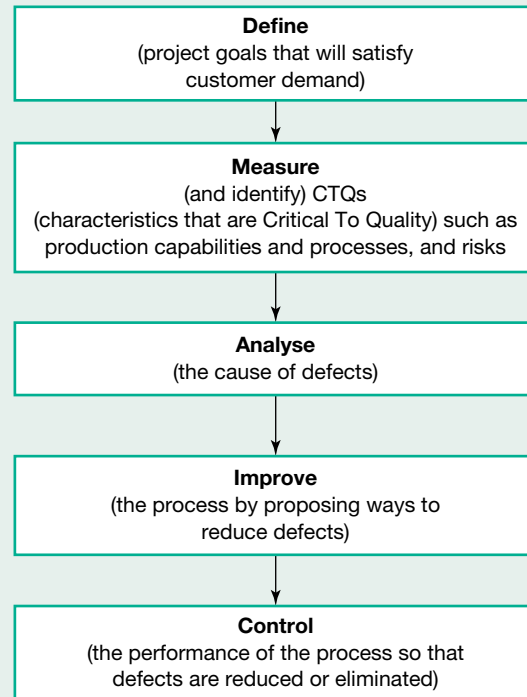
Boral's 'black belts' started to investigate the company's processes, looking for problems with or variations to the usual processes. This followed several months of compiling and validating data from the business. Then they came up with solutions to the problems.

One problem concerned unplanned stoppages because of products becoming trapped on conveyor systems and causing blockages. The team installed equipment, giving early warning of blockages. Maintenance and operational employees were trained in how to deal with the problem. The solution substantially cut the amount of down time caused by the unplanned stoppages.

On another project, Six Sigma's statistical analysis was applied to a problem that involved concrete being poured from trucks. By analysing variations in strengths of concrete after it was poured, changes were made to the process used in order to achieve more consistency.

John Worden, Boral ACM's Six Sigma champion in New South Wales, said, 'That is how Six Sigma works. We look for sources of variation and identify ways to eliminate them or, if that is not possible, bring them under control.'

The Six Sigma DMAIC problem-solving process



In Six Sigma, people trained as project leaders are known as black belts and green belts. Some businesses use other belt colours as well, such as yellow belts for employees that have basic training in Six Sigma.



3.9.2 High-quality paper envelopes business

Ask your teacher if you can complete this activity during class. The aim of this activity is to put your theoretical understanding of business management into practical use, as you solve problems and make operations management decisions.

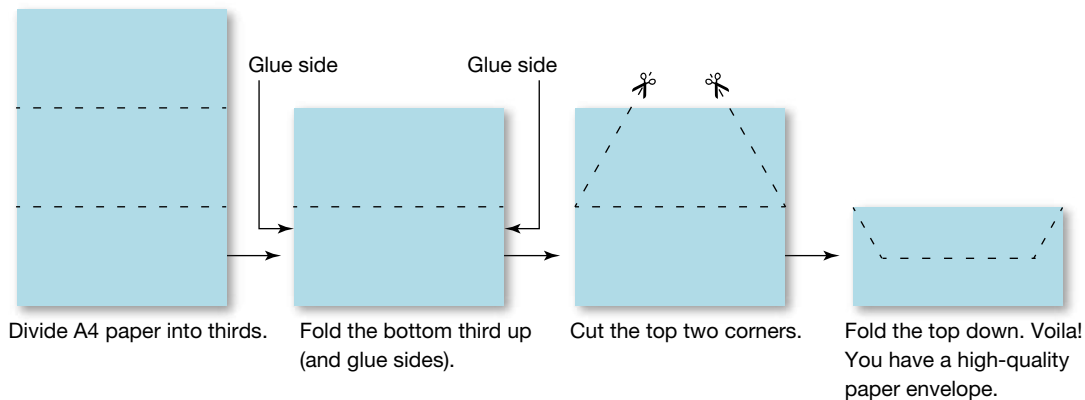
Materials required

- Recycled A4 paper
- Scissors
- Glue

Instructions

1. Arrange your class into groups of three or four. Each of these teams will become a business.
2. Your business has 15 minutes to produce as many 'high-quality paper envelopes' as possible. The following diagram shows you how to construct a simple envelope from A4 paper. You are welcome to develop your own design, add colour or individual flair, but remember... time is critical.
3. Before you begin, allocate responsibilities to the members in your team/business. It would be good if someone becomes the CEO. You might also need a quality manager and a materials manager. Make sure each team member's role is clear.
4. Start producing the envelopes. Hurry, you have only 15 minutes!
5. At the end of the 15 minutes, compare outputs across groups to determine a winner. This might be the business with the most envelopes. Alternatively, the winner could be the team with the highest quality envelopes.
6. Complete the 3.9 Exercise to apply your skills to an analysis of this task.

How to make high-quality paper envelopes



Resources



Weblink Six Sigma

3.9 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

1. Read the 'Six Sigma at Boral' case study.
 - a. Explain what is involved in the Six Sigma approach.
 - b. Some people believe that Six Sigma is a quality management approach. Outline the aspects of Six Sigma that make it a quality management approach.

- c. Some people believe that Six Sigma is a lean management approach. Describe the aspects of Six Sigma that make it a lean management approach.
- d. Outline how Boral used Six Sigma to improve its operations and achieve its business objectives.
- 2. After completing the 'High-quality paper envelopes business' activity, answer the following questions.
 - a. List the elements of your operations system.
 - b. Was your business offering a service or manufacturing a good?
 - c. Describe the responsibility of each team member in your group.
 - d. How did your group manage the materials required?
 - e. How did your group make sure that quality was maintained in each envelope produced?
 - f. What were the objectives for your business and did you achieve those objectives? How can you tell?

APPLY your skills

- 3. Does Six Sigma seem like an original approach to you? Is it just another form of TQM? Is there anything about Six Sigma that makes it different to other quality approaches?
- 4. Critics of Six Sigma claim that it has had mostly negative effects on the businesses that have used it. In 2006, *Fortune* magazine stated that most of the 58 large-scale US companies that announced Six Sigma programs had experienced a deterioration in business performance. Can you think of any reason why?
- 5. Use the **Six Sigma** weblink in the Resources tab and the case study provided, or find another example of a business that has adopted Six Sigma, to answer the following.
 - a. Why did the business decide to adopt the Six Sigma approach?
 - b. Describe how the business used the Six Sigma approach.
 - c. Explain the benefits to the business as a result of using Six Sigma.
- 6. After completing the 'High-quality paper envelopes business' activity, answer the following questions.
 - a. Your business probably produced a lot of waste. Identify some waste minimisation strategies that you could implement in order to reduce production costs and operate in a sustainable manner.
 - b. To improve the efficiency and effectiveness of your operations, one strategy you could introduce would be the use of technology. What types of technology could you use in your business?
 - c. Can you think of any other ways to improve the operations of your business? How could you make improvements to productivity?
- 7. The task word (sometimes referred to as command word or instructional word) 'compare' generally requires you to comment on the similarities and differences between two things. Compare forecasting and Just In Time.
- 8. The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate the use of website development for your paper envelopes business.
- 9. The task word (sometimes referred to as command word or instructional word) 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument.
 - a. Propose one quality strategy that could be used to improve the efficiency and effectiveness of operations at your paper envelopes business and justify the use of this strategy.
 - b. Propose and justify a strategy that your paper envelopes business could use to improve the efficiency and effectiveness of its operations in relation to waste minimisation in the production process.
- 10. The task word (sometimes referred to as command word or instructional word) 'compare' generally requires you to comment on the similarities and differences between two things. Compare Total Quality Management and lean management.

EXAM practice

- 11. Define the term 'quality'. (1 mark)
- 12. Describe the principles of lean management. (2 marks)
- 13. Compare Total Quality Management with one other quality strategy that a business might implement to meet the needs of stakeholders. (4 marks)
- 14. Compare master production schedule and materials requirement planning. (4 marks)
- 15. Evaluate the use of computer-aided design for a business aiming to reduce its costs and improve quality. (6 marks)
- 16. Propose and justify a materials strategy that a business could use to minimise cost and waste in its production process. (4 marks)

Solutions and sample responses are available in your digital formats.

3.10 Corporate social responsibility considerations in an operations system

► **KEY CONCEPT** Operations managers must be aware of socially responsible management when pursuing business objectives. Corporate social responsibility considerations in an operations system include the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs.

You might not think that a bank would need to be concerned about its impact on the environment, or about the socially responsible practices of its suppliers, when it comes to operations management. National Australia Bank (NAB) does just that, however, as shown in its commitment to sustainable business practices. NAB's corporate responsibility policies outline how it will lower costs by improving efficiency and minimising waste, and how it will work with suppliers in an environmentally friendly manner.

Corporate social responsibility refers to management's awareness of the social and environmental consequences of its actions. It can be expensive and time consuming to manage an operations system in a socially responsible way. However, it does bring benefits. Behaving in a socially acceptable manner can improve the reputation of a business, improve efficiency and reduce costs in the long term. The aspects of corporate social responsibility that would concern an operations manager include:

- managing inputs appropriately
- managing suppliers appropriately
- managing staff appropriately
- managing the customer relationship appropriately.

In particular, operations managers must consider the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs.

DID YOU KNOW?

Toyota Australia's Five-Year Environment Action Plan sets objectives to reduce energy usage and carbon emissions in all areas of its operations.

3.10.1 The environmental sustainability of inputs

Environmental sustainability refers to a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future. An operations manager should ensure that the inputs used in the production process do not have a serious or negative impact on the environment (as well as community health and social conditions). Food manufacturer, Mars, is a business that considers the environmental sustainability of inputs. It recently announced that it would invest approximately \$1 billion to combat climate change. The company will introduce renewable energy initiatives, source sustainable ingredients and support farmers who use sustainable methods of production. For example, starting in 2020, Mars will purchase 100 per cent of its electricity in Australia from solar power.

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.

3.10.2 The amount of waste generated from processes and production of outputs

The inputs used in a production process create waste. In the desire to keep down the costs of production, businesses should not be tempted to use cheaper, illegal waste disposal methods. By the end of 2015, Mars achieved its goal of sending zero waste to landfill from all of its factories worldwide. The company continues to strive towards maintaining this objective.

Businesses also need to consider how outputs are produced, packaged and marketed. For example, Mars has Packaging Sustainability Guidelines to reduce the amount of material and energy used in its packaging process, as well as to ensure it uses recycled materials and reduces waste.

The table below summarises the corporate social responsibility considerations in an operations system.

Mars will introduce renewable energy initiatives, source sustainable ingredients, and support farmers who use sustainable methods of production to ensure the environmental sustainability of inputs. The company has Packaging Sustainability Guidelines to reduce the amount of material and energy used in its packaging process, as well as to ensure it uses recycled materials and reduces waste. This relates to the amount of waste generated from its processes and production of outputs.



Inputs	Processes	Outputs
Ensuring that suppliers provide materials that come from socially responsible sources (such as environmentally sustainable supplies and workplaces that are free of exploitation)	Facilities and technology should contribute to the health and welfare of staff (above and beyond what is required by legislation).	Focus on creating high-quality products that provide real value — products that are fit for their intended purpose
A business could purchase inputs from local suppliers (rather than from overseas) to reduce emissions as a result of transportation — this can also demonstrate support for the local community by providing employment for members of the community.	A business could conduct production locally (in doing so, it can show its concern for local communities).	A business could make use of environmentally friendly packaging (for example, packaging could be minimised to reduce the amount of material and energy used as well as to reduce waste, and recyclable or biodegradable packaging could be used).
Part of the transformation process can involve recycling and remanufacturing of materials or waste.		
Inputs should be environmentally sustainable (for example, recyclable materials could be used, a business might use green energy to reduce carbon emissions, and energy-efficient equipment could be used to reduce energy use).	All employees should have ongoing access to training, as well as fair pay and work conditions (above and beyond what is required by legislation).	A business must ensure that its product is safe and reliable — dangerously defective or harmful products can result in the injury or death of consumers.

DID YOU KNOW?

James Hardie Industries manufactured and sold asbestos-related products for a large part of the twentieth century. It established a trust in 2001 to provide financial compensation for victims of asbestos-related diseases caused by its products, but the company has been criticised for not providing sufficient funds to settle claims.

CSR CONSIDERATIONS IN NAB'S OPERATIONS SYSTEM

In an attempt to respond to corporate social responsibility considerations in its operations system, NAB manages the environmental sustainability of its inputs and the amount of waste generated from its processes and production of outputs. The company is focused on the key environmental issues of climate change, resource scarcity and natural value. According to its 2019 Sustainability Report, NAB has committed to increasing its environmental financing commitment from \$55 billion to \$70 billion by 2025, including increasing its financing for green infrastructure, capital markets and asset finance. This is expected to help its customers address climate change and support the transition to a low-carbon economy. 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.

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.



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 2019 Sustainability Report, when compared to the previous year:

- energy use decreased by 12 per cent
- greenhouse gas emissions decreased by 18 per cent
- waste landfill decreased by 26 per cent
- office paper use decreased by 43 per cent
- water use decreased by 5 per cent.

NAB works actively with its suppliers to go beyond contract requirements and deliver the best outcomes for NAB, the supplier and the communities in which the business operates. The company 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. According to NAB's 2019 Sustainability Report, 90 per cent of material suppliers are compliant with its Supplier Sustainability Principles.

DID YOU KNOW?

Commonwealth Bank was accused of not managing the customer relationship 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.

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.

3.10 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Outline the main reasons why operations managers must take socially responsible decisions very seriously.
2. Outline the benefits and costs of managing an operations system in a socially responsible manner.
3. Using examples, explain the considerations a business might need to make in the area of:
 - a. environmental sustainability of inputs
 - b. the amount of waste generated from its processes and production of outputs.
4. Outline how NAB covers the considerations of corporate social responsibility as it applies to operations management.

APPLY your understanding

5. If you were the manager of a waste management company, what factors would you consider in selecting a new facility site?
6. Discuss whether or not it is socially responsible to do business with suppliers who employ child labour in overseas countries.
7. Business for Social Responsibility (BSR) provides information about the social responsibilities of businesses. Use the **BSR** weblink in the Resources tab to select a report that interests you. Read the article and outline the social responsibility issues involved.

EXAM practice

8. Explain how a business can ensure environmental sustainability of inputs in its operations system. **(2 marks)**
9. Describe one operations management strategy. Outline two benefits to a business of adopting corporate social responsibility considerations in this area. **(4 marks)**
10. Explain how corporate social responsibility considerations can influence the decisions made by management in relation to an operations system. **(4 marks)**
11. 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. **(6 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

3.11 EXTEND YOUR KNOWLEDGE Socially responsible operations management

► **KEY CONCEPT** An operations system should be managed with corporate social responsibility in mind.

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 factory, however, also produces greenhouse gas emissions. The main source of Australia's greenhouse gas emissions is from the burning of fossil fuels for energy, including for electricity and transport. When fossil fuels, such as gas, coal and petroleum are burned, the carbon stored inside the fuel bonds with oxygen to form carbon dioxide (CO₂), which is then released into the atmosphere. CO₂ is a greenhouse gas. It is a natural part of the atmosphere but too much CO₂ causes the overall temperature of the planet to increase. This results in global warming.

The Cadbury factory generates a relatively low level of greenhouse gas emissions by Australian standards. This is because almost 90 per cent of Tasmania's electricity is sourced from wind power and hydroelectric power stations. Hydroelectricity is the production of electrical power through the use of flowing water.

Most of the emissions are generated through transport. Cadbury's inputs 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.

Cadbury's chocolate operations in Tasmania does produce greenhouse emissions, but is taking steps to reduce those emissions.



CADBURY AND FAIR TRADE CHOCOLATE

What exactly does fair trade mean? Fair trade refers to a social movement that aims to help producers in developing countries create fairer trading conditions for themselves. Fair trade is about better, more reasonable payment to producers, decent working conditions for workers, and sustainable farming practices. Fair trading is governed by the standards set by the international certification body Fairtrade International. Products that display the Fairtrade label must meet international Fairtrade standards.

You might see the label on items such as coffee, cocoa, sugar, tea, cotton, wine and chocolate. Cadbury is a familiar brand that received Fairtrade certification in 2009. Cadbury's Dairy Milk chocolate bar is Australia's biggest selling chocolate bar, and it now 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.

Research reveals that more than two-thirds of Australia's consumers think it is important to choose products that support fair trade. While this is true, it is important to note that less than 15 per cent of shoppers routinely seek out fair trade goods.

Cadbury's move towards fair trade was significant for the movement. Fairtrade Australia & New Zealand continues to grow rapidly, with sales of Fairtrade Certified products increasing from \$50 million in 2008–09 to more than \$370 million in 2016–17. Chocolate and coffee represent a significant proportion of these sales.

While obtaining Fairtrade certification may bring many benefits, it also places responsibilities on member businesses, particularly in the area of operations management. The criteria that businesses must comply with involve adherence to International Labour Organization (ILO) agreements, such as prohibiting child and slave labour, ensuring workers have a right to join unions, and conservation and protection of the environment.

There is a responsibility to ensure that what is being sold as a Fairtrade product really upholds the principles of fair trade. In the case of chocolate, if the claim is that chocolate is made entirely from Fairtrade-certified cocoa beans, it is important that uncertified cocoa beans do not make their way into the supply chain.

In late 2016, the makers of Cadbury, Mondelez International, and Fairtrade announced a new partnership to help more cocoa farmers, families and their communities. The new partnership involves Fairtrade becoming a partner for Cadbury's Cocoa Life program. This is a sustainable cocoa-sourcing program involving a US\$400 million investment over 10 years into cocoa communities. Cadbury Dairy Milk chocolate will remain Fairtrade certified throughout 2017 in Australia. From 2018, the Cocoa Life logo was located on the front of Cadbury Dairy Milk wrappers.

Kjetil Undhjem, Director Marketing Chocolate Australia and New Zealand at Mondelez International, suggested that Cocoa Life would build on Cadbury's proud heritage of sourcing cocoa sustainably and has been working with farmers in Ghana for over 100 years. He said, 'In more recent years, Cadbury's cocoa sustainability program has progressed with the Cadbury Cocoa Partnership launched in 2008 and evolving in 2009 when we partnered with Fairtrade. Since the launch of Cocoa Life in 2012, we've touched more than 795 cocoa farming communities around the world. We're proud to share independent verification which shows that Ghanaian farmers' incomes have increased by 49 per cent more than farmers outside of the program. Through Cocoa Life, we want to build on the program's success by becoming an accountable partner for our cocoa farmers, not just a buyer.'

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

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.



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.

Resources



Weblinks Chocolate: the bitter truth
EY Climate Change and Sustainability Services

3.11 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

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?

EXAM practice

11. Analyse two ways in which corporate social responsibility considerations influence decisions made by operations managers. (6 marks)
12. 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. (4 marks)

Solutions and sample responses are available in your digital formats.

3.12 Global considerations in operations management

KEY CONCEPT Businesses may need to contend with global issues in operations management including global sourcing of inputs, overseas manufacture, outsourcing and supply chain management.

3.12.1 Global sourcing of inputs

Just as you might purchase products from overseas, businesses can also buy inputs from markets in other countries. This is referred to as **global sourcing**. Many businesses today 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

The strengths and weaknesses of global sourcing

Strengths

- Reduces costs
- The opportunity to learn how to do business in a potential market
- Accessing skills or resources that are unavailable domestically
- Developing alternative suppliers/sources of inputs
- Increasing capacity of total supply



- Hidden costs associated with different cultures and time zones
- Exposure to potential high risk, both financial and political
- Long lead times (for manufactured goods)
- The risk of ports shutting down and interrupting supply
- Difficult to monitor the quality of inputs

Weaknesses

DID YOU KNOW?

In 2016, surf wear company Rip Curl was 'caught out' sourcing products from North Korea with 'Made in China' labels. Employees at a factory near Pyongyang, North Korea's capital city, were photographed by Fairfax Media making some of Rip Curl's winter range of clothing. Workers in North Korea often endure harsh conditions. Rip Curl blamed a supplier who diverted production orders to an unauthorised subcontractor for the practice. Rip Curl said that when it found out it immediately took steps to investigate and resolve the issue.

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.

The weaknesses of overseas manufacture are very similar to those of global sourcing of inputs. There may be hidden costs associated with operating in different cultures and time zones. By producing in other countries, the business exposes itself to risks, both financial and political. Speed of delivery can increase, but if manufactured items need to be brought back to the business's country of origin, then lead times may increase. The extra transport required may also negatively impact on the environment. Furthermore, this strategy can lead to local job losses. It may also be difficult for the head office of a business to monitor the quality of production in another country.

Dexion is a storage solutions manufacturer that moved its manufacturing to Malaysia in 2014 to reduce costs and make the business more competitive. Dexion did this to increase profit through the development of new products and new markets. Dexion's sales, design and installation, and customer support teams remain in Australia.



overseas manufacture the production of a good in a country that is different to the location of the business's headquarters

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 manufacturer 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 in 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.



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).

The strengths and weaknesses of global outsourcing

Strengths

- Improved quality because of access to expert knowledge and high-quality service
- The business is able to focus on its core activities.
- Costs can be reduced (for example, instead of employing a full-time driver, a business can use contracted drivers as required).
- Production may be quicker as the outsourced provider should be able to focus on the task they specialise in.



- Management may have less control over the production process.
- It may be difficult to maintain quality.
- Loss of local jobs and career prospects (sometimes resulting in low morale in the local workforce)
- There may be security and confidentiality issues.
- There may be communication issues that lead to customer service problems.

Weaknesses

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.

global outsourcing the contracting of a specific business operation to an external person or business in another country

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.



Supply chain management

A typical **supply chain** starts with the sourcing of natural resources, followed by manufacturing activities such as component construction and assembly. The supply chain moves on to storage facilities before reaching the consumer. It is from this range of suppliers that the business purchases materials and resources. The supply chain needs to be well coordinated because an operations system depends on the inputs. Supply chain management is critical for the following reasons:

- If materials are not on hand, nothing can be produced.
- If materials are of inferior quality, it is difficult or costly to produce quality products.
- If the right quantity of materials is not available, the business cannot meet demand.

Supply chain management involves not only assessing the location in terms of distance to suppliers, but also considering the efficiency of delivery, the stock-use rate, the uniformity of quality, and pricing and comparisons with other suppliers of similar product, to identify whether they can better meet the business's needs. In recent years, many businesses have had to come to terms with developing more sustainable supply chains or 'greener supply chains'. For example, Australian road freight company Linfox uses aerodynamic trucks and trailers to maximise efficiency, has reduced power consumption at its offices and warehouses, and uses smarter vehicle routes to reduce its greenhouse gas emissions.

However, at times, the management of the supply chain can be very expensive to implement. Successful supply chain management requires preparation and training of staff. Furthermore, a supply chain can be complex and specific parts of the chain may be difficult to manage. Some aspects of the supply chain may be in another part of the country or overseas. If one part of the chain breaks down, the ability of the business to deliver products to customers may be negatively impacted. For example, if the business cannot get materials, if a website crashes, if inventory cannot be located in a warehouse or if a delivery vehicle breaks down, a business's operations system may come to a standstill.

supply chain the range of suppliers from which the business purchases materials and resources

DID YOU KNOW?

Many businesses today realise that their supply chain contributes to their social and environmental performance. McDonald's uses Socially Responsible Supply Guidelines for its suppliers.

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.
- A supply chain is the range of suppliers from which the business purchases materials and resources. A well-managed supply chain guarantees the supply of quality inputs. Businesses will work with suppliers to make sure that materials are delivered efficiently and in the right quantities.

Resources

 **Weblink** ANZ supply chain

3.12 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Outline three reasons why businesses obtain inputs from global sources.
2. Define the term 'overseas manufacture'.
3. After reading the 'Overseas manufacture at Toyota' case study, explain why Toyota manufactures in overseas countries.
4. Outline the benefits and costs of global outsourcing.
5. 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.
6. Explain why it is vital that the supply chain be well coordinated.
7. Complete the following sentences by filling in the blanks.
 - a. Global sourcing is the practice of seeking the most _____ efficient materials and other inputs, including from countries _____.
 - b. Overseas manufacture refers to the production of a good in a _____ that is different to the location of the business's _____.
 - c. Global outsourcing is the practice of a specific business operation being contracted to an _____ person or business in another _____.
 - d. A supply chain is the range of _____ from which the business purchases _____ and _____.

APPLY your understanding

8. 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.
9. To find out how a large business deals with supply chain management, use the **ANZ supply chain** weblink in the Resources tab. How many suppliers does the ANZ have? How does the company develop supply chain relationships with these suppliers? Does ANZ expect its suppliers to meet certain standards and, if so, what are the standards?

EXAM practice

10. Define the term 'supply chain management'. (2 marks)
11. Distinguish between overseas manufacture and global outsourcing. (3 marks)
12. Discuss two consequences of a business making use of global sourcing of inputs in its operations. (6 marks)
13. Describe and justify one global consideration in operations management that could be used by a business to develop overseas markets. (4 marks)
14. Compare global outsourcing and supply chain management. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

3.13 APPLY YOUR SKILLS Comparing, evaluating, proposing and justifying operations management strategies

PRACTISE YOUR SKILLS

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

3.13.1 Quality control and quality assurance

ISO'S DEFINITION OF QUALITY CONTROL AND QUALITY ASSURANCE

ISO (the International Organization for Standardization) is a worldwide federation of national standards organisations. Through its members, it develops voluntary and market relevant international standards. International standards ensure that products are safe, reliable and of good quality for consumers across the world. They are also influential in enabling international trade. For businesses, international standards assist with the reduction of costs by minimising waste and errors and increasing productivity. They also help businesses to access new markets. The ISO 9000 family of standards provides the fundamental concepts, principles and vocabulary for quality management systems and provides the foundation for other quality management systems standards.

In the ISO 9000:2015 standard, clause 3.3.6 defines quality assurance as 'part of quality management focused on providing confidence that quality requirements will be fulfilled'.

Clause 3.3.7 defines quality control as 'part of quality management focused on fulfilling quality requirements'.

3.13.2 Technological developments and lean management

HOW LEAN IS SECURING THE FUTURE OF THIS DIGITAL ADVERTISER

How do you keep up with a market changing at the speed of light? The Chief Inventor of an Australian digital company explains how they are using lean to safeguard their future.

REA Group is a digital advertising company specialising in property and the lifestyles that go with it, headquartered in Melbourne, Australia (we are also present in six other countries). We help people buy and rent houses, and find commercial properties for business through our websites and apps, but also get finance and learn about renovation and the market. How we got to become a \$9 billion company doing that is quite interesting, and that's the story I'd like to tell in this article.

We have spent the past two decades building a global business, but the truth is that in real estate the only thing that matters is whether you are a great business in your neighbourhood. The challenge for us is to essentially act as if we had 2500 realestate.com.au websites and apps uniquely tailored to each suburb in Australia, and more again for our Asian customers. Sometimes those apps are not for people fortunate enough to be choosing a new home for their family to live in — we also work with homeless people and contributed to the development of an app called Ask Izzy to connect Australia's homeless to resources for them.

Our 20-person Consumer Research Lab — which constantly works on perfecting our offerings based on the key customer expectations of time, transparency and trust — hosts or visits five people every day. That's up to 1000 people a year, which generates a lot of data that we can then use to segment the ecosystem, and understand how to cater to each of its parts (whether it's landlords, renters, investors, renovators or estate agents). We pay these folks to come in, relying on an external agency that recruits individuals from a specific demographic or geographical area, like Perth's Central Business District or a suburb of Adelaide. We interview them, but most importantly observe them as they use our technology.

For example, we might ask them to wear a pair of Tobii glasses that 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 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.



3.13 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

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. The task word (sometimes referred to as command word or instructional word) 'compare' generally requires you to comment on the similarities and differences between two things. Using the information you have recorded in the table above, compare quality control and quality assurance.
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. The task word (sometimes referred to as command word or instructional word) 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument.
- a. Propose one quality strategy that could be used to improve the efficiency and effectiveness of operations at REA Group and justify the use of this strategy.
 - b. Propose and justify a strategy that REA Group could use to improve the efficiency and effectiveness of its operations in relation to materials.

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. The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why.
Using the information you have recorded in your table in part (a), evaluate the use of lean management as a strategy for improving the efficiency and effectiveness of REA Group's operations.
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

EXAM practice

13. Compare website development to the use of automated production lines as strategies related to technological developments. **(4 marks)**
14. Compare forecasting with one other materials strategy that a business might implement to maximise the efficiency and effectiveness of the production process. **(4 marks)**
15. Describe one advantage and one disadvantage of website development. **(4 marks)**
16. Evaluate the use of an automated production line as a strategy for improving the efficiency and effectiveness of a manufacturer's operations system. **(5 marks)**
17. 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. **(4 marks)**

Solutions and sample responses are available in your digital formats.

3.14 Review

3.14.1 Summary

The relationship between operations management and business objectives

- Operations management is the area of management that is concerned with the activities used to produce goods and services.
- Operations management is responsible for transforming inputs into outputs.
- Two key areas that the operations area of management responsibility must focus on are effectiveness and efficiency. Effectiveness refers to the degree to which a business has accomplished its stated objectives. Efficiency refers to how well a business uses resources in achieving these objectives.

Characteristics of operations management within manufacturing and service businesses

- The characteristics of operations management differ according to whether the business is a manufacturer of goods or a provider of a service. Manufacturers produce tangible products whereas service businesses produce services, which are intangible.
- Most modern businesses produce a combination of both manufactured goods and services.

Key elements of an operations system

- The elements of an operations system are inputs (materials, capital equipment, labour, information and time), the transformation process, and outputs (the finished good or service).

Technological developments

- Technology can improve operations. Businesses need to acquire up-to-date technology in order to compete effectively.
- Technology is used in the manufacturing sector to speed up processes and enable better utilisation of raw materials. This improves productivity and makes the operations process more cost effective. Office and communications technology has enabled new markets to open up, costs to be cut and productivity to be improved.
- A website can be developed for operations purposes. A website can make it easier for customers to purchase products or to find information online. A business may develop its website to increase the amount of information it gets from its customers and analyse the information. A business may also develop its website to provide information to employees and to communicate with suppliers.
- An automated production line is comprised of machinery and equipment arranged in a sequence with components added to the product as it proceeds through each step. The product usually moves along the line on a conveyor belt and computers control the process.
- Computer-aided design (CAD) is a computerised design tool that allows a business to create products and modify them. Computer-aided manufacturing (CAM) is software that directs and controls the process of producing a product.

Materials management

- Materials management is the strategy involved with managing the use, storage and delivery of materials, to ensure the right amount of inputs is available when required in the operations system.
- Materials planning is completed using forecasting, a master production schedule (MPS) and materials requirements planning (MRP).
- Forecasting is a tool that relies on data from the past and present and analysis of trends to attempt to determine future events. A master production schedule (MPS) is a plan that details what the business will produce, in what quantities, how and when. Materials requirements planning (MRP) refers to producing an itemised list of all materials involved in production to meet specified orders.
- Inventory control ensures that costs are minimised and that the operations system has access to the right amounts of inputs when required. A common approach used by many businesses in Australia is the Just In Time (JIT) system of inventory control. 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 lean management. This approach improves the efficiency and effectiveness of operations by eliminating waste and improving quality.

Corporate social responsibility considerations in an operations system

- Operations managers must be aware of corporate social responsibility when pursuing business objectives. Businesses that do so will benefit from improved performance.
- An operations manager needs to consider the use of environmentally sustainable inputs and the amount of waste that is generated by the business's operations.

Global considerations in operations management

- Global sourcing of inputs refers to the practice of businesses seeking the most cost efficient materials and other inputs, including from countries overseas.
- Overseas manufacture refers to the production of goods in a country that is different to the location of the business's headquarters.
- Global outsourcing is the contracting of a specific business operation to an external person or business, in an overseas country.
- A supply chain is the range of suppliers from which the business purchases materials and resources. A well-managed supply chain guarantees the supply of quality inputs. Businesses will work with suppliers to make sure that materials are delivered efficiently and in the right quantities.

Resources

studyON

To access key concept summaries and past VCAA exam questions, download and print the **studyON: Revision and past VCAA exam question booklet** (sonr-0134).

3.14.2 Key terms

automated production line comprises machinery and equipment arranged in a sequence with components added to a good as it proceeds through each step, with the process controlled by computers

business competitiveness the ability of a business to sell products in a market

computer-aided design a computerised design tool that allows a business to create product possibilities from a series of input parameters

computer-aided manufacturing the use of software to 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 sourcing the practice of seeking the most cost-efficient materials and other inputs, including from countries overseas

global outsourcing the contracting of a specific business operation to an external person or business in another country

inputs resources used in the process of production

intangibles services that cannot be touched

inventory goods and materials held as stock by a business

inventory control ensures that costs are minimised and that the operations system has access to the right amounts of inputs when required

Just In Time a materials management strategy that ensures that the right amount of material inputs will arrive only as they are needed in the operations process

lean management an approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality

master production schedule a plan that details what is to be produced and when

materials handling the physical handling of goods in warehouses and at distribution points

materials management the strategy that manages the use, storage and delivery of materials to ensure the right amount of inputs is available when required in the operations system

materials requirement planning involves developing an itemised list of all materials involved in production to meet the specified orders

operations management all the activities in which managers engage to produce goods or services

overseas manufacture the production of a good in a country that is different to the location of the business's headquarters

outputs the end result of a business's efforts — the service or product that is delivered or provided to the consumer

procurement the process of researching and selecting suppliers, establishing payment terms, negotiating contracts, and the actual purchasing of resources that are vital to the operations of the business

production plan an outline of the activities undertaken to combine resources (inputs) to create goods or services (outputs)

quality the degree of excellence of goods or services and their fitness for a stated purpose

quality assurance the use of a system so that a business achieves set standards in production

quality circles groups of workers who meet to solve problems relating to quality

quality control the use of inspections at various points in the production process to check for problems and defects

robotics highly specialised form of technology capable of complex tasks

supply chain the range of suppliers from which the business purchases materials and resources

tangibles goods that can be touched

Total Quality Management an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation

transformation the conversion of inputs (resources) into outputs (goods or services)

waste minimisation a process involving the reduction of the amount of unwanted or unusable resources produced by a business in an attempt to improve the efficiency and effectiveness of operations

website development the creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products

Resources

-  **Digital documents** Key terms glossary (doc-29448)
Missing word glossary quiz (doc-29449)
Crossword (doc-29450)

3.14.3 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)

1. Explain one reason why a business would need to manage its supply chain. (2 marks)
2. Describe how a business might use website development as a strategy to improve the efficiency and effectiveness of its operations. (4 marks)
3. 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.
 - a. Distinguish between the operations of a manufacturing and service business. Suggest the category under which Kookaburra Airlines fits. (5 marks)
 - b. Discuss the use of Total Quality Management and recommend whether or not you it would be suitable for Kookaburra Airlines' operations. (5 marks)
4. 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 business that you are familiar with. (10 marks)

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.

1. Define the following terms using examples from the Yakult case study.
 - a. Automated production line (2 marks)
 - b. Waste minimisation (2 marks)
2. Describe the relationship between Yakult's business objectives and operations management. (2 marks)
3. Outline the inputs used by Yakult. (2 marks)
4. Identify and describe one way in which Yakult has incorporated corporate social responsibility considerations into its operations system. (2 marks)
5. Compare the use of quality control and quality assurance at Yakult. (4 marks)

Resources



Digital document School-assessed coursework (doc-29451)

3.14 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

3.14 Exercise 1: Test and apply

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. Outline the importance of inventory control, using examples.
13. Identify the benefits and costs of using Just In Time as an inventory system.
14. Analyse how quality management can contribute to a business's competitiveness.
15. Describe the main differences between quality control and quality assurance.
16. Explain what is meant by Total Quality Management (TQM).
17. Identify five waste-minimisation strategies.
18. Outline the main principles of lean management.
19. What are the benefits and costs of operations managers acting in a socially responsible manner?
20. 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.
23. Explain what is meant by the term 'supply chain management'.

APPLY your understanding

24. Choose a real-life example of a manufacturer and a service business. For each example, outline the inputs, processes and outputs of their operations.
25. One strategy used to improve operations is the use of technology. For example, if a business used labour-intensive operations (making extensive use of people to do the work) to manufacture cars, it may not be as efficient as another business using automated equipment. Complete in the following table by listing (and explaining where necessary) strategies that an operations manager could use to achieve the stated business objectives. The first answer has been completed for you.

Business objective	Operations strategy
Increase the quality of customer service	Technology — introduce customer relationship management system
Increase the quality of the product	
Reduce production costs	
Improve domestic and international competitiveness	
Reduce waste	
Improve productivity	
Reduce the number of accidents	
Improve workflow	

26. 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.

3.14 Exercise 2: Exam practice

on Resources

 **Teacher-led video** Topic 3 Exam practice solutions (tlvd-1842)

Question 1 (4 marks)

Analyse the relationship between business objectives and operations management.

Question 2 (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 3 (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 4 (4 marks)

Compare the use of automated production lines to computer-aided design.

Question 5 (6 marks)

Evaluate the use of Just In Time in relation to improving the efficiency and effectiveness of operations.

Question 6 (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 7 (8 marks)

Propose and evaluate one strategy to improve the efficiency and effectiveness of operations through waste minimisation in the production process.

Question 8 (4 marks)

Describe two corporate social responsibility considerations in an operations system.

Question 9 (4 marks)

Discuss the use of supply chain management as a global consideration in operations management.

studyon

Past VCAA examinations **online only**

Sit past VCAA examinations and receive immediate feedback, marking guides and examiner's report notes. Access Course Content and select 'Past VCAA examinations' to sit the examinations online or offline.

Solutions and sample responses are available in your digital formats.

teachon

Test maker

Create unique tests and exams from our extensive range of questions, including past VCAA exam questions. Access the Assignments section in learnON to begin creating and assigning assessments to students.

UNIT 4

TRANSFORMING A BUSINESS

Opportunities to change

Atlassian Corporation Plc is an Australian multinational company that develops enterprise software products for project and content management as well as software development. It is best known for its issue-tracking application Jira and its team collaboration and wiki product Confluence. Despite its success, it is not well-known in Australia.

Atlassian was founded in 2002 by Mike Cannon-Brookes and Scott Farquhar, who met while both were studying at the University of New South Wales in Sydney. For the first several years they financed the business themselves, funding the start-up with a \$10 000 credit card debt. Atlassian is renowned for the way in which it looks after its employees; the company's reputation among employees rivals that of Google and Facebook.



When the COVID-19 pandemic reared its head in February 2020, many businesses around the world were forced to lay off workers, send people home to work or let them go altogether. The message across Victoria was: 'If you can work from home, do so.' Cannon-Brookes and Farquhar went further.

Since the lockdown conditions were implemented, the company has recognised the opportunities the change has brought. Atlassian will no longer require its employees to return to an office every day for work, even after the pandemic-related shutdowns end. Employees can choose to work wherever they want, whether at home, in an office, or a combination of the two.

Atlassian, which is headquartered in Australia, has offices all over the world, and it had some employees who were fully remote even before the pandemic. The company plans to continue operating its offices, rather than going for a fully remote model. However, the switch will allow it to expand its recruiting efforts outside regions where it has established buildings.

TOPIC	UNIT / AREA OF STUDY / OUTCOME
4 Reviewing performance – the need for change	Unit 4, Area of Study 1 – Outcome 1 Explain the way business change may come about, use key performance indicators to analyse the performance of a business, discuss the driving and restraining forces for change and evaluate management strategies to position a business for the future.
5 Implementing change	Unit 4, Area of Study 2 – Outcome 2 Evaluate the effectiveness of a variety of strategies used by managers to implement change and discuss the effect of change on the stakeholders of the business.

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, use key performance indicators to analyse the performance of a business, discuss the driving and restraining forces for change and evaluate management strategies to position a business for the future.

LEARNING SEQUENCE

4.1 Overview	294
4.2 The concept of business change.....	296
4.3 Key performance indicators — analysis of business performance.....	300
4.4 Key principles of the Force Field Analysis theory (Lewin).....	307
4.5 Driving forces for change in business.....	311
4.6 Restraining forces in business.....	318
4.7 APPLY YOUR SKILLS Forces affecting change	322
4.8 APPLY YOUR SKILLS Driving and restraining forces.....	324
4.9 Strategic management by Porter's Generic Strategies (1985).....	326
4.10 APPLY YOUR SKILLS Lower cost and differentiation	332
4.11 EXTEND YOUR KNOWLEDGE Data-driven change.....	335
4.12 EXTEND YOUR KNOWLEDGE The concept of business change	337
4.13 Review	340



4.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS, and at www.jacplus.com.au.

4.1.1 Why it is important

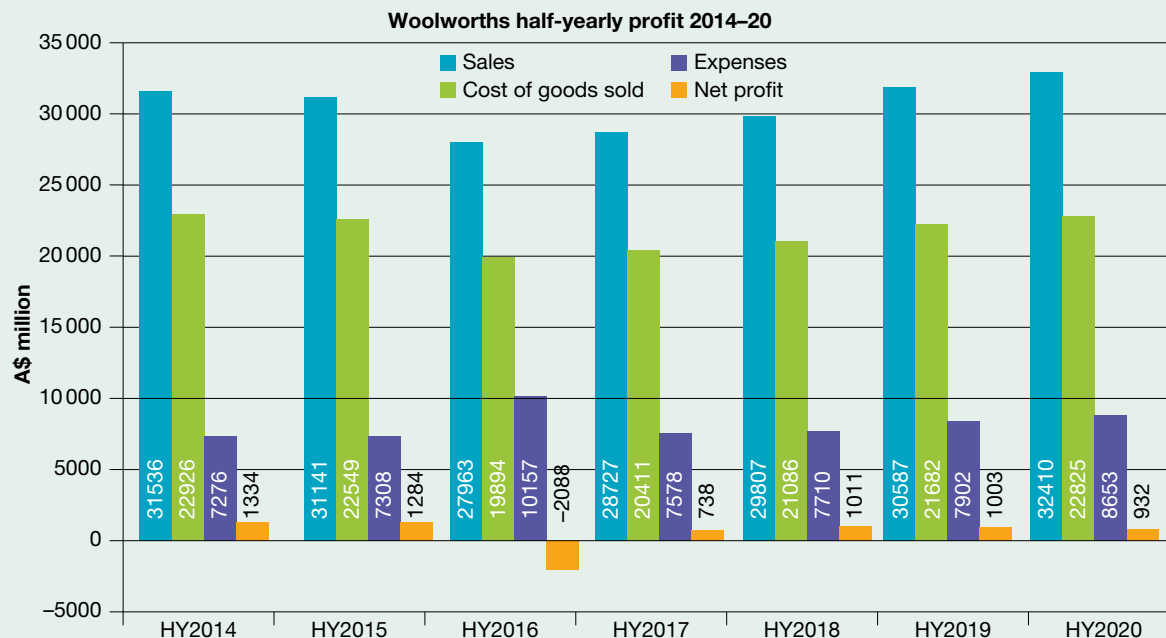
Businesses are established to achieve certain objectives. These objectives include to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations. The achievement of business objectives requires businesses to maintain a suitable level of performance to ensure they continue to operate. This will require that businesses review their performance and identify areas that may prevent them from achieving their business objectives and therefore require change.

WOOLWORTHS – SELF-SERVICE TO STEM COSTS

Self-service checkouts have always been a concern for both shoppers and supermarkets. A key issue has always been theft, with a 2017 survey by consumer research company Canstar, finding that one in six customers aged in their thirties said they had deliberately not paid for an item at a self-service checkout. Almost one in ten shoppers of all ages admitted they had cheated in the self-service section.

A further survey of 2200 shoppers in 2018 found that 7 per cent admitted to stealing an item without scanning it, while 9 per cent admitted to a technique known as ‘discount theft’ —that is, scanning the item as a cheaper alternative to avoid paying the full price. The report said that there was a strong trend in this kind of shoplifting at self-service supermarket checkouts, and that many of the offenders might not perceive it as ‘real’ theft.

As one of the biggest retailers, Woolworths has continued to embrace the new technology. The drive to do so stemmed from rising costs, poorer financial performance and increased competition (see graph below).



While the profit figures for most of the period were positive, there was concern about the declining profit figures, which extended to a loss in 2016. There was further cause for concern with German supermarket chain Aldi steadily gnawing away at Woolworths' dominant supermarket position, building its total market share to about 10 per cent as it expands around the country.

Further bad news for Woolworths has been the findings of another survey showing that the retailer ranked lowest against its supermarket competitors on customer service, and low in terms of value for money, food freshness,

store layout, specials and the quality of its private label products. This Canstar Blue survey of 2925 Australian shoppers, found that Woolworths customers are not as satisfied as they are with Coles, Aldi, Foodland and IGA.

However, that is not slowing Woolworths' venture into the self-service checkout arena. As Coles, their main rival, moves to restrict their investment in this area, Woolworths is replacing nearly all of its traditional check-outs with self-service at some inner-city stores as part of its multimillion-dollar renewal program to win back customers.

Woolworths is also taking the self-serve concept to a new level with a trial initiated in 2018. Called 'scan-and-go', shoppers download the app on their smartphones and sign in with their Woolworths Rewards loyalty membership account. They then scan the products they want to buy and place the items directly in their bag. When buying loose fresh produce such as apples, shoppers scan the item at the shelf then take it to the weigh scales where the total is added up and then scanned.

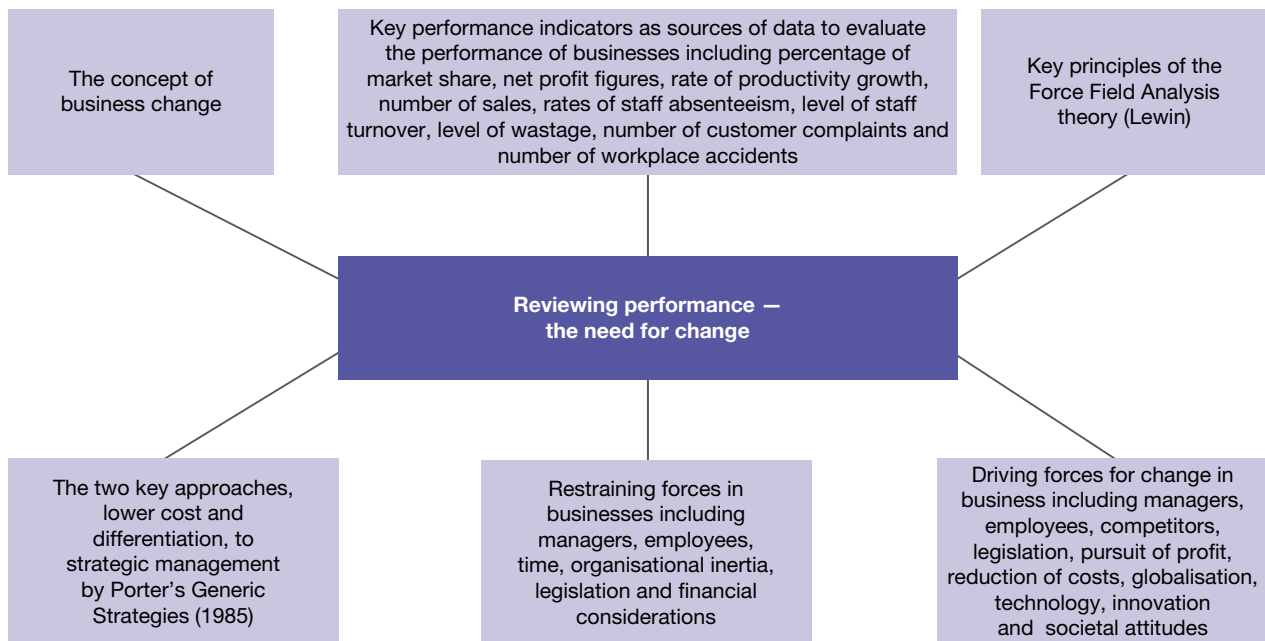
Once the shop is done, the 'continue to pay' button is tapped and the purchase is made directly with the payment information linked to the account. Customers can then bypass the queues to the dedicated scan-and-go checkout which acts as a final checkpoint before exiting the store.

Woolworths was the first Australian retailer to use the buy-and-walk-out technology at one store in Sydney in September and has now extended its trial of the hi-tech scan-and-go purchasing application to four other stores.

4.1.2 What you will learn

Key knowledge

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



Key skills

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

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Interpret key performance indicators to analyse and evaluate business performance
- Apply business management knowledge to practical and/or simulated business situations
- Compare and evaluate relevant management strategies

Source: VCE Business Management Study Design (2017–2022) extracts © VCAA; reproduced by permission.

4.2 The concept of business change

KEY CONCEPT Businesses must constantly change in order to survive in today's volatile business environment.

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. In 2020, 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 changes, 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.

DID YOU KNOW?

People always ask, 'Is the change over? Can we stop now?' You've got to tell them, 'No, it's just begun.'
— Jack Welch, former CEO of General Electric Company

Managing change

All businesses face change. Some changes are forced on a business, while others are carefully planned. The ability to manage and, in many cases, embrace and adapt to change will increasingly determine a business's **competitive advantage** and survival. Successful managers are those who anticipate and adjust to changing circumstances rather than 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 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 against the business.

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 to initiate change rather than simply to react to events

reactive to wait for a change to occur and then respond to it

A reactive approach to change however, is a change that is unplanned and occurs 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 their failure to recognise that the change was imminent. The failure to respond immediately to the change can cause the business a loss of time to recover from the change.

To be constructive, changes must occur at a pace that allows businesses to absorb and integrate them into their operations. Also, all changes should be evaluated thoroughly to assess their overall impact. Poorly managed changes normally result in employee resistance, tension, anxiety, lost productivity and ultimately, unmet objectives.

Change entails risk and requires sound leadership skills and responsive management structures. The long-term survival of any business depends on the ability of its managers to scan the environment, predict future trends and exploit change. While change may be the most daunting challenge confronting management, the rewards are great for those who are prepared to accept the challenge.

Effective managers proactively deal with change.



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.

AUSTRALIA POST TRANSITIONING

Following a fall in letter deliveries and higher costs leading to its mail division losing a record \$328.4 million in 2013–14, Australia Post introduced a two-speed letter service in early 2016. This means that customers can now choose between a regular or priority letters service, as well as the already existing express service. Several thousand employees at Australia Post were made redundant or were transitioned into different roles at the government business enterprise as it focused more on its parcel delivery business. In 2019, Australia Post reported a before-tax profit of \$41 million, suggesting their changes were a success.



AVON CALLING

Not all companies are able to turn around their falling fortunes like Australia Post — sometimes the issues are too severe, and the business will cease operations.

This was the case for Avon — an iconic US-based company introduced into Australia in the early 1960s. At the time, Avon gathered an army of women who went from door to door, selling their cosmetics to other women who were working as traditional housewives. Their advertising campaign also became iconic, with the phrase 'Ding Dong, Avon calling' becoming synonymous with the brand and the product.

However, the growth in online shopping and increased competition from other businesses in recent years meant Avon could no longer compete, and it announced that it would close its Australian operation at the end of 2018, after 55 years of selling cosmetics, skincare, fragrance and fashion products.

While the news is naturally upsetting for the industry, the employees and the economy, the company distressed people further by making the announcement to its 21 400 employees through Facebook.

You open your door to Beauty...

when you welcome your Avon Representative

She brings you lovely Avon Cosmetics and Toiletries . . . correct creams and lotions for your complexion needs . . . make-up harmonized to you and the new season's colors! At the same time, your Avon Representative will help you select Avon preparations for the family's good grooming needs as well as gifts for any special occasions on your calendar.

You'll like the wide Avon selection . . . the moderate prices. Most of all you'll like choosing Avon Cosmetics and Toiletries conveniently, in your own home.

... Welcome your Avon Representative when she calls.

IF NO AVON COSMETICS OFFICE IS LISTED IN YOUR PHONE BOOK
CALL WESTERN UNION OPERATOR 25 FOR YOUR AVON REPRESENTATIVE

Avon cosmetics

RADIO CITY, NEW YORK - PASADENA, CALIFORNIA - MONTREAL, CANADA



KEY IDEAS

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

4.2 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. What does the term 'business change' mean?
2. Explain the meaning of the phrase, 'There is only one constant in life and that is change'.
3. Explain the difference between proactive and reactive management.
4. Explain why a business should adopt a proactive stance when dealing with change.
5. Explain why a change for one business might not be a change for other businesses.
6. '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

7. Read the **Woolworths — self-service to stem costs** case study in section 4.1.1. In your opinion, did Woolworths respond in a proactive or reactive manner to pressures for change? Justify your answer.
8. Search the web to find information regarding a business that has been in the media in recent times. Prepare a brief report summarising:
 - the type of business
 - its recent financial performance
 - other issues impacting the business.

EXAM practice

9. Describe the concept of business change. (2 marks)
10. Describe how a reactive or a proactive approach can be used to manage change. (3 marks)
11. 'Change requires effective decision-making.' Analyse this statement. (4 marks)
12. Change can be confronting for employees. Describe how a manager with poor interpersonal skills may affect change. (3 marks)
13. Explain why it is important for a business to manage change. (2 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

4.3 Key performance indicators — analysis of business performance

KEY CONCEPT Businesses measure performance through the use of key performance indicators. Poor results in one or more of these indicators can be a source of information leading to the need for change.

4.3.1 Efficiency and effectiveness

Toyota Australia's mission is to 'deliver outstanding automotive products and services to customers, and enrich the community, partners and environment'. After determining the business's objectives and strategies, management at Toyota will ask, 'How well did we do?' They evaluate performance by determining whether the objectives have been achieved. Evaluation is carried out by constantly asking:

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

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

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

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 drives change for a business.

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.

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 the business's performance

Businesses evaluate their objectives using 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. In 2019 there were 1 062 867 new passenger vehicles sold in Australia. Toyota was the top-selling brand for the 17th year in a row selling 205 766 cars. Its market share grew to 19.4 per cent, an increase of 0.6 per cent from 2018, and up 1.2 per cent from 2017. This increase in market share occurred despite a 7.8 per cent fall in the number of new cars purchased in Australia in 2019.

Despite new car sales declining 48.5 per cent as a result of the COVID-19 lockdown, as at 30 April 2020, Toyota Australia remained the top-selling car company in Australia with a market share of 26.5 per cent, selling 10 325 vehicles out of a total of 38 926 vehicles sold in Australia up to that point.

EXAM TIP

Unit 4, Area of Study 1 identifies nine KPIs and, while there are other possible indicators, you should focus on these nine KPIs. You should be able to define them, understand what a change in them means and what areas of business performance are being assessed by each KPI. Linking KPIs to the right area of business performance will result in better answers.

Net profit figures

Profit is what remains when expenses related to operating the business are deducted from the revenue earned. Net profit is often referred to as 'the bottom line'. This is a reference to the line at the bottom of the income statement that shows the profit of the business. Investors will look at **net profit figures** very closely because for the owners, or shareholders, of a business, it is the source of their return on their investment. A business that makes a profit is considered to have performed successfully. Conversely, a low profit or a negative profit, referred to as a loss, suggests that a business could be experiencing several problems, including reduced sales, poor customer service or inadequate management of expenses.

Rate of productivity growth

Productivity is a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services). Productivity is a measure of efficiency that is used by the operations and human resources area of management. An indicator of productivity is the **rate of productivity growth**. This is the change in productivity in one year compared to that of the previous year. Growth in the rate of productivity indicates that the business is using resources more efficiently. Productivity will improve if a business uses fewer inputs to obtain the same level of output, or if more output is produced from the same input.

While external factors (including removal of tariffs and rising exchange rates) led Toyota Australia to close local manufacturing sites in October 2017, Toyota, globally, has improved productivity using what it calls the Toyota Production System, which reduces waste and costs. As well as reducing costs, Toyota works with its suppliers to ensure that it improves productivity. Businesses such as Toyota would expect that by reducing input costs, or by producing more output at the same cost, an improvement in productivity would result in increasing profits.

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 numbers found in an income statement that show net profit — what remains when expenses are deducted from the revenue earned

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

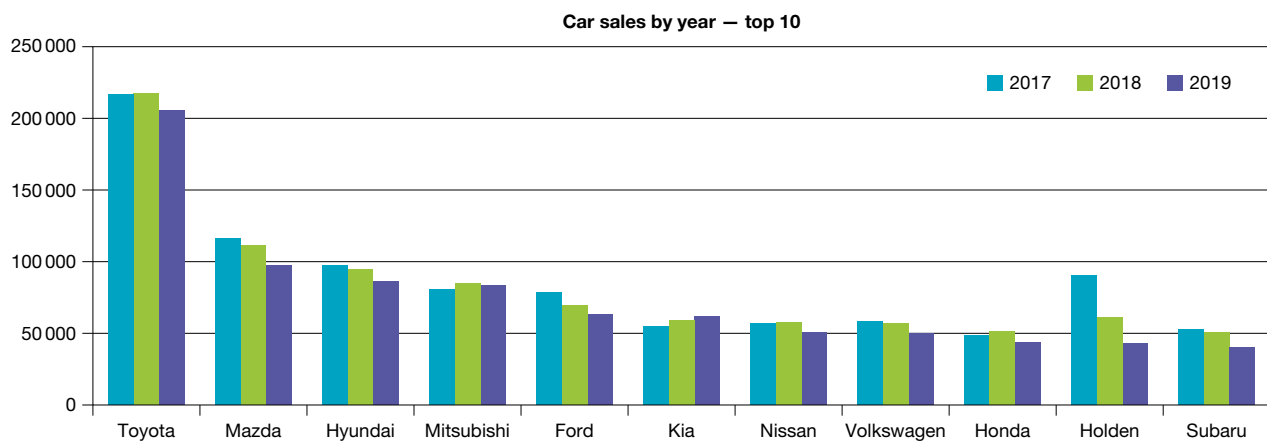
Number of sales

The **number of sales** of a product is a measure of the amount of goods or services (products) sold by the business in a given period of time. Measuring the number of sales helps a business evaluate its performance, especially its marketing strategies.

Usually, a business will be satisfied with its performance when the number of sales increases over a period of time, even if it means lower profits in the short term due to higher marketing costs. The assumption is that such a strategy will lead to higher profits in the long term.

number of sales a measure of the amount of goods or services (products) sold

In 2019, Toyota sold 205 766 new cars in Australia. This eclipsed the combined total of Mazda (second, 97 619) and Hyundai (third, 86 104), while Mitsubishi (83 250) was fourth. While Toyota may be happy to continue to lead the way with the most car sales in Australia, they may be concerned by the overall decrease in sales in the car market. Other companies, such as Mazda, Ford and Volkswagen which were higher in the ranking in 2017, 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?

The use of computerised sales has made the collection, storage, retrieval and analysis of sales data much easier.

Rate of staff absenteeism

It is not uncommon for staff to have days off work — they get sick, they have family commitments, and other circumstances may occasionally lead to them not attending work. This is sometimes a sign of a positive relationship between the employer and the employee — support and trust exist. However, sometimes employees may be absent from work because they are dissatisfied. The **rate of staff absenteeism** measures the number of workers who neglect to turn up for work when they are scheduled to do so. This can suggest that employees are at interviews at other businesses, taking a ‘sickie’, or using up their allotted days off rather than being at work. A rising rate of absenteeism may indicate problems at work between the employer and the employees.

Level of staff turnover

The level of **staff turnover** can also be used as an indicator of the degree of staff satisfaction. It measures the number of staff who are leaving the business, for whatever reason, and need to be replaced. This is an important indicator for the human resources area of management. A decrease in staff turnover suggests that fewer employees are leaving, because they are more satisfied with their work conditions. Staff turnover means that staff will need to be replaced, resulting in recruiting and training costs and the loss of productivity and knowledge. Some level of staff turnover is considered healthy in business, as new ideas are brought in and often stimulate innovation in work practices. However, a major change or significant increase in turnover is a major warning sign.

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.

Unilever’s Surf and Omo brands launched their ‘Small & Mighty’ detergent products in 2008. These concentrated laundry liquids, packaged in smaller containers, reduce waste and cut costs through the reduction in plastic used and the savings in transport.

rate of staff absenteeism the number of workers who neglect to turn up for work when they are scheduled to do so

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

Waste is a cost to the economy as well as to businesses and society in general.



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 who don’t.

Customer complaints can lead to a loss of customers (sales) and profits and can impact business performance.



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.

Certain industries have higher levels of workplace accidents than others. Farms are an area of concern for governments and Worksafe Victoria as they have a higher proportion of workplace deaths than other industries. In 2019 there were 24 workplace deaths. Twenty-five per cent of those deaths (6) occurred on a farm. This is despite only 3 per cent of Victorians being employed in agriculture.

number of customer complaints
the amount of customers expressing their dissatisfaction with the business, either spoken or in written form

number of workplace accidents
indicates how safe the workplace is for employees

on Resources

-  **Video eLessons** Workplace accidents — Australia Post (eles-1047)
Key performance indicators (eles-4292)

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.

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 workplace accidents.

4.3 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Why should businesses evaluate their performance?
2. Outline the differences between effectiveness and efficiency.
3. What are key performance indicators and what are they used for?
4. List four key performance indicators.
5. Outline how market share is calculated.
6. Explain why net profit is an important performance indicator.
7. Why is productivity an important key performance indicator?
8. Explain why staff turnover rates are significant indicators of the effectiveness of workplace practices.
9. Outline how reducing waste can cut costs.
10. Briefly explain the problems that might arise from an unsafe workplace.

APPLY your understanding

11. In groups of three or four, brainstorm what is likely to happen when a business's performance:
 - a. does not meet customer expectations
 - b. meets customer expectations
 - c. exceeds customer expectations.
 Choose a spokesperson to share your group's comments with the rest of the class.
12. In groups of three or four, recall a situation in which you evaluated your performance. An example could be an assessment task, part-time job or sports event.
 - a. What was your objective for this activity?
 - b. Did you achieve your objective? Give a reason for your answer.
 - c. What corrective action, if any, were you required to take following your evaluation?
13. Key performance indicators are used to measure whether or not an objective has been achieved. Using the table below outline how the indicators you have learned about can be used to evaluate performance. The first entry has been completed for you.

Business objective	Key performance indicator	How the KPI can be used to evaluate performance
Maximise profit	Net profit	An improvement in net profit means a business has improved its productivity, either by earning more revenue or by reducing expenses and costs.
Increase sales		
Improve productivity		
Increase market share		
Meet safety standards		
Improve retention of employees		
Reduce workplace waste		

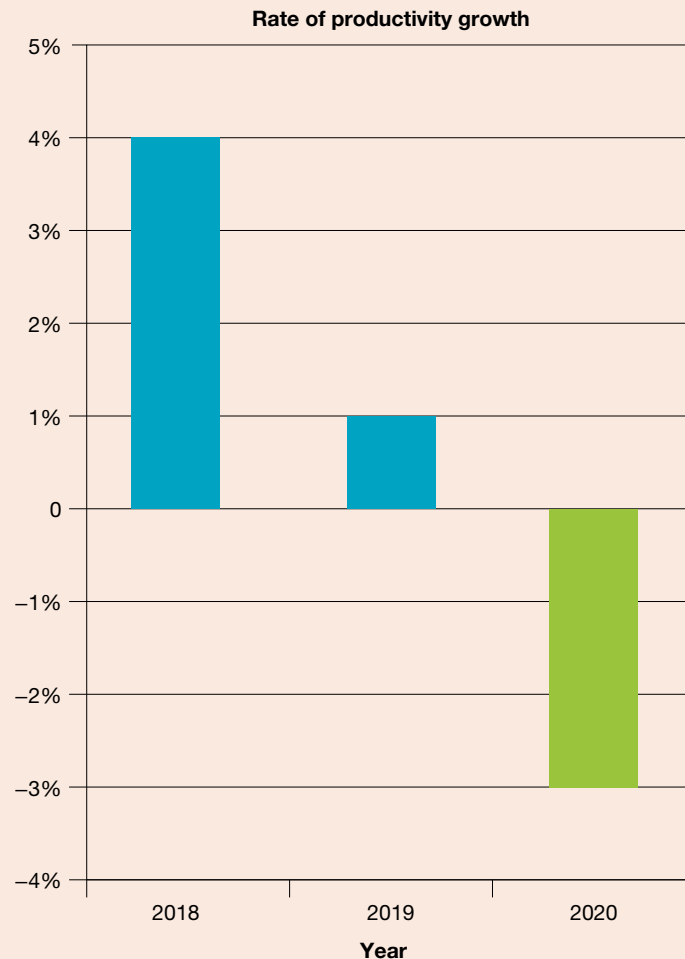
EXAM practice

14. Define 'key performance indicator'.

(2 marks)

15. Refer to the graph below. Analyse the impact the trend in this key performance indicator may have on net profit.

(4 marks)



16. Describe the key performance indicator 'number of customer complaints' and outline how a rising rate in this indicator may impact the achievement of one business objective.

(3 marks)

17. Describe the key performance indicator 'rate of staff turnover' and outline how a rising rate in this indicator may impact the efficiency of business objectives.

(3 marks)

18. Explain the link between a rising rate of staff absenteeism and the level of staff turnover.

(3 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

4.4 Key principles of the Force Field Analysis theory (Lewin)

KEY CONCEPT Psychologist Kurt Lewin developed a theory that allows businesses to determine the forces that drive and restrain change.

4.4.1 Force Field Analysis

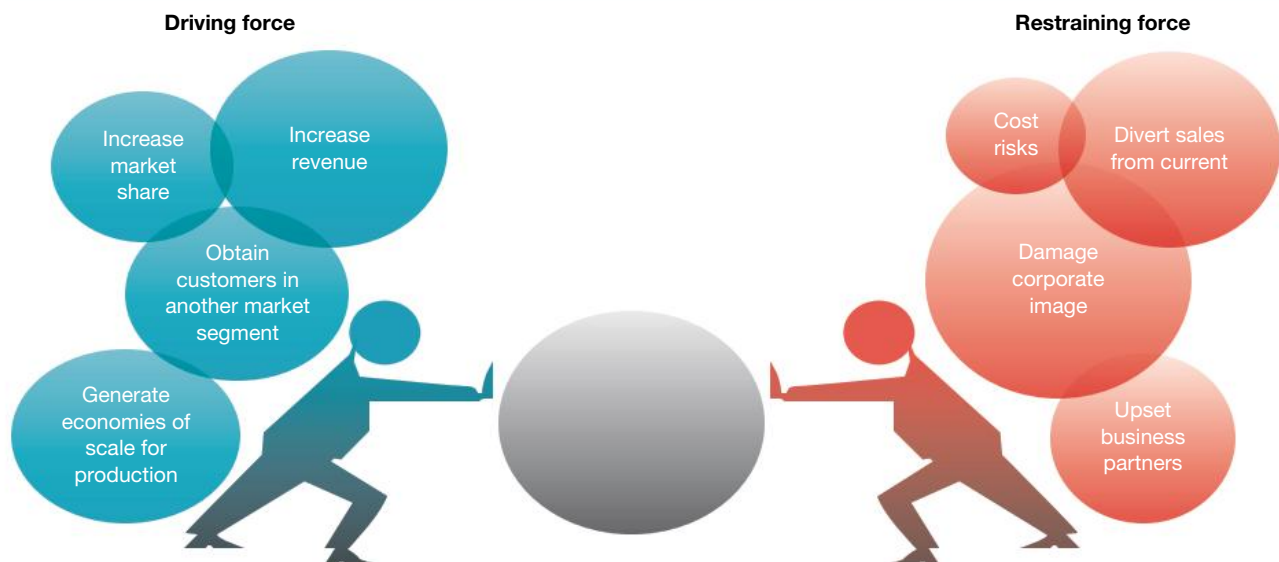
Psychologist Kurt Lewin developed a useful model for understanding the factors, or forces, that will influence a given situation (originally his work related to social situations). Known as **Force Field Analysis**, the model describes how you can determine which forces drive and which resist a proposed change.

Driving forces are those forces that initiate, encourage and support the change — they work to assist the business in achieving its goal. The main driving forces for business change are outlined in subtopic 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.

The current conditions, or status quo, result from these two forces ‘pulling’ in opposite directions. Managers who are trying to implement a change must conduct a ‘force field analysis’ to identify these forces and ensure that the driving forces exceed the restraining forces.

Force Field Analysis outlines the process of determining which forces drive and which resist a proposed change
driving forces those forces that support the change
restraining forces those forces that work against the change

Driving and restraining forces work against each other, making it difficult for a business to change.



DID YOU KNOW?

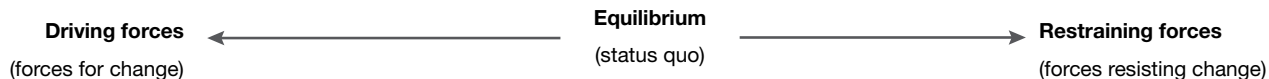
Lewin was born in Germany but fled to the United States when Hitler rose to power in Germany in the 1930s.

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 this section, 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 do a Force Field Analysis

Assume your school is considering changing its uniform for next year. How would a Force Field Analysis assist in this change? At right is a simple process for completing a Force Field Analysis.

1. Form a guiding group of people driving or enabling the change.
2. Using a Force Field Analysis diagram, outline the change proposal.
3. As a group, identify the forces that are currently driving or restraining the change. For each force, assign a score relative to the perceived strength of the force. A low score (1) suggests the force is weak while a high score (5) suggests a strong force.
4. Prioritise the top 3 to 5 most restraining forces and driving forces. These are the forces the business and the guiding group need to either eliminate or strengthen to allow the change to occur.
5. Using the action plan template, list the actions that are required to be completed to meet the proposed change and assign responsibility for each action.

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.

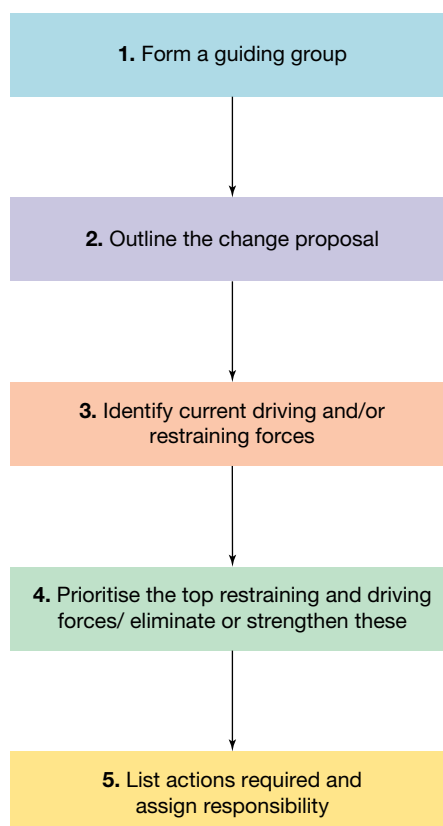
Template for a Force Field Analysis diagram

Driving forces		Restraining forces	

	Action	By whom	By when
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

	Successful	Unsuccessful	No change
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

A process for conducting a Force Field Analysis



4.4.5 Benefits of a Force Field Analysis

Any process or model for implementing change must result in benefits to the business and lead to a successful change. Benefits of the Force Field Analysis include the following:

- Businesses are able to weigh up the 'for's and against' and whether the change is worth undertaking.
- It allows a business to identify and strengthen the driving forces supporting the change and to take action to reduce or eliminate the restraining forces.
- Force Field Analysis allows stakeholders to identify the change as a positive or negative change from their perspective.
- It allows a timeline to be developed and additional resource requirements to be identified
- Force Field Analysis can identify if skills are restraining change and therefore what training may be required.
- It can identify inadequate systems so a re-design of systems can be undertaken.
- The Force Field Analysis diagram is a visual aid that can support communication and reduce communication barriers.
- It allows the business to identify those people within the business who are supportive of the change and those restraining the change.

4.4.6 Limitations of a Force Field Analysis

In general, a business will benefit from the preparation of a Force Field Analysis. However, businesses that prepare such an analysis should do so recognising that there are a number of limitations of such an analysis. These include the following:

- 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 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain what is meant by Force Field Analysis.
2. Define 'driving forces' and 'restraining forces'.
3. List three driving forces for change.
4. List three restraining forces for change.
5. Explain the key principles of the Force Field Analysis theory.
6. Outline the purpose of an action plan template.
7. Briefly outline the steps involved in developing a Force Field Analysis.
8. What are the benefits of developing a Force Field Analysis action plan?

APPLY your understanding

9. Using the action plan template, complete a Force Field Analysis on yourself and your VCE studies this year.
10. Evaluate the importance of adopting a theory to assist a business undertake change.
11. Discuss how a Force Field Analysis could be used by a small shop owner considering opening a second store.

EXAM practice

12. The growth of online shopping and devices that can download books has led to a decline in sales for bookstores. Describe how Lewin's Force Field Analysis could be used by the business in this situation. (6 marks)
13. Describe how Lewin's Force Field Analysis could be used during the change process and outline one benefit of performing a Force Field Analysis. (5 marks)
14. Describe the role of an action plan as part of Lewin's Force Field Analysis. (3 marks)
15. If restraining forces outweigh the driving forces then a business shouldn't change. Analyse this statement. (5 marks)
16. Discuss the benefits of conducting a Force Field Analysis. (4 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

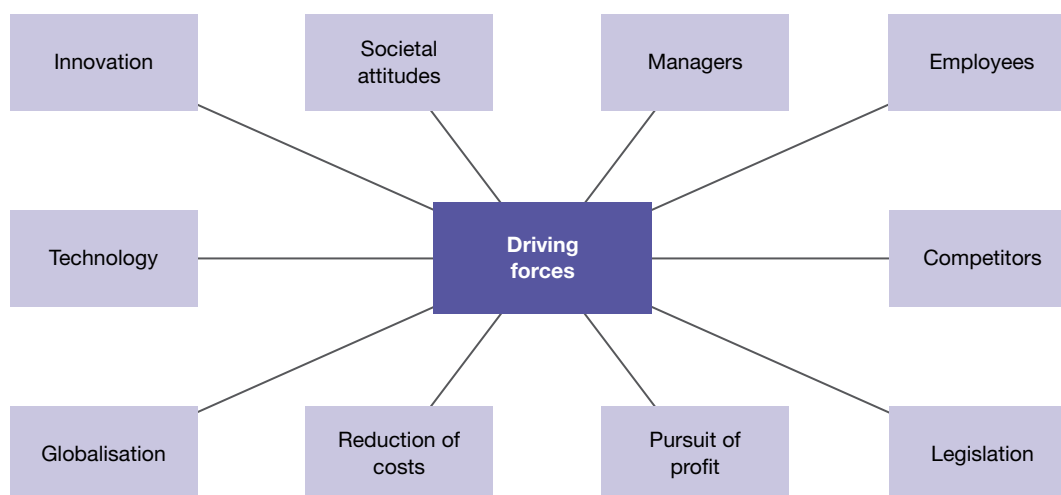
studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

4.5 Driving forces for change in business

KEY CONCEPT As change is an ongoing, dynamic concept, there will always be forces driving a business to undergo change.

Driving forces work to encourage, foster and initiate change. As seen in the following diagram, there are a number of factors that will push for a change in a business.



Resources



Video eLesson Driving and restraining forces (eles-4293)

EXAM TIP

The **Unit 4, Area of Study 1** outcome states that you need to ‘discuss the driving and restraining forces for change’. You should understand that driving forces encourage change — they are not sources of change. You should also understand that some forces are both driving and restraining forces. When asked to explain or describe a driving and restraining force, it is advisable to select two different forces as using the one force for both concepts may lead to confusion. It is also unlikely that a force would both drive and restrain at the same time for the same circumstance.

DID YOU KNOW?

- The sources of driving forces (and restraining forces) are varied. Some are found in the internal environment (inside the business) and some are found in the external environment (outside the business).
- Some driving forces, such as managers, employees and legislation, can also be restraining forces in other situations.

4.5.1 Managers

Managers have the responsibility of operating a profitable or successful business. The poor financial performance of a business would result in management reviewing processes, staff and systems. For example, when Wesfarmers Limited took over the poorly performing Coles in 2007, management implemented a five-year recovery process. It updated the image of Coles supermarkets, rebuilt the supply chain and improved the freshness of its produce. Keeping costs under control is essential in turning around financial performance. To do this, Coles introduced self-service checkouts in its supermarkets.

Businesses sometimes face a crisis. For example, a product sold by the business may be found to be unsafe or dangerous. Responding to such unplanned changes requires responsive decision-making from management to reduce the disruption to the business.

The role managers play in the operations of a business mean they are key driving forces for change. In a small business, the manager may also be the owner and so the livelihood of the owner is tied very much to the ability of the business to change and maintain sales, profit, market share and its customer base. In a large-scale business, shareholders are seeking a return on their investment. Managers must ensure dividends are paid to shareholders and so a healthy profit is needed. Managers will push for changes that will lead to a better outcome and more efficient achievement of business objectives.

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. Toyota was the first vehicle manufacturer to introduce a hybrid model car. All major car manufacturers have now released their own version.
- Advertising campaigns, sales and the development of an online presence are other examples of how competitors can drive change within a business.

There is intense competition within the supermarket industry. While Coles and Woolworths are the 'big two' they must contend with increased competition from Aldi and other businesses.



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 face substantial fines or even imprisonment of individuals. For example, in August 2017 the Victorian government extended a ban on smoking in cafes, takeaway shops, restaurants and licensed premises to also include outdoor dining areas.

In March through May 2020, the Victorian government declared a State of Emergency as a result of the COVID-19 pandemic. Businesses were forced to change the way they operated. Supermarkets introduced limits on quantities customers could buy of certain products, social distancing was implemented in stores and limits were set as to how many customers could be in a store at any one time.

In March 2020, as a result of the COVID-19 pandemic, Coles supermarket introduced limits of one pack of toilet paper per person.



Cafés and restaurants were hit particularly hard as a result of the COVID-19 pandemic, with businesses closed to customers who wanted to sit and consume their food. Cafés served take-away items only and restaurants could only deliver food. While this harmed many businesses, some, such as Deliveroo and UberEATS, were able to benefit as more customers used their services.



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 then profit will be negatively impacted and as such may drive the business to change. In these circumstances businesses will seek to implement strategies to reduce costs. There are a range of cost-reducing strategies available for businesses to implement:

- Source materials and supplies from a cheaper supplier, either locally or from overseas.
- Source a local supplier to avoid paying import duties.
- Reduce wages through downsizing or replacing labour with technology, such as robotics or an assembly line.
- Source a new supplier of utilities (gas, water, electricity and telecommunications). Privatisation has led to more options in these areas and so businesses can 'shop around' for better deals.

Profit may be increased in two ways — an increase in revenue, brought about by increasing sales or raising prices, or through a reduction in the costs associated with operating the business.

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,

globalisation the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers

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 5.12).

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.

All businesses, regardless of size, are able to take advantage of technology and so all businesses are driven to change by technology. Local milk bars introducing EFTPOS, couriers using electronic signatures, clothing stores using scanners and electronic security tags, and supermarkets introducing online shopping and self-service checkouts are all examples of technological advances that have driven change.

innovation a process that occurs when something already established is improved upon
niche market a narrowly selected market segment within a larger market

The assembly line was a great technological advancement when it was invented in the early 1900s. Subsequent advances in technology have improved it further to the point where fewer and fewer human resources are needed. The development of self-serve checkouts has decreased the need for shop assistants.



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. For example, the market for golf clubs is a large market; however, with only a small percentage of golfers being left-handed, a business that sells only to left-handers is working in a small, select market.

Today's generation has already lived through significant innovations in communication — mobile phones and wireless internet, Facebook and Twitter, all of which have also impacted

The introduction of contactless payment by debit and credit cards (payWave), and through mobile phones, has led to a significant increase in the total spent using these cards.



businesses. The creation of Facebook and Twitter (among other apps) have driven businesses to develop their own Facebook pages or Twitter accounts to better keep in touch with customers.

Other examples of innovation that have driven changes in business are the ability to remotely check-in for airline flights, contactless payment in stores, and ATMs located in areas other than banks, such as shopping centres.

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.

4.5.10 Societal attitudes

Businesses are constantly confronted by changes in society's attitudes and values. Society's attitudes about what is right and wrong are constantly changing and this affects the ways in which businesses operate. Increased access to rapid communications has made the world's population more acutely aware of what businesses are doing. Pressure from society has forced businesses to implement procedures to preserve and protect the natural environment. One recent example of this is the decision by Australian supermarkets to phase out the use of single-use plastic bags. Society 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.

Society requires that large businesses sell acceptable products and treat staff with respect. Businesses today are also expected to contribute to society by returning something positive to the communities in which they operate. AGL's 'Energy for Life' program, established in 2003, gives employees of AGL the opportunity to get behind the causes they are passionate about, through employee giving, volunteering and fundraising.

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 as a result of societal attitudes.



From 2019, Energy for Life began supporting the following two key initiatives:

- *A partnership with The Smith Family to support their national flagship peer-reading program student2student.* The strategic alignment between AGL's work in social and economic inclusion and The Smith Family's work in breaking the cycle of poverty through improving educational outcomes for young people, makes this initiative the perfect match for AGL.
- *The Powering our Community Solar Fund.* Under this new initiative, AGL employees are able to nominate local community groups to receive an AGL-donated and installed solar system. An employee-based committee selects the worthiest entries, based upon their contribution to social and economic inclusion. By directing funds to this initiative, AGL will be able to maximise local community engagement and encourage employee support for local community organisations.

on Resources

 **Weblink** AGL Energy for Life

KEY IDEAS

- Driving forces are those forces that initiate, encourage and support the change.
- The main driving forces for change include:
 - managers (want the business to remain profitable and competitive)
 - employees (working in a supportive and innovative environment are free to suggest ideas)
 - competitors (fear of loss to a rival if the changes are unsuccessful)
 - legislation (changes to the law that impact operational practices)
 - pursuit of profit (the greater the profit the greater rewards for business owners)
 - reduction of costs (financial cost of operating a business can affect profit)
 - globalisation (the need to compete with overseas businesses)
 - technology (stay up to date or risk falling behind)
 - innovation (the drive and desire to be a market leader)
 - societal attitudes (the need to reflect what society values).

4.5 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain what is meant by a driving force.
2. List three driving forces for change.
3. Distinguish between the internal and external environments of a business.
4. Explain how the pursuit of profit and cost reduction are both driving forces and how they could be seen as linked.
5. Copy and complete the following table.

Example of force	How it may impact a business
New laws passed to protect young workers	
Computerisation of sales data	
Employees	
New export market identified	
Protection of the natural environment	
Globalisation	

6. Why is technology so crucial in terms of business success and failure?
7. What has been the impact of globalisation on businesses?
8. Provide a list of innovations that have led to business change.
9. Explain what is meant by a niche market and how identifying a niche market is an example of innovation.

APPLY your understanding

10. Discuss the advantages and disadvantages of accelerating technology on a business's operations.
11. 'A business must always be aware of the changing nature of competitors.' What does this mean?
12. Evaluate the benefits to businesses of globalisation.
13. 'Technology is expensive and updating technology constantly is of no benefit to businesses.' Discuss this statement.

EXAM practice

14. One of the objectives of Benzoid Ltd is to become a truly global brand. Describe one driving force that could have an impact on the success of this objective. **(2 marks)**
15. Describe two driving forces for change that may impact a social enterprise. **(4 marks)**

16. Describe how employees may drive change. (3 marks)
17. Technology is always changing and improving and it is impossible to keep up. Analyse this statement, explaining whether or not you believe technology should be considered a driving force for change. (5 marks)
18. Competitors are perhaps the most important driving force for change. Analyse this statement. (6 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

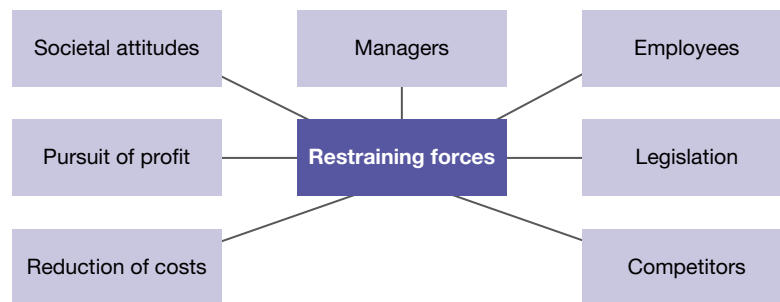
studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

4.6 Restraining forces in business

KEY CONCEPT At the same time as managers are undertaking change for the best of reasons, there will be restraining forces working against the change, creating resistance.

Restraining forces are those that work against change, creating resistance. A range of different forces hinder or restrain change. These forces are seen in the diagram below.



DID YOU KNOW?

Ironically, some people enthusiastically support the changes in public, but then ignore the changes in private. Management consultant Michael Hammer calls this deadly form of resistance the 'Kiss of Yes'.

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. For example, the packaging company Amcor was forced to cut some management positions when it combined the business's Australasia office with their global headquarters in the Melbourne suburb of Hawthorn.

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.

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 refers to a business's inactivity or lack of response when faced with proposed changes. Some managers resist change because it requires moving outside and away from their 'comfort zones'. Many employees and managers of the typical business desire a safe and predictable status quo. Such an attitude is summed up in the phrase, 'But we don't do things that way here'.

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.

organisational inertia an unenthusiastic response from a business to proposed change

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. MicroForte Technologies, for example, allocates 7 per cent of its yearly budget to staff retraining.
- *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 if the costs of the change outweigh the benefit to the business.

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 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Complete the paragraph below by choosing the correct term from the options provided.

cost	fear	effectively	resistance	managers	security
common	turbulent	routines	analysing	strategies	inertia

When change is too rapid, or when managers and employees feel they have no control over it, then _____ to the change is to be expected. Resistance to change is _____ among employees and businesses. The resistance needs to be managed _____. Managers can fail to achieve change by not _____ the situation properly. Employees may resist change because of _____ of the unknown; possible threat to job status or _____; or disruption to established work _____. Organisational _____ and financial _____ are two main restraining forces. Rapid, complex and _____ change is now commonplace in most Australian businesses. _____ for overcoming resistance need to be developed by _____.

2. Distinguish between 'driving' and 'restraining' forces.
3. Explain the link between restraining forces and Lewin's Force Field Analysis.
4. Prepare a brief report outlining the main financial costs responsible for some businesses resisting change.
5. What types of resistance to change have you observed recently? How could they have been overcome?
6. Briefly explain how the following can be a restraining force.
 - a. Lack of time
 - b. Poor timing
7. Provide an example of 'organisational inertia'.
8. When the new chief executive officer for Bradley Southport Limited attempted to make some major changes, she encountered resistance among some senior level managers. Explain why these managers might have resisted the changes.

APPLY your understanding

9. Assume you are the human resource manager for a large financial business. You have been asked by the board of directors to prepare a report on the three main reasons why staff may resist the proposed change. Present your findings as either a written or an oral report.
10. Analyse the restraining forces that may impact a proposal at your school to change the start of your school day from 9 am to 7 am.
11. Based on the information in this subtopic, explain why there was so much resistance among bank tellers when they were first required to use computers to process customer transactions.
12. Describe how you would feel if your classroom was radically changed overnight without your knowledge.
13. Evaluate the accuracy of the following quotes concerning change.
 - a. 'Change for change's sake is not progress.'
 - b. 'Change is life. Life is change.'
 - c. 'Change what you can change. Accept what you cannot change.'
14. Select a major change in your life, such as moving house, changing schools or starting a new casual job, and complete the following.
 - a. Reflect on the reasons you liked or disliked the change. Share your thoughts with other class members.
 - b. List the reasons that were common among the group.
 - c. What does this tell you about the best strategy that a manager could use to help overcome resistance to change?
15. Which restraining force for change do you think is:
 - a. the most common
 - b. the most difficult for management to deal with?
 Give reasons for your answers.

EXAM practice

16. One of the objectives of Benzoid Ltd is to become a truly global brand. Explain one restraining force that could have an impact on the success of this objective. **(2 marks)**
17. Describe employees as a restraining force. **(2 marks)**
18. Describe time as a restraining force. **(2 marks)**
19. If a change is needed then a business should ignore any restraining forces and just change. Discuss this statement. **(4 marks)**
20. Explain how employees can be both a driving and a restraining force for change. **(4 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

4.7 APPLY YOUR SKILLS Forces affecting change

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Apply business management knowledge to practical and/or simulated business situations

4.7.1 Newspaper portfolio

Select three driving forces for change that can influence a business's environment. Collect six articles on each driving force from the internet, newspapers and journals over an 8- to 10-week period.

Ensure that you date and acknowledge the source of each article.

Change is the only constant in the world of business.

Company profits at all time high

Society expects businesses to fulfil their social obligations

New anti-pollution laws passed

Breakthrough in trade talks

Fall in consumer spending

DID YOU KNOW?

There are many widely-known quotes that relate to the topic of change. Consider the following:

- 'If you want to make enemies, try to change something.' — *Woodrow Wilson*
- 'Change is inevitable—except from a vending machine.' — *Robert C. Gallagher*
- 'If you do not change direction, you may end up where you are heading.' — *Lao Tzu*
- 'Slowness to change usually means fear of the new.' — *Philip Crosby*
- 'All great changes are preceded by chaos.' — *Deepak Chopra*

4.7.2 Change and keeping staff on board

CIRCLE RECRUITMENT AND HR EMPLOYMENT SOLUTIONS

Circle Recruitment & HR is a boutique recruitment and employment company specialising in flexible workplace practices and the placement of women returning to the workforce, predominantly into accounting and office administration roles. We pride ourselves on being highly professional.

The global financial crisis (GFC) in 2008/09 meant we needed to implement strong change to our business model. We needed to ensure that we could navigate the economic climate and keep our staff employed. We needed to reduce our costs and requested staff to reduce hours of work. This was a significant change to the business, and the management and staff had to adapt.

And while that crisis is over, we have continued to look for flexible solutions for our clients as well. The growth of part-time employment has led to challenges for us — matching staff who are willing to work fewer hours with businesses not willing to make long-term, ongoing commitments during uncertain economic times. The global pandemic of 2020 is an example of such an uncertain time.

Kathryn MacMillan, Managing Director of Circle Recruitment and HR



Navigating change is not an easy thing. We used clear communication to employees, both individually and as a team, to ensure they were not left in the dark as to what was going on, and to see the reasons behind the hard decisions. Getting our team members on board, committed and connected to our business was, and remains, our number one priority.

We also pride ourselves on our commitment to social responsibility. Back in 2013, Circle Recruitment & HR turned ten years old! We wanted to celebrate in some way, make a statement and give back to society. We considered Australia's Biggest Morning Tea, a Cancer Council fundraiser, and wondered about all the workplaces too small to make much money from their own morning tea with a couple of staff. What if we hosted the morning tea for all of them and collectively small businesses could make a greater impact on Cancer Research. We added the word 'BUSINESS' and Australia's Biggest BUSINESS Morning Tea (ABBMT) was born!

The idea took flight and from our first success in 2013, the event has gained more and more momentum. We have run this event five times, with increasing attendees and greater success each time! With the help of 300 attendees and dozens of wonderful business sponsors, we raised amazing sums for the Cancer Council! For a number of years, Australia's Biggest BUSINESS Morning Tea has been the Cancer Council's fastest growing event in NSW. Our next event is scheduled for 2021.

Source: <https://circlerhr.com.au/>.

4.7. EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

1. Paste the articles collected in section 4.7.1 into your notebook and complete the table shown below for each article. (You may not be able to provide answers in all columns for all articles.)

Article	Business name	Change	Driving force(s)	Restraining force(s)

2. Write a report of approximately 500 words on one of the articles. Use a business report style with subheadings, graphs and diagrams to support your text. In your answer, you could:
 - describe the driving force(s) has exerted pressure for change
 - discuss the impact of this driving force(s) on the business
 - identify possible sources of resistance
 - outline tactics used to overcome resistance.

A major focus within your report should be an analysis of the impact of the driving force on the individual business. Your responses should combine the information obtained from your teacher and textbooks with the information on current business conditions and factors from online, newspaper and journal articles.

3. a. Identify some of the changes you have noticed within your school in the past year.
b. In each case, explain the forces that exerted pressure for change.
4. Referring to the 'Circle Recruitment and HR' case study, identify the driving forces for change.
5. Summarise the tactics used by Circle Recruitment and HR to manage changes.

APPLY your skills

6. Referring to the 'Circle Recruitment and HR' case study, suggest appropriate forms of communication that could be used to keep the employees informed of changes
7. Think about a situation in which you would like to make a change but face some resistance. The situation might involve improving your business management results, changing the arrangement of your timetable or having greater use of the family car.
 - a. Write a brief outline of the status quo.
 - b. Write a brief description of the situation as you would like it to be if you could change it.
 - c. List the main driving forces.

EXAM practice

8. Referring to a contemporary business case study, explain what is meant by business change. (2 marks)
9. Define 'driving forces'. (2 marks)
10. Referring to a contemporary business case study, identify the change issue and describe two possible restraining forces at play. (5 marks)
11. Referring to a contemporary business case study, explain how a Force Field Analysis could be used during a period of change. (4 marks)
12. Explain how employees can act as both a driving and a restraining force. (4 marks)
13. Analyse the need for communicating skills when a business undergoes change. (3 marks)
14. If restraining forces outweigh driving forces then a change shouldn't be undertaken. Analyse this statement. (4 marks)

Solutions and sample responses are available in your digital formats.

4.8 APPLY YOUR SKILLS Driving and restraining forces

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Interpret key performance indicators to analyse business performance
- Apply business management knowledge to practical and/or simulated business situations

NAB REBOUNDS WITH \$5.3 BILLION PROFIT, ANNOUNCES 6000 JOB LOSSES

February 2018 was a busy month for the National Australia Bank. After a very poor financial performance in 2016, NAB Chief Executive Officer (CEO) Andrew Thorburn announced a net profit of \$5.3 billion and the creation of 2000 new jobs in the digital area of the businesses operations. At the same time Mr Thorburn flagged the loss of 6000 jobs over the next three years.

The changes announced were expected to cost up to \$800 million in redundancies. This led, despite the improved profit, to a drop in the share price of NAB.

The focus of the announcement was a warning to customers from the bank that the industry was changing, and that the entire banking industry was under pressure to reshape its workforce. This was the impact of new technology and digital transactions that have wreaked havoc with traditional banking jobs.

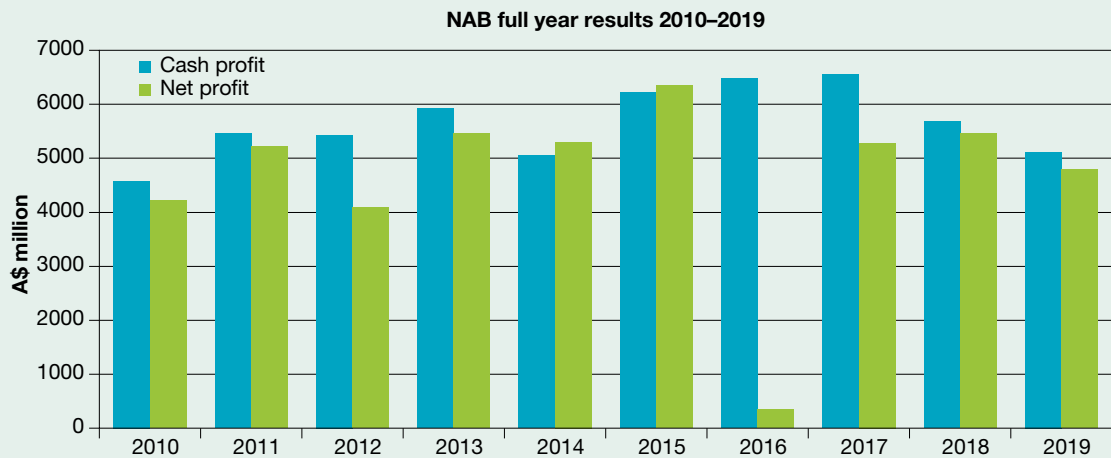
In announcing the cuts in a media briefing, Mr Thorburn said, 'As transactions move to digital channels — and this is driven by our customers — we will need fewer people.' In recognition of the changing landscape of the industry, Mr Thorburn said the net job loss would be closer to 4000 as 2000 new digitally focused positions will be created.

In addition to the job losses, there would be some branch closures but also some new branches opening in growth areas, particularly in Sydney. These cost-cutting measures are budgeted to deliver annual savings of \$1 billion by 2020.

NAB also said it planned to increase its investment in 'simplifying' the bank by \$1.5 billion over the next three years, on top of an existing \$3 billion internal investment program. The bank plans to halve the number of products it sells and drive 60 per cent of its business through digital channels.



While Mr Thorburn announced these changes in 2018, he couldn't predict all that would happen in the meantime. In July 2019 he was replaced as CEO by Ross McEwen. Mr McEwen has subsequently had to deal with the fallout from the Banking Royal Commission completed in February 2019 and the challenges posed to the banking industry by the global COVID-19 pandemic in 2020.



4.8 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

1. Describe the two key driving forces that have led to NAB's decision to cut jobs and branches.
2. Explain the key performance indicator that is referred to in the case study.
3. Using NAB's key performance indicators, analyse the business's performance.
4. Businesses have a number of objectives. Explain two key objectives that NAB is attempting to meet by their decision to cut jobs and branches.

APPLY your skills

5. In making the announcement, NAB CEO Andrew Thorburn stated that the entire banking industry needed to reshape its workforce. Explain how competitors can act as a driving force for change. Refer to NAB in your response.
6. Change is often resisted by employees. With reference to NAB, explain why employees can act as a restraining force to change.

EXAM practice

7. Define the term 'net profit figures'. (2 marks)
8. Explain how the performance revealed by net profit figures may impact on one other key performance indicator. (2 marks)
9. Change always brings uncertainty to employees. Referring to a contemporary business case study, analyse how employees may react to the proposed changes. (5 marks)
10. 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)

Solutions and sample responses are available in your digital formats.

4.9 Strategic management by Porter's Generic Strategies (1985)

► **KEY CONCEPT** Change can be managed through the use of Porter's Generic Strategies approaches. A business will need to choose one of the two key approaches — lower cost or differentiation to achieve a competitive advantage.

Michael E. Porter is a US-born professor at the prestigious Harvard School of Business. In the 1980s he developed a theory that attempted to explain how businesses may seek future growth by pursuing a competitive advantage over other businesses. A competitive advantage may occur when a business has a lower cost price structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market. The objective of gaining a competitive advantage is to improve performance in those areas identified as key performance indicators (see subtopic 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

Recognising the competitive forces operating upon businesses, businesses that wish to gain a competitive advantage must concentrate on their strengths — in other words, what competitive advantage(s) does the business have? Porter identified two categories of competitive advantage:

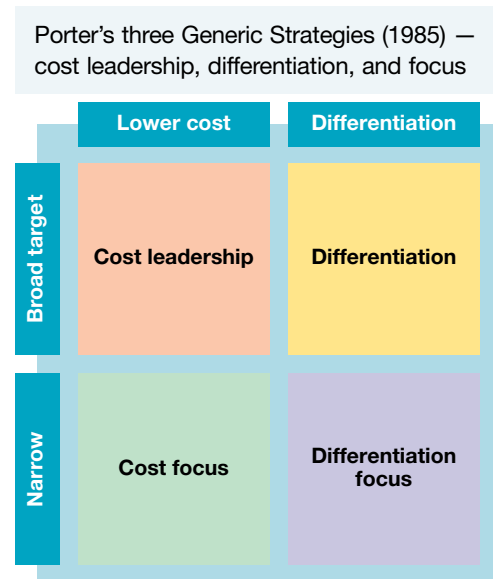
1. *cost advantage*. A competitive advantage is gained through reducing or altering the costs of the business.
2. *differentiation advantage*. Businesses gain a competitive advantage through differentiating their good or service from others in the market.

These result from the business's ability to respond to the five forces better than competitors.

In his bestseller *Competitive Advantage*, Porter suggested that a business must choose between competing on cost or differentiation, and then choose between one of two types of competitive scope. Competitive scope refers to the range over which the business intends to compete. This range may include the number of countries, markets, industries or customers that the business services. Competitive scope, therefore, may be broad (a large number of countries, markets or customers) or narrow (a small number of countries, markets or customers).

Porter's theory then states that there are three generic strategies that can be implemented to achieve a competitive advantage — cost leadership, differentiation and focus (consisting of a cost focus and a differentiation focus). The generic strategies can be seen in the diagram at right. Porter's generic strategies are the actual ways of gaining competitive advantage — in other words, developing the 'edge' that gets the business the customer and takes them away its competitors. For the purposes of VCE Business Management, we will consider the two key approaches, lower cost and differentiation. We will therefore examine:

- strategies that relate to lower cost (cost leadership and cost focus)
- strategies that relate to differentiation (differentiation and differentiation focus).



EXAM TIP

The **Unit 4, Area of Study 1** outcome states that you need to 'evaluate management strategies to position a business for the future'. This suggests that you should know advantages/ strengths and disadvantages/ limitations of strategies related to Porter's two key approaches (lower cost and differentiation).

DID YOU KNOW?

In *Competitive Advantage*, Porter stated that a business that chooses to use each generic strategy, but does not achieve any of them, will be 'stuck in the middle' and will have no competitive advantage. A business that finds itself in such a position will achieve below-average performance. However, he did acknowledge that some businesses are able to pursue more than one generic strategy.

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).



DID YOU KNOW?

In January 2020, Rio Tinto scrapped its controversial reverse factoring program to speed up payments to small suppliers, in a quick response to rising pressure from media and small businesses. Telstra also made the same decision.

Telstra extended its payment terms to suppliers to 90 days, allowing Telstra to better manage its cash flow. Small businesses that needed the money earlier would receive their payment but with a discount applied so they received less cash. This was particularly detrimental to small businesses.

EXAM TIP

The **Unit 4, Area of Study 1** key skills state that you should be able to 'compare ... relevant management strategies'. This suggests that you should know the similarities and differences between a differentiation strategy and a lower cost strategy.

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.

Starbucks, Hudson's and Gloria Jeans all became successful as they promoted a brand that was different to other businesses that in reality only sold coffee. Another example is Unilever, a multinational company producing a range of cleaning products. Two well-known brands, Surf and Omo, are both produced by Unilever. Both products have a market share, their own advertising and compete with each other, but the business has an overall higher market share and profit because it is marketing two products in the one market.

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.

product differentiation the use of factors such as brand names, delivery methods and advertising to establish differences between substitutable products

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.

At Amazon, differentiation is based on the broad range of products that can be purchased via its marketplace, ease of use, lower pricing, speed of delivery and customer service. However, Amazon has also achieved cost leadership when compared with bricks and mortar retailers. The company enjoys economies of scale because of its massive warehousing facilities and order processing capabilities. Amazon is then able to translate this scale into even lower prices and faster, cheaper shipping. Australians have been able to test Amazon's differentiation strategy first-hand since they commenced operations in Australia in 2017.



KEY IDEAS

- Michael Porter developed a Generic Strategies approach to strategic management.
- Change can be managed utilising lower cost or differentiation approaches from the three generic strategies:
 - cost leadership
 - differentiation
 - focus.

4.9 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Identify strategies that a business could use to achieve lower cost.
2. Explain why it is important for a business to manage stock levels efficiently to reduce costs.
3. List the costs associated with buying and selling stock.
4. Explain what is meant by product differentiation.
5. Distinguish between a cost strategy and a differentiation strategy.
6. Explain what is meant by a niche market and outline how a focus strategy is more likely to be used by a business operating in a niche market.

APPLY your understanding

7. Divide your page into two columns. Draw up a list of businesses or products that you believe have attempted to gain a competitive advantage by adopting:
 - a cost leadership strategy or
 - a differentiation strategy.Explain your reasons for the selections you made.
8. Visit a local supermarket and complete the table below, identifying the number of brands in each product area, the names of the brands and the manufacturers of these brands.

Product	Number of brands and brand names	Producer/manufacturer name
Shampoo		
Dishwashing detergent		
Laundry powder		
Toothpaste		

EXAM practice

9. Porter developed two key approaches to strategic management that a business could adopt in the situation where a business is suffering from a fall in sales and profit. Evaluate those two key approaches. **(8 marks)**
10. Aiden Limited is looking to enter the Asian market and is concerned about how to break into a competitive market. Identify one of the key approaches to strategic management from Porter's Generic Strategies and analyse how this approach could be applied in relation to Aiden Limited. **(4 marks)**
11. In a highly-competitive market, justify the use of the low cost approach by a new business hoping to enter the market. **(3 marks)**
12. Explain why the differentiation suggested by Porter can allow a business to charge a higher price for their products. **(2 marks)**
13. A business must choose one of Porter's Generic Strategies — they can't use both. Analyse this statement. **(5 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

4.10 APPLY YOUR SKILLS Lower cost and differentiation

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Apply business management knowledge to practical and/or simulated business situations
- Compare and evaluate relevant management strategies

JETSTAR — AN AUSTRALIAN LOW-COST AIRLINE

Launched in 2004, Jetstar is a wholly owned subsidiary of Qantas. The Jetstar Group owns parts of other Jetstar-branded airlines in the Asia-Pacific region, and offers approximately 5000 flights a week to more than 85 destinations in 18 countries and territories. The company operates a fleet of more than 130 aircraft. Jetstar's management operates independently of Qantas and it also has a different focus to that of the parent company. Jetstar's mission relates to offering 'low fares to enable more people to fly to more places, more often'.

Jetstar incorporates cost cutting in all aspects of its business. Its business model requires it to know its customers well and understand that they are driven by the price of an airline ticket. Generally, Jetstar will provide customers with an aircraft seat and additional services such as seat selection, checked baggage and in-flight products to be purchased. Customers can choose between two types of fares — Economy or Business. Conditions for staff, including pilots, airline staff and ground staff, are minimised, as is the amount of time the plane is on the ground. Jetstar outsources parts of its technology support and maintenance to reduce costs. New technologies, such as straight to gate mobile check-in, are also used to lower costs.

Jetstar's approach has resulted in mixed outcomes for the business. An airline and airport survey released in 2017 by Australian consumer advocacy group CHOICE ranked Jetstar as one of the worst airlines in the world. According to the survey, passengers rated Jetstar lowest or equal lowest in six of nine categories including meals, punctuality and cleanliness. In a statement, Jetstar said, 'CHOICE seem to enjoy criticising airlines without understanding the safety standards we operate to or recognising the role of low-cost carriers in making travel more affordable for millions of Australians.'

In August 2019 Jetstar announced its domestic market leading on-time performance position in April–June 2019 — 81.5 per cent of Jet routes and 85.7 per cent of Regional routes reported arrivals within 15 minutes of the scheduled arrival time. This follows their leading performance in 2018 and in January–March 2019. In August 2019, the New Zealand domestic network delivered 83.8 per cent on-time performance on Jet routes and 91.4 per cent on Regional routes.

Overall, the approach by Jetstar has resulted in positive financial performance. In 2016–17 Jetstar Group delivered a profit before tax of \$417 million, and in the 2019 financial year the airline reported a \$370 million profit. This was on the back of 38 million customers flown (with two-thirds buying fares below \$100) and completion of the A320 cabin enhancement.

Jetstar has achieved a competitive advantage through its low-cost model.



DIFFERENTIATION AT APPLE

US-based Apple Inc. has achieved a competitive advantage through the creation of a unique product and charges a premium price. The company designs, manufactures, and markets consumer electronics such as smartphones, tablet devices, personal computers and portable digital music players, as well as a variety of related software and online services.

Steve Jobs, co-founder of Apple, had a strong vision for what he wanted Apple to do and be. At a Q&A session in 1997, he said, 'We've tried to come up with a strategy and vision for Apple—it started with: "What incredible benefits can we give the customer?"' This differentiation approach has driven the company to become what it is today. The Apple brand is now ranked first in the world with an estimated value of US \$234.2 billion, according to Interbrand's annual Best Global Brands 2019 rankings.

Apple's differentiation strategy is also clearly outlined in its 2018 Annual Report and mission statement, which states that the business is committed to 'bringing the best user experience to its customers through its innovative hardware, software and services'. Apple's Annual Report also says that the company's strategy relates to gaining a competitive advantage from 'its unique ability to design and develop its own operating systems, hardware, application software and services to provide its customers products and solutions with innovative design, superior ease-of-use and seamless integration'.

Apple has a well-organised system of research and development. The company spent around US\$10 billion on research and development in 2016, allowing it to bring more innovation to its products and ensure that the business remains competitive. In 2017, for example, Apple launched iPhone X, which makes use of innovative features such as OLED display technology, Face ID (which uses a 3D scan of the user's face to unlock the screen) and wireless charging. Apple's focus on customers who are willing to pay more was reflected in the iPhone X, which had a premium price of A\$1579 for a version with 64 gigabytes of memory.

Apple continues to undertake innovation and development to improve its product. The release of a new iPhone, the iPhone 12, was announced in late 2020 — after a delay of several weeks. Features of the new phone include:

- it is a fully 5G phone, allowing faster speeds and improved connectivity
- the largest model is similar in size to the iPhone 11 but thinner, with square edges rather than rounded
- an OLED display replaces the earlier LCD displays
- MagSafe technology allows faster and safer charging.

One unknown factor in 2020 was the effect that the spread of COVID-19 could have on new technology launches going into the future. Because of travel restrictions and reduced production capacity, it is unclear how the global situation will continue to affect supply chains and manufacturing processes.

Apple's unique products, including smartphones and tablet devices, are in high demand.



Apple has achieved a competitive advantage through the creation of its unique products, and charges a premium price.





4.10 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

1. Using examples, explain the competitive advantage that Jetstar has created.
2. Using examples, explain how Apple has developed its competitive advantage.
3. Outline the similarities between a lower cost approach and a differentiation approach.
4. Outline the differences between a lower cost approach and a differentiation approach.

APPLY your skills

5. Use the **Jetstar** weblink in the Resources tab, and other online resources, to create a collection of evidence that suggests that Jetstar uses a lower cost approach.
6. Use the **Apple** weblink in the Resources tab, and other online resources, to create a collection of evidence that suggests that Apple uses a differentiation approach.
7. Evaluate how well a lower cost approach would work for Apple.
8. Evaluate how well a differentiation approach would work for Jetstar.

EXAM practice

9. Define 'differentiation'.	(2 marks)
10. Explain how using one of the key approaches to strategic management from Porter's Generic Strategies can improve business performance.	(3 marks)
11. Evaluate how adopting a lower cost approach can improve performance in terms of net profit figures.	(5 marks)
12. Evaluate how adopting a differentiation approach can improve performance in terms of percentage of market share.	(5 marks)
13. Analyse how adopting a differentiation approach may impact a business operating in a highly-competitive market.	(4 marks)

Solutions and sample responses are available in your digital formats.

4.11 EXTEND YOUR KNOWLEDGE Data-driven change

KEY CONCEPTS

- Businesses must constantly change in order to survive.
- A business's performance, as identified through key performance indicators, is a source of change.
- There are driving and restraining forces for change in businesses.

FABULOUS FASHIONS

The business objectives of Fabulous Fashions (FF) include 'increasing market share in the low-cost fashion sector' and the business is currently attaining this goal. Sales and profits reached record levels last year. FF now operates 90 stores across Australia.

The management team of the business have a number of decisions and issues affecting them at this time. At their forthcoming board meeting, senior management will be required to make a number of key decisions, or make recommendations to deal with certain important issues. These issues and decisions are as follows.

Staff turnover

The Human Resource Manager (HRM) is worried about employee performance within the business. She has summarised FF employee data and compared it to the Australian average. These comparisons are shown in the following table.

Employee performance and other human resources data

All data 2015	FF shop workers	Australian fashion retail workers (average)
Annual staff turnover	22%	16%
Median hourly wage	\$11.35	\$12.83
Staff on part-time contracts	73%	56%
Staff aged 16–24 years old	45%	33%
Customer complaints per 100 transactions	4.6	Data not available
Staff with no formal qualifications	16%	11%

Many of the staff leaving the business are part time. The HRM wants FF to introduce a comprehensive set of objectives and targets at each level of the business: 'I believe that this would give regional managers, shop managers and shop staff a clear focus and the incentive they need to stay with the business and work hard to develop their careers with us. A clear set of quantifiable targets for each region and shop within our business will definitely improve employee performance within FF.'

Location of a new shop

This week the directors are to decide between two locations for a new shop. The Operations Manager has produced the data in the following table and this is to be considered by directors at this week's board meeting.

Financial data for the two locations

	Location X	Location Y
Site	Town centre	Out of town
Capital cost of 5-year lease	\$2.0 m	\$1.0 m
Forecasted annual net cash flows		
Year 1	\$0.3 m	\$0.2 m
Year 2	\$0.35 m	\$0.26 m
Year 3	\$0.42 m	\$0.32 m
Year 3	\$0.42 m	\$0.32 m
Year 4	\$0.58 m	\$0.4 m
Year 5	\$0.85 m	\$0.65 m
Payback period	3 years, 2 months	2 years, 2 months
Forecasted annual average profit (first 5 years)	\$0.08 m	\$0.03 m
Annual average rate of return	24%	38%

New clothing range

The success of the business is based on ‘fast fashion’ — creating new designs and distributing them to shops quickly — and low prices. ‘Quality is relative — no one expects our clothes to last for years’ is a quote from the Managing Director that most FF managers recall well. Progress in the first six months of 2019 has slowed; sales are still growing but margins have fallen. Profits are being affected by increasing costs of materials.

The directors have developed a plan to start selling a range of clothes, to be called Top Look, aimed at high-income consumers. ‘Demand from consumers with high incomes tends to be less price elastic than the demand of our existing shoppers. If the products are fashionable and well-designed they buy them at prices that will give us much higher margins’, said the Managing Director at the most recent board meeting. The Marketing Manager suggested that the Top Look range of clothes should be in a separate part of every shop and that promotion could be limited to in-store displays and special offers.



Legal and corporate social responsibility issues

Business leaders in Australia are increasingly concerned about the impact of the growing number and significance of legal controls on their operations, as well as a growing awareness of operating in a socially responsible manner. Managers of retail businesses are particularly concerned about the following legal changes and corporate social responsibility issues:

- the use of labour in other countries to manufacture most of the clothing range
- minimum wage increases
- improvements in consumer rights to reject or return goods
- tougher health and safety regulations in shops.

‘With continued slow economic growth, the last thing we need is higher costs forced on us by more legal controls’, said FF’s Managing Director at last year’s annual general meeting.

4.11 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

EXTEND your understanding

1. Write a report for the Managing Director to be reviewed at the upcoming board meeting. The report is to comprise four sections, one for each of the areas identified in the Fabulous Fashions 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.

EXAM practice

2. Define level of staff turnover. (2 marks)
3. Define number of customer complaints. (3 marks)
4. Analyse how employees may react to the suggested changes, indicating if they would be a driving or restraining force. (5 marks)
5. Analyse how time may be a factor to consider when contemplating change. (4 marks)
6. Evaluate 'fast fashion' as a strategy to respond to key performance indicators. In your response, justify this as either a lower cost or differentiation strategy. (6 marks)

Solutions and sample responses are available in your digital formats.

4.12 EXTEND YOUR KNOWLEDGE The concept of business change

► KEY CONCEPTS

- Change is continuous and businesses must always look for areas in which they can gain an advantage.
- Sometimes change is out of the control of a business and there are forces impacting upon change — driving and restraining forces and key performance indicators that are a source of change.
- Lewin and Porter are theorists who have provided strategies to help businesses deal with change.

BUNNINGS TO REASSESS CHANGE

It has been an interesting 12 months for Wesfarmers and Bunnings. As the parent company, Wesfarmers has made some decisions in relation to Bunnings that haven't worked out as well as they may have liked.

Certainly, early profit figures suggest the company is suffering. Despite a rise in sales, profits for the half-year in 2018 have shown a significant decline.

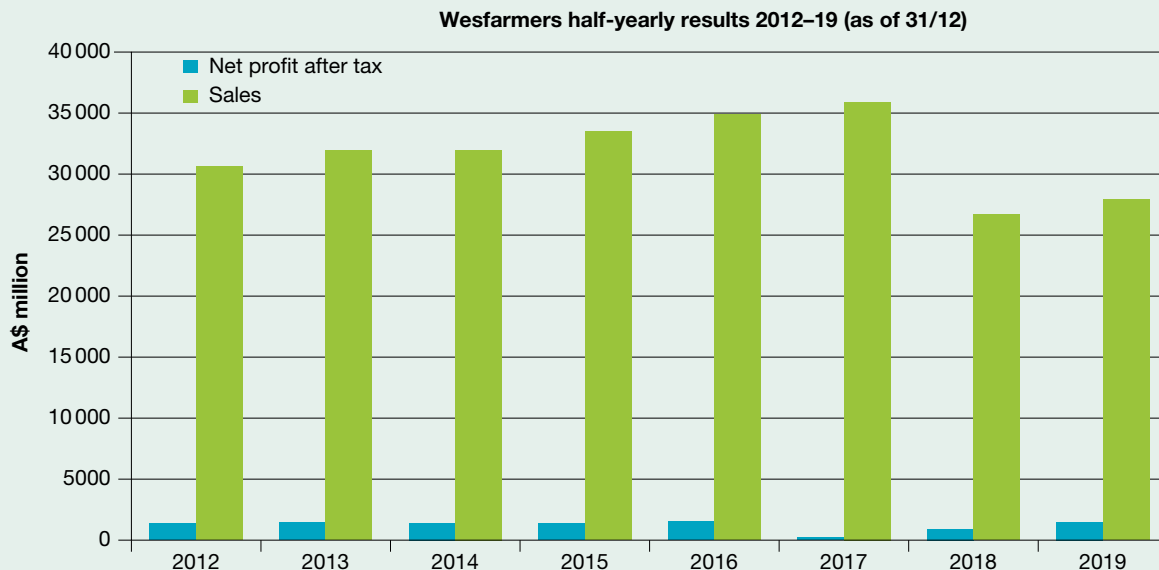
In making the announcement of the decline in profit, the following key points were highlighted:

- Bunnings UK purchased two years ago for \$700 million was written down by \$900 million.
- The Bunnings UK impairment coupled with a \$306 impairment in Target dragged Wesfarmers net profit down by almost 90 per cent.
- Earnings in Coles supermarkets fell 14 per cent for the half.
- Bottom-line profit was \$212 million in the six months to December 2017 — a fall from its previous first-half profit of \$1.58 billion.
- Dividends to shareholders will remain unchanged with a payment to shareholders of \$1.03 per share, fully franked.

On top of this, Coles supermarket chain also reported a 14 per cent slide in earnings to \$790 million for the half. Coles attributed the result to a range of accounting measures, lower fuel and financial services earnings as well as a one-off gain from a property sale last year washing through. An outcome of this result was Wesfarmers and Coles demerging in 2018.

Other aspects of the Wesfarmers stable also had mixed results — stronger sales at Kmart were dragged down by a weaker result from Target. Target copped a \$306 million impairment charge. The company said the write-down reflected tougher competition and moderating retail conditions. However, combined, department store sales rose 7 per cent to \$4.15 million, the highest level of earnings in eight years. However, these sales increases weren't enough to save Target. In 2020 Wesfarmers announced the closure of 160 stores with some to be re-branded as Kmart stores.

However, the real story behind the result was the failure of one key venture and a less than enthusiastic response to another venture. Bunnings, Wesfarmer's flagship hardware chain, made a venture into the United Kingdom market two years ago and this has not been as successful as it was hoped to be.



In 2016, Bunnings ventured into the United Kingdom market through its purchase of Homebase, which was Britain's number two hardware chain. The plan was to turn it into Bunnings and replicate the success that has made Bunnings, by far, the biggest hardware player in Australia.

However, consumers in the United Kingdom did not see the appeal. A \$1 billion write-down and a half-year loss of \$165 million for a chain that was making money before Wesfarmers bought it in 2016 resulted in a calamity that rivals Woolworths' ill-fated creation of Masters in Australia. What caused these issues for Bunnings?

Steve Delo, a former senior executive at Britain's leading hardware chain, B&Q, is now a managing director at London-based consulting house Pragma.

'When Bunnings sought to set out its stall in the United Kingdom, by moving itself very close to the number one in the United Kingdom it effectively lost a lot of its points of differentiation,' Mr Delo told ABC TV's *The Business*. That is because the United Kingdom already has a successful Bunnings-style store, B&Q.

According to IBISWorld research, B&Q and its online stablemate Screwfix hold 41 per cent of the United Kingdom market. Homebase had 13 per cent before the Wesfarmers takeover, and was a very different store, focusing on home furnishings rather than DIY.

Another concern seems to be that Bunnings misunderstood the market in the United Kingdom.

‘The United Kingdom market has evolved over the last 10 to 15 years, away from people that understand DIY themselves, and they’ve moved more away from DIY to “do it for me”,’ Mr Delo said.

‘The need and the requirement to have home improvement done in their homes has changed — people no longer want to do it themselves but rather want it to be done by professionals.’



Much of that is arranged online, with the internet having a much bigger presence in the British hardware market — another issue Wesfarmers apparently misread.

Not that Wesfarmers and Bunnings haven’t tried a venture into the online market.

In 2017, Bunnings in Australia announced the opening of its online store. Since 2018, DIY devotees have been able to purchase items from Bunnings’ Special Orders range online.

There are currently more than 20 000 items in the Special Orders range, including products such as playgrounds and taps. These products aren’t available in-store, they can be ordered online to be delivered to you or your local branch. True online shopping is not yet here though, with products from the store’s regular range not included in the online offering.

This development by Bunnings is seen as a counter to moves by other competitors. JB Hi-Fi has announced it will offer same-day delivery, which retail experts believe is part of a wider e-commerce trend.

In addition, the arrival of Amazon has made Australian retailers rethink their approach to sales and shopping.

4.12 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Identify and describe three key performance indicators referred to in the ‘Bunnings to reassess change’ case study.
2. Identify the trend in each of those key performance indicators.
3. Given the performance of Bunnings in the United Kingdom, it would appear that Bunnings did not do their homework in terms of what the UK market was like and what it needed. Explain how Lewin’s Force Field Analysis could have been used in this situation.
4. Outline two driving forces for change that may have led Bunnings to start operations in the United Kingdom.

EXTEND your understanding

5. a. The case study refers to the differentiation strategy of Bunnings not being successful. Explain the differentiation strategy proposed by Porter.
b. Explain the other strategy suggested by Porter.
6. Suggest one restraining force that Bunnings has had to overcome.

EXAM practice

7. Explain the concept of business change. (2 marks)
8. a. Analyse the performance of Wesfarmers, referring to the key performance indicators provided. (5 marks)
b. Define two of the key performance indicators referred to in part a. (4 marks)
9. With reference to a contemporary business case study, analyse Porter’s differentiation approach and propose how a business may apply this strategy. (6 marks)
10. Explain how conducting a Force Field Analysis may assist a business such as Bunnings during this time. (3 marks)

Solutions and sample responses are available in your digital formats.

4.13 Review

4.13.1 Summary

The concept of business change

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

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 customer complaints
 - number of workplace accidents.
- A business may benchmark its performance against the that of a business recognised as a market leader.

Key principles of the Force Field Analysis theory (Lewin)

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

Driving forces for change in business

- Driving forces are those forces that initiate, encourage and support the change.
- The main driving forces for change include:
 - managers (want the business to remain profitable and competitive)
 - employees (working in a supportive and innovative environment are free to suggest ideas)
 - competitors (fear of loss to a rival if the changes are unsuccessful)
 - legislation (changes to the law that impact operational practices)
 - pursuit of profit (the greater the profit the greater rewards for business owners)
 - reduction of costs (financial cost of operating a business can affect profit)
 - globalisation (the need to compete with overseas businesses)
 - technology (stay up to date or risk falling behind)
 - innovation (the drive and desire to be a market leader)
 - societal attitudes (the need to reflect what society values).

Restraining forces in business

- Restraining forces work against the change.
- The main reasons for resistance to change include:
 - managers (due to either poor decision-making or fear of loss of control or power)
 - employees (fearful of changes that threaten job security or require new work routines)
 - time (either poor timing, or lack of time)
 - organisational inertia (prefer to stay with the safe and predictable status quo)
 - legislation (restrictions placed on certain operational practices)
 - financial considerations (financial cost of implementing major changes can be substantial).

Strategic management by Porter's Generic Strategies (1985)

- Michael Porter developed a Generic Strategies approach to strategic management.
- Change can be managed utilising lower cost or differentiation approaches from the three generic strategies: cost leadership; differentiation; and focus.

Resources

studyON

To access key concept summaries and past VCAA exam questions, download and print the **studyON: Revision and past VCAA exam question booklet** (sonr-0135)

4.13.2 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 the 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 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 the business's performance

level of wastage the amount of unwanted or unusable material created by the production process of a business

net profit figures the numbers found in an income statement that show net profit — what remains when expenses are deducted from the revenue earned

niche market a narrowly selected market segment within a larger market

number of customer complaints the amount of customers expressing their dissatisfaction with the business, either spoken or in written form

number of sales a measure of the amount of goods or services (products) sold

number of workplace accidents indicates how safe the workplace is for employees

organisational inertia an unenthusiastic response from a business to proposed change

percentage of market share the business's share of the total industry sales for a particular good or service, expressed as a percentage

proactive to initiate change rather than simply to react to events

product differentiation the use of factors such as brand names, delivery methods and advertising to establish differences between substitutable products

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

rate of productivity growth the change in productivity in one year compared to the previous year

rate of staff absenteeism the number of workers who neglect to turn up for work when they are scheduled to do so

reactive to wait for a change to occur and then respond to it

restraining forces those forces that work against the change

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

Resources



Digital documents

Key terms glossary (doc-29452)

Missing word glossary quiz (doc-29453)

Crossword (doc-29454)

4.13.3 Practice school-assessed coursework

OUTCOME 1

Explain the way business change may come about, use key performance indicators to analyse the performance of a business, discuss the driving and restraining forces for change and evaluate management strategies to position a business for the future.

ASSESSMENT task — structured questions

Time allowed: 80 minutes
Marks allocated: 50 marks (The marks for each question are indicated at the end of each question.)
Conditions: Closed book (No notes or textbooks may be used when completing this task.)

Section A (20 marks)

1. Distinguish between a proactive and a reactive approach to change. (2 marks)
2. Define key performance indicator. (2 marks)
3. Explain the importance of key performance indicators in achieving business objectives. (3 marks)
4. Analyse how employees can act as both a driving and restraining force for change. (5 marks)
5. Describe two driving forces, other than employees, that will have an impact on a business. (4 marks)
6. Describe how a business may use Lewin's Force Field Analysis when considering updating their technology. (4 marks)

Section B (30 marks)

The cost of manufacturing

Manufacturing businesses are expensive to establish and expensive to operate. The cost of the physical requirements such as equipment, computers, assembly lines, the cost of raw materials and components and the cost of labour and storage can be substantial.

Any change required by the business can be expensive as it often requires changes to the physical layout of the operations system and/or a restructuring of the business and its employees.

Marchino Construction is a private limited company that produces kit homes for use by domestic builders throughout Victoria, New South Wales and Queensland. Starting in 2001, the business has grown over the years introducing new products to seek a wider customer base and increased market share. Sales and profit have increased each year but usually by less than planned as more and more competitors enter the market. Over the last 5 years, some experienced, long-serving employees have left the business to work at these competitors.

In 2019, a new business entered the market, *Steel Structures*. As well as producing kit homes for customers, this new competitor also produces pergolas, garages, farm buildings and playground equipment. This business also differs from Marchino Constructions by using steel frames for all their kits.

CEO Lily Marchino is concerned that all these recent factors will seriously impact the business in the future.

She has prepared the below financial data to present at an upcoming board meeting, where she hopes to present the data and form a project team with COO Jordan Ramsay and HRM Jessica Welsh to determine the way forward.

KPI	Year end 31 Dec 2018	Year end 31 Dec 2019	Year end 31 Dec 2020
Number of sales	5460	5108	4842
Net profit figures	\$21.9 million	\$16.7 million	\$12.2 million
Number of customer complaints	40	48	97
Level of staff turnover	18%	21%	38%
Website hits (% change)	26%	14%	11%
Number of workplace accidents	17	11	26
% of market share	19%	15%	9%

1. Referring to the data provided, analyse the performance of Marchino Construction. (5 marks)
2. Select two key performance indicators from the table above and describe the trend in each indicator. (4 marks)
3. Describe two benefits to a business such as Marchino Construction in completing a Force Field Analysis. (4 marks)
4. Referencing Steel Structures, explain how that business has utilised one of Porter's Generic Strategies. (3 marks)
5. Describe how Marchino Construction might adopt Porter's other generic strategy. (3 marks)
6. Describe two restraining forces, other than employees, that may impact Marchino Construction's ability to implement a change. (4 marks)
7. Using the data in the table, explain the possible links between the following key performance indicators:
 - net profit figures and number of sales
 - number of sales and percentage of market share
 - Level of staff turnover, number of workplace accidents and the number of customer complaints (7 marks)

on Resources

 **Digital document** School-assessed coursework (doc-29455)

4.13 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

4.13 Exercise 1: Test and apply

TEST your understanding

1. What is meant by the term 'transforming a business'?
2. Distinguish between a proactive and a reactive manager when dealing with change.
3. Outline two skills a manager should utilise when managing change.
4. Define the term 'key performance indicators'.
5. List and briefly outline three of each of the following:
 - a. driving forces for change
 - b. restraining forces for change.
6. Distinguish, using an example, the difference between driving and restraining forces.
7. Outline why resistance to change in management and employees is common.
8. Distinguish between efficiency and effectiveness.
9. List the key performance indicators that may lead to change.
10. Explain why setting achievable goals can help managers implement change more successfully.
11. Explain what is meant by a Force Field Analysis.
12. Outline the benefits of preparing an action plan as part of a Force Field Analysis.
13. List the five steps in a Force Field Analysis.
14. Using examples, explain the difference between low cost strategies and differentiation strategies.
15. Explain a niche market and how a focus strategy will assist a business achieve a competitive advantage.

APPLY your understanding

- 16 'Successful businesses are those that empower their employees to adapt readily to changes within the business environment, whereas those businesses that attempt to resist change and disempower their staff will ultimately fail.'
 - a. Identify the main reasons for employee resistance to change.
 - b. Demonstrate why it is important for managers to communicate effectively when introducing changes in the workplace.

- 17 'In response to data collected through key performance indicators, businesses are constantly changing.'
- Describe the key performance indicators that cause businesses to change.
 - Using a current example, describe and explain the responses of that business's management to these KPIs.

4.13 Exercise 2: Exam practice

on Resources

 **Teacher-led video** Topic 4 Exam practice solutions (tlvd-1843)

Question 1 (2 marks)

Andrew Farris has been working for a hardware business for over 15 years but has decided to leave and commence operating his own small business in this area. Describe a key performance indicator that Andrew could use to assess whether the commencement of his new business has been successful.

Question 2 (4 marks)

Evaluate Porter's Generic Strategies as an approach to managing change.

Question 3 (6 marks)

Evaluate Lewin's Force Field Analysis theory.

Question 4 (2 marks)

Describe the concept of business change.

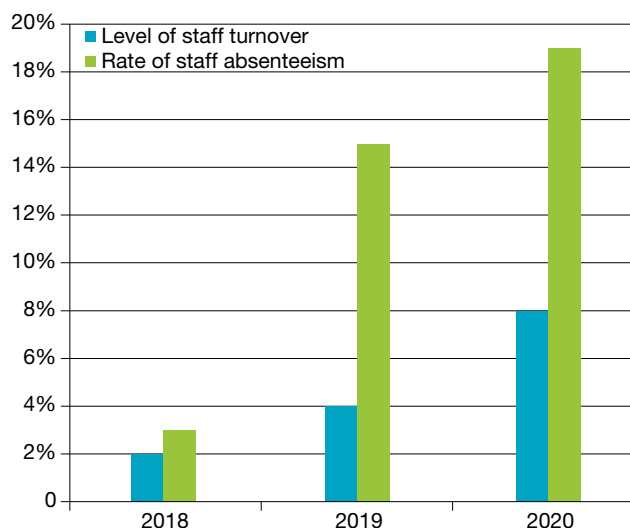
Question 5 (2 marks)

Identify two restraining forces for change.

Question 6 (6 marks)

The information in the graph was provided for a business in the health care industry.

- Define 'level of staff turnover'. (2 marks)
- Using the key performance indicators provided, evaluate the ability of the business to meet shareholder expectations. (4 marks)



studyon

Past VCAA examinations online only

Sit past VCAA examinations and receive immediate feedback, marking guides and examiner's report notes. Access Course Content and select 'Past VCAA examinations' to sit the examinations online or offline.

Solutions and sample responses are available in your digital formats.

teachon

Test maker

Create unique tests and exams from our extensive range of questions, including past VCAA exam questions. Access the Assignments section in learnON to begin creating and assigning assessments to students.

5 Implementing change

UNIT 4, AREA OF STUDY 2

OUTCOME 2

On completion of this topic you should be able to 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.

LEARNING SEQUENCE

5.1 Overview.....	346
5.2 The importance of leadership in change management	348
5.3 Management strategies to respond to key performance indicators.....	351
5.4 APPLY YOUR SKILLS Sources of change	358
5.5 Management strategies to seek new business opportunities both domestically and globally	359
5.6 APPLY YOUR SKILLS Seeking new business opportunities.....	368
5.7 The principles of the Learning Organisation (Senge).....	369
5.8 Low-risk strategies to overcome employee resistance	373
5.9 High-risk strategies to overcome employee resistance.....	378
5.10 Key principles of the Three Step Change Model (Lewin).....	380
5.11 The effect of change on stakeholders	383
5.12 Corporate social responsibility considerations when implementing change.....	387
5.13 EXTEND YOUR KNOWLEDGE The impact of change on stakeholders and social responsibility	390
5.14 Reviewing key performance indicators to evaluate transformation.....	391
5.15 EXTEND YOUR KNOWLEDGE The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation.....	395
5.16 Review	398



5.1 Overview

Numerous **videos** and **interactivities** are available just where you need them, at the point of learning, in your digital formats, learnON and eBookPLUS, and at www.jacplus.com.au.

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. For, example, in a few years’ time you may well have goods delivered to your home by a drone like the one shown. Already some pizza businesses are exploring drones as a method of home delivery. The Westpac Little Ripper performed the world’s first drone surf rescue in 2018. 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.



QANTAS IMPLEMENTS CHANGE

Change is inevitable. As a consequence, businesses must transform if they want to survive in today’s dynamic business environment. One example of an Australian business that has had to constantly implement change is Qantas Airways Limited.

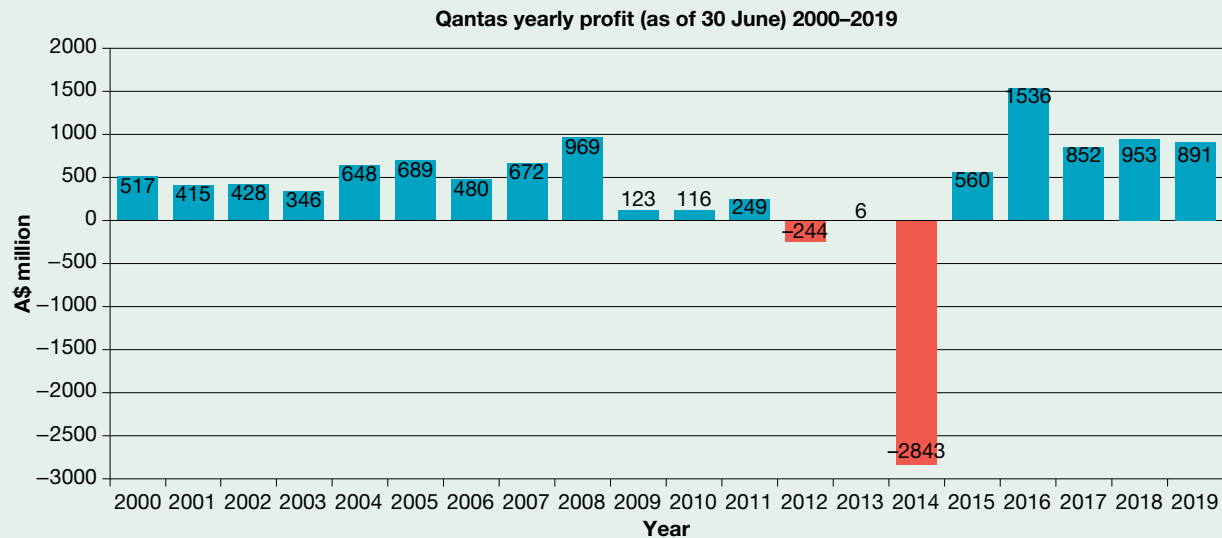
Following fluctuating profits over the 15 years prior to 2012, and a loss of \$244 million in the 2011–12 financial year, Qantas underwent a transformation program. Qantas’s transformation program included cost cutting (5000 job cuts across all areas of the business), the redeployment of resources, closure of unprofitable routes, the restructuring of maintenance operations and catering facilities, and increased investment in new technology and new aircraft. By implementing these strategies, the company became a leaner business. CEO Alan Joyce showed leadership when he communicated the need for these changes to stakeholders, including employees, shareholders and the media.

Qantas’s transformation program was successful — the business improved its financial performance, with an overall profit of \$560 million announced at the end of the 2015 financial year and continuing profits since then.

Qantas’s ability to manage and, in many cases, adapt to and embrace change will increasingly determine its competitive position.



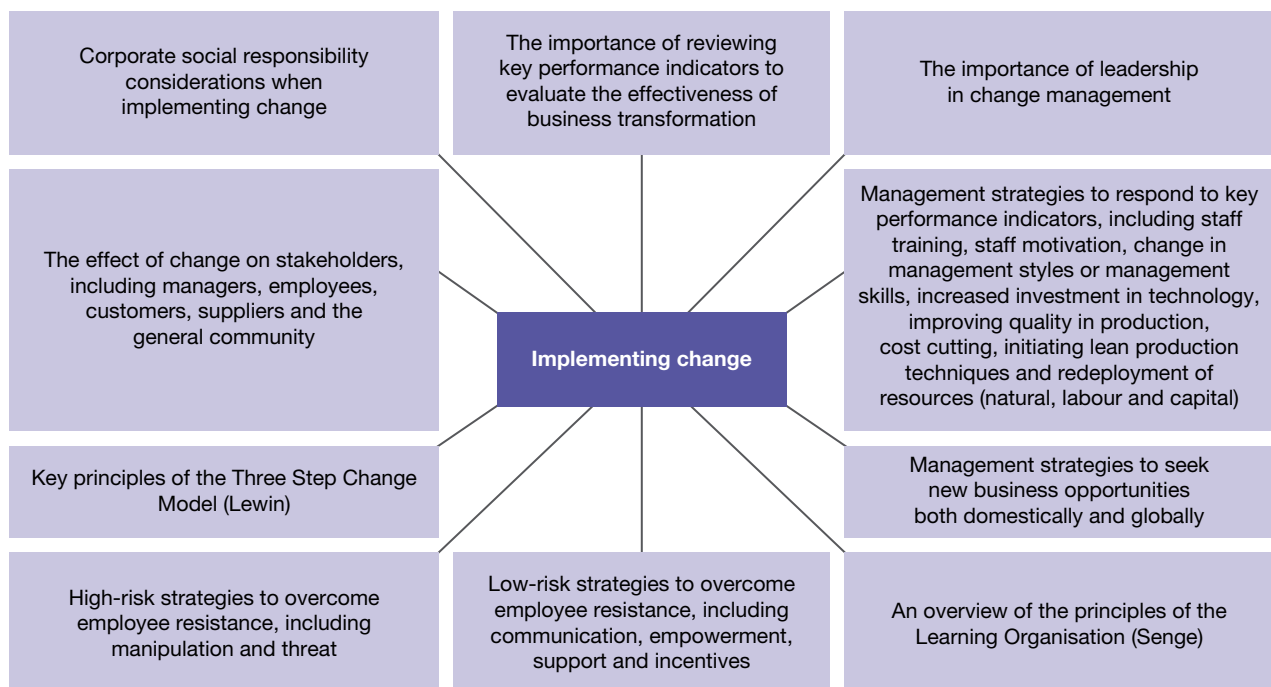
The changes didn't stop there, and Qantas continues to look for new ways to improve performance. In 2019, the business trialled two non-stop flights — one from Sydney to New York and one from Sydney to London. The aim is to reduce flight times and remove stopovers, both issues for Australians travelling overseas. The plan, named Project Sunrise, was commenced in 2014 and Qantas expected to operate these routes by 2020. However, the onset of the COVID-19 pandemic has delayed this project until at least December 2020.



5.1.2 What you will learn

Key knowledge

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



Key skills

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

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of business management applicable to managing change in a business
- Interpret business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the advantages and disadvantages of various strategies in implementing change in a business
- Propose and justify strategies in response to key performance indicators and to assist in implementing change in a business

Source: VCE Business Management Study Design (2017–2022) extracts © VCAA; reproduced by permission.

on Resources

 **Digital document** Key terms glossary (doc-29456)

studyon

To access key concept summaries and past VCAA exam questions, download and print the **studyON: Revision and past VCAA exam question booklet** (sonr-0136).

5.2 The importance of leadership in change management

KEY CONCEPT If a manager can display effective leadership skills, then resistance to change will be lessened.

5.2.1 Leadership in change management

To successfully implement a change process a manager needs to exercise leading; that is, to show **leadership**. By leading change, the manager acts as a bridge to support the employees as they cross from existing work practices into new and unfamiliar territory.

To act as a leader, a manager should display empathy and possess good listening skills. These personal characteristics will assist them to discover and appreciate any points of resistance to change. How a manager treats his or her employees will largely determine their acceptance of or resistance to change. A manager who acts as a leader and has high expectations of employees' abilities to initiate and implement a change process will generally be rewarded with people who are willing to embrace the change. There may still be some points of resistance, but this resistance can be productively dealt with, because the employees believe they have the support and trust of their manager.

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?'



leadership the process of positively influencing and encouraging individuals to set and achieve objectives

Employees are generally more prepared to accept the risks involved with change if they feel their manager is concerned about their welfare. Managers who concentrate on the needs of their employees are the most effective, building high-performance teams that attain their objectives. Less effective managers tend to focus on tasks and are more concerned with meeting deadlines; that is, they display the natural characteristics of a manager, not a leader.

Added to these qualities, a successful leader will need to:

- market and promote the change in a manner that will achieve cooperation and acceptance
- resolve conflicts, which often arise when change is implemented
- keep an open mind, seek out new ideas and freely share information
- cultivate a sense of stability, while at the same time driving the business forward with even more change
- show confidence in people, and share credit and recognition
- build and communicate a clear vision.

Being an effective leader is not an easy task. There may be temporary setbacks, particularly during periods of negotiation. In the end, leadership may still fail. According to the management researcher Craig Hickman, leadership by itself is not enough. He believes that businesses need the skills of both managers and leaders to competently manage change: 'When it comes to lasting superior performance, managers don't have all the answers; neither do leaders. Businesses need the practical, orderly mind of a manager, and the experimental, visionary, creative soul of a leader.'

MIND OF A MANAGER, SOUL OF A LEADER

Change, both external and internal, also has become a way of corporate life. While the manager naturally desires stability, the leader recognises that crisis can stimulate improvement. Managers try to duplicate the successful efforts of others, but leaders would rather break new ground. Managers fasten, fix, and put things in place as permanent fixtures of the business. Leaders continually move about the business, unfastening, unfixing, and removing things to make sure that the business does not stagnate. When it comes to decision-making, managers hammer out compromises, while leaders don't mind polarising people around extremes to clarify the differences between them. If changes that occur in the external environment often cause a manager's mind to focus on how to react and respond, they stimulate a leader's soul to become proactive, anticipating and even creating change. 'Plan for change,' argues the manager, 'Experiment with it,' insists the leader. In this age of rampant reorganisation and restructuring, the manager's mind seems to deal with it all very easily. The leader, however, wants to rethink the fundamentals and not be fooled by a reorganisation that may not correct real problems. Managers refine existing structures; leaders promote complete revolution.

Source: Extracts from Craig R. Hickman 1992, *Mind of a manager, soul of a leader*, John Wiley & Sons Inc., p.11.

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.
-

5.2 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Support or refute the following statement: 'Motivating, inspiring and empowering employees to embrace change is the mark of a good leader.'
2. Think of someone you regard as a leader. What characteristics do they display to give them this leader status?
3. What do you think of the leader who says, 'Do what I say, not what I do'?
4. Read the 'Mind of a manager, soul of a leader' case study and answer the following questions.
 - a. List the main features of:
 - i. a manager
 - ii. a leader.
 - b. Do you agree or disagree with Craig Hickman's belief that businesses need both managers and leaders? Justify your answer.

APPLY your understanding

5. In small groups, brainstorm the strategies a leader can take to implement and support people through change. Compare your list with the lists of other groups. As a class, agree on ten key things a leader should do when introducing change.
6. Set up a class debate to consider the following topic: 'Leaders are born, not developed.' Share roles so that those not debating are involved either in assisting with research, or in running the debate and keeping notes on the arguments on both sides.

EXAM practice

7. Describe the importance of leadership in change management. **(2 marks)**
8. During the implementation of any change strategies it would be important for management to demonstrate leadership. Explain why this is important. **(3 marks)**
9. Describe one management skill an effective leader should utilise during a period of change. **(3 marks)**
10. Propose and justify an appropriate management style an effective leader should adopt during a period of change. **(3 marks)**
11. 'Ineffective leadership leads to ineffective change.' Analyse this statement. **(5 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

5.3 Management strategies to respond to key performance indicators

KEY CONCEPT Key performance indicators provide data that drive businesses to change. Managers can respond to these indicators with a number of different strategies.

5.3.1 Key performance indicators

In topic 4 we identified nine 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 KPIs, managers are obliged to implement strategies to respond to the presented data. The strategies implemented can be measured in terms of their successful application by reviewing the KPIs.

5.3.2 Management strategies

These are the strategies that management can use to take action in response to the data sourced from KPIs.

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 KPIs 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 KPIs measure how satisfied employees are in the business. The data could be combined with information from other KPIs, such as rate of productivity growth. Staff training can be used to improve low job satisfaction and/or low productivity. Employees who feel that they have access to training are more likely to be motivated and satisfied at work.

Improving the skills of employees can lead to improvements in productivity as staff become more efficient at their jobs and make fewer errors, thereby reducing waste. Staff training can also be used to improve the quality of a product or to improve the service that customers receive. This may have an impact on the number of sales.

Staff training can be used to improve customer service, thereby affecting customer satisfaction and sales.



Staff motivation

Motivation is what drives employees to apply effort over a sustained period of time. Management might decide to introduce a strategy or strategies to motivate staff in response to KPIs, such as the rate of productivity growth, rates of staff absenteeism and level of staff turnover. These are KPIs that are typically used to measure the motivation of employees. To improve staff motivation, a business could offer employees recognition and rewards, performance-related pay or career advancement. Jobs could be redesigned to make work more interesting, or policies could be introduced to support employee motivation.

Change in management styles or management skills

The management style that a manager uses refers to their behaviour and attitude when making decisions, directing and motivating staff, and 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 KPIs, managers may change their management style or use a range of different management skills. For example, if KPIs 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, KPIs suggesting that staff morale and motivation are low may lead to a greater use of styles that provide employees with more freedom and autonomy, such as a consultative or participative style. In such cases, open communication, delegation and interpersonal skills may be used.

Increased investment in technology

Technology refers to applications of knowledge that change people's lives and change the way in which a business operates. All businesses will make use of technologies such as automated production lines, computer-aided design, computers, software and mobile technology. Directing finances into new technology will allow a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity.

Therefore, when a business invests in new technology, its use will impact on KPIs 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.

Improved productivity means that businesses are able to lower their unit cost, and may be achieved by increasing investment in technology, minimising wastage, investing in staff training, improving staff motivation or redeploying resources.



Improving quality in production

Quality refers to the degree of excellence of goods or services and their fitness for a stated purpose. The quality of a business's products can be measured using KPIs such as the number of customer complaints, number of sales and level of wastage. The quality of a business's good or service is vital to the success and viability of a business. To improve quality, a business might implement quality control, quality assurance or Total Quality Management. For example, in response to increasing complaints from customers, a business may introduce quality control. Here the product is checked at various points through the production process to determine if it is meeting pre-determined standards. Any products that do not meet these standards are discarded and the problem with production is identified and rectified, reducing future quality issues. If the customer complaints related to poor quality, then improving the standard of the product should alleviate these complaints.

DID YOU KNOW?

Many businesses ask customers for email addresses so they can contact customers after the sale to gain feedback on the standard of service they received, or to rate their experience with a telephone operator or online customer support agent at the end of the phone conversation or internet chat.

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 KPIs 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.

Many businesses will aim to reduce costs and pass these savings on to customers. This management strategy can be used in response to key performance indicators such as number of sales and net profit figures.



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 KPIs such as percentage of market share, number of sales, net profit figures and rate of productivity growth. These KPIs 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.

redeployment the assignment of resources, including natural, labour and capital resources, to another area of the business

The redeployment of resources can be used to respond to KPIs such as level of wastage, rate of productivity growth and level of staff turnover. The data sourced from these KPIs may suggest that a business needs to change or expand through the redeployment of resources. Reallocating natural resources, labour and capital can make a difference to the way outputs are produced. For example, employees may be redeployed to perform a different job or sent to work in a different place or area of management within a business. This has a number of benefits for both the business and employees, including the reduction of costs associated with redundancy packages and maintenance of staff morale. Alternatively, a business may decide to relocate a particular store or a factory, or redeploy some activities to other countries to reduce costs and to improve productivity.

EXAM TIP

The **Unit 4, Area of Study 2** outcome states that you need to 'evaluate the effectiveness of a variety of strategies used by managers to implement change'. This suggests that you should know the advantages/strengths and disadvantages/limitations of each management strategy to respond to KPIs.

5.3.3 KPIs and management strategies

Appropriate management strategies for responding to each KPI are summarised in the following table.

Key performance indicator	Relevant management strategies
Percentage of market share	A business can seek to increase its share of the market through innovation and investment in new technology. Developing new lines of stock, new products or new processes to allow cheaper production can also lead to an increase in sales and therefore possibly the market share held by a business. Many other management strategies can be used to improve a business's market share, including improving quality in production, cost cutting and lean production techniques.
Net profit figures	Net profit is what remains when expenses related to the operation of the business are deducted from the revenue earned. To improve the net profit of a business, a manager can increase revenue or decrease the expenses of the business. An obvious strategy for a business to adopt to increase profit is to reduce costs. Cost savings can be found through changing suppliers, reducing wage costs (often through downsizing or replacing labour with technology) and reducing utility costs (electricity, phone and gas companies all seek to increase their sales by offering lower prices to customers and a business can take advantage of these offers).
Rate of productivity growth	Productivity refers to the level of output produced from a given level of inputs. Businesses seek to improve productivity, as it will mean they are able to lower their unit cost. A business may improve its productivity by: • <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. • <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	To respond to this KPI 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.

(Continued)

(Continued)

Key performance indicator	Relevant management strategies
Rates of staff absenteeism	Determining why staff take days off can help managers to improve staff morale and motivation, and therefore allow the business to improve. Staff may be unhappy with the workplace environment or the culture of the business. These issues could be addressed through the provision of training and support. Changing the prevailing style of management 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 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. • <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.

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 and redeployment of resources (natural, labour and capital) can all be used to respond to key performance indicators.
- Investment in new technology, improving quality in production, cost cutting and lean production can all be used to increase market share, sales and profit.
- Introducing training programs can improve productivity, staff turnover, reduce the number of workplace accidents and improve the level of staff satisfaction.
- Key performance indicators that measure staff motivation can be improved through training and other motivation strategies such as team building, goal setting and reward programs.
- Cutting costs can improve performance indicators such as net profit figures.
- Lean production and redeployment of resources can reduce waste and improve productivity.

5.3 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain what is meant by a 'strategy'.
2. Explain what is meant by a 'key performance indicator' and outline how they can influence managers to change the business.
3. Explain how introducing a quality management system is a strategy that can address a range of key performance indicators.
4. 'Training is a key strategy in improving key performance indicators relating to staff morale.' Analyse this statement, stating whether or not you agree or disagree.
5. Select two key performance indicators, outline what information they provide to a manager and/or business owner, and describe a strategy to improve each key performance indicator.

APPLY your understanding

6. Working in pairs, outline two strategies a manager could implement to reduce the levels of waste created by the business.
7. Using your experience working on a part-time basis (students can work in groups to ensure each group includes a student with a part-time job), explain how training might be used to improve customer service and increase sales. Share your responses with the rest of the class.

EXAM practice

8. Analyse how the management of a business could use staff motivation, redeployment of resources (staff) and quality strategies to effectively respond to a rise in customer complaints. **(6 marks)**
9. A management strategy to improve performance may be to change management style. Evaluate an appropriate management style to adopt during a time of change. **(5 marks)**
10. 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. **(4 marks)**
11. 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. **(4 marks)**
12. Describe two management strategies a business could implement to deal with an increase in the level of wastage. **(6 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

5.4 APPLY YOUR SKILLS Sources of change

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to managing change in a business
- Interpret business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the advantages and disadvantages of various strategies in implementing change in a business
- Propose and justify strategies in response to key performance indicators and to assist in implementing change in a business

5.4.1 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

5.4 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

- 1. a.** Write a report of approximately 500 words outlining the key performance indicators identified in the data collected. In your report, provide definitions of the key performance indicators and describe any trends you have been able to identify. Use a business report style with subheadings, graphs and diagrams to support your text.
- b.** Write a review for the business selected in 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 their 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.

EXAM practice

3. Referring to a contemporary business case study, describe a management strategy that the business has used to respond to its key performance indicators. **(2 marks)**
4. Referring to a contemporary business case study, explain how staff training can improve performance in one key performance indicator. **(2 marks)**
5. Referring to a contemporary business case study, analyse one strategy that you would recommend to management to improve performance in terms of profit. **(3 marks)**
6. Staff training may not always improve a business's key performance indicators. Explain why this may be the case. **(2 marks)**
7. Discuss the use of cost cutting and initiating lean production techniques for responding to declining net profit figures. **(6 marks)**

Solutions and sample responses are available in your digital formats.

5.5 Management strategies to seek new business opportunities both domestically and globally

KEY CONCEPT Key performance indicators are only one source of change for a business — new business opportunities are also a source of change. The management of a business can implement strategies to seek these new opportunities, both domestically and globally.

5.5.1 Domestic opportunities

New business opportunities can arise from within the existing domestic market in which a business operates. It is the role of the manager to seek new business opportunities to increase market share. To that end, managers need to identify opportunities and devise strategies that will allow the business to take advantage of domestic market movements.

Multiple branding

Multiple branding is a strategy where one business sells multiple brands in the same market. While customers feel as though they have a wide variety of choice in product, their money is generally being directed towards a few major businesses because most brands are owned by one or two businesses. An example can be observed within the shampoo market — there are numerous brands, but only a few businesses actually manufacture the product.

A multiple branding strategy has advantages because it means one business holds more shelf space, leaving less space for competitors' products; it fills all price and quality gaps by providing cheaper options; it saturates a market; and it caters to brand-switchers who like to experiment with different brands. However, multiple branding can affect the image of the brand. The public may believe that the business has become profit-oriented, rather than focused on the customer. Customers may also become confused by the multiple branding and switch to a competitor's brand.

Mergers and acquisitions

Businesses can seek a new business opportunity through a merger with another company. A merger typically benefits both businesses because it is a cheaper way of entering a market as the 'partner' has already established themselves and their customer base. One of Australia's most famous mergers occurred between two of our largest companies. In August 1985, Coles (a supermarket chain) merged with Myer (a department store chain) to form Coles Myer, one of Australia's largest companies at that time. This merger allowed each business the opportunity to move into a different market. While the merger between Coles and Myer lasted twenty-one years, it was ultimately unsuccessful, as Myer was sold to private investors in 2006. However, it does illustrate the risks involved in pursuing such a strategy.

Acquisitions occur when one business buys another business. Acquisitions can often allow a business access to a new market or to expand into an existing market. As with mergers, acquisitions can occur domestically or globally, and sometimes involve an Australian business and an overseas company.

PUBLICIS SAPIENT ACQUIRES THIRD HORIZON

Publicis Sapiient has acquired Australian-based management consultancy, Third Horizon.

The acquisition gives Third Horizon clients access to Publicis Sapiient's network of staff and offices, while Publicis Sapiient's connected digital business transformation offering in the market will be boosted thanks to the deal.

Publicis Sapiient Australia managing director, Sarah Adam-Gedge, said the acquisition aligns with its global strategy and expects it to accelerate growth both locally and internationally.

'The depth of industry experience from Third Horizon, combined with Publicis Sapiient's deep experience in digital business transformation through the eyes of the customer is an extremely exciting proposition for clients,' she said.

Founded in 2004, Third Horizon has driven double-digit growth through its work with clients such as New South Wales and Victoria state governments, Lendlease, Powerco New Zealand, Ausgrid and the Federal Government. It works across strategy, design and execution to provide strategic insights, technology enablement, culture and change management, and program delivery.

Third Horizon managing director, Neville Bago, acknowledged the business was established with the aim of helping our clients deliver results, and the acquisition is a logical step.

'With the increasing interconnection of customer, digital and operating models, Publicis Sapiient emerged as the obvious partner to enhance the breadth of our capabilities, and deliver value to our clients,' he said.

Source: <https://www.cmo.com.au/article/671494/publicis-sapiient-acquires-thirdhorizon/>



Product differentiation

Product differentiation is a strategy that involves a business attempting to increase sales and market share through the use of brand names and advertising. Advertising can be used to establish some key differences between their product and substitutable products, and making multiple products under different brand names can allow one business to target specific market segments in the same market.

In markets where there is considerable competition, it can be difficult for a particular product to stand out, make a name for itself or gain a foothold in the market if it is a new product. Product differentiation can allow businesses to make their product stand out, as the product is designed or marketed in a manner that involves a brand name that makes it appear different to the existing products on the market.

However, in pursuing product differentiation, a business may find that competitors copy its strategies and take away its market share. In addition, implementing product differentiation is costly. It may also take time before a business can achieve a brand image that sets it apart from its competitors.

Franchising

Another alternative a manager/owner could investigate is to franchise their business. Under a franchise agreement a person buys the rights to use the name and distribute the products of an existing business. A **franchisor** is the individual or business that grants, under certain conditions, the right to use a business name and the right to produce or distribute the franchisor's product. The **franchisee** is the person or business that purchases the franchise, usually by paying a fee to the franchisor. The franchisor supplies a known and advertised business name, the required training and staff development, a method of doing business, management skills and materials. The franchisee supplies the start-up money and labour, operates the franchise business and agrees to abide by the terms and conditions of the franchise agreement.

Establishing a franchise allows a business to expand its operations and market share without the need to borrow large amounts of capital, manage new stores, hire new staff or be involved in the day-to-day operations of the business. Baker's Delight is an example of a small bakery that expanded through the franchising of its name and products.

However, franchising a business may result in a loss of control. For example, the franchisor may not be able to make changes without running into disagreements with the franchisees, or the franchisees may not deliver the product consistently, meaning that the brand name of the franchisor may suffer.

Diversification

Diversification is the process of a business enlarging or varying its range of products or field of operation. Take for example the soft drink market. We are all familiar with Coca Cola and Pepsi as the two main businesses operating in that market. However, the consumers who drink soft drinks also drink other types of drinks, such as energy drinks and sports drinks. In an effort to increase sales and profits, or to regain customers who may have moved away from soft drinks, Coca Cola can diversify and commence production of energy drinks. This is what Coca Cola have done by producing Mother energy drinks after it failed in its attempt to buy Red Bull.

Domino's is an American pizza chain that has expanded throughout Australia using franchising. The 500th Domino's store in Australia opened in 2013.



franchisor an individual or business that grants the right to use a franchise
franchisee the individual or business that purchases a franchise

GIN DISTILLERY MAKING HAND SANITISER

The COVID-19 pandemic in 2020 caused many businesses to go through a period of change. In many cases, temporary closures and the laying-off of staff was the norm. However, for some businesses, there was an opportunity to do something different as a means of keeping employees working and the business operating.

Australian gin distilleries began working together to develop new hand sanitiser products, repurposing their existing production facilities to meet national demand and in turn, keeping their workers employed. In Healesville in regional Victoria, the Four Pillars distillery closed its tasting room and bar to the public during the pandemic. The business employs about 60 full-time equivalent staff, and co-founder Stuart Gregor said that producing a range of Four Pillars hand sanitiser allowed the company to keep people employed in bottling, packaging and logistics.

The company is one of many that was approached about producing hand sanitiser by hospitals, health care professionals, governments and, of course, consumers, as shortages of the product continued across the country. The business tried many types of recipes and settled on the World Health Organization-approved one, which is used by medical professionals.

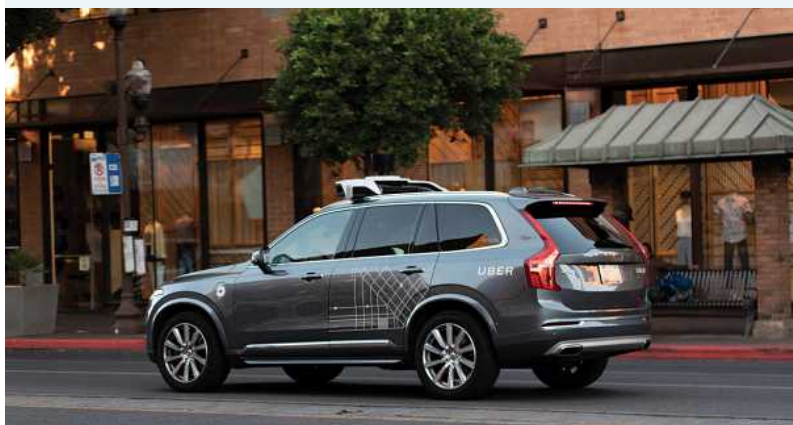


Joint ventures

A joint venture is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity. In a joint venture, each of the participants is responsible for profits, losses and costs associated with it. However, the venture is its own entity, separate from the participants' other business interests.

This type of arrangement allows two or more businesses to pool their expertise and skills into a coordinated effort and allows the businesses to expand into an area they may not be able to enter by themselves.

The goal of the \$350 million joint venture between Uber and Volvo was to produce the Volvo XC90 driverless cars. The investment would contribute to research and development of both hardware and software for the self-driving cars.



An example of a joint venture is the one between the taxi giant Uber and the heavy vehicle manufacturer Volvo. The joint venture goal was to produce driverless cars. The ratio of the ownership is 50%–50%. The business worth was \$350 million as per the agreement in the joint venture.

Government services

When wanting to expand it is often difficult for a business owner to know where to start. Questions such as 'How is it best to grow the business?' and 'How can the business take advantage of new opportunities?' arise in the course of conducting the operations of a business. Government provides assistance to businesses that are seeking opportunities. For example, Small Business Victoria offers advice and assistance programs for businesses, as well as grants to help businesses to grow.

SMALL BUSINESS VICTORIA

Advice can be sought from Small Business Victoria, which can aid a company in seeking a direction for the future. Small Business Victoria is a government agency that provides assistance to businesses across Victoria and is currently providing specific programs and funding through measures such as:

- running the Business Victoria website, which showcases programs such as the New Energy Jobs Fund
- providing access to grants to support business across Victoria
- running Small Business Victoria workshops designed to assist businesses that are ready to grow
- managing the Small Business Bus that tours Victoria, bringing expert advice and business assistance to regional businesses.



Resources



Weblink Small Business Victoria

Government investment in research and development

New business opportunities can be found through investment in research and development (R&D). This option is expensive and not necessarily within reach of all businesses. However, the Australian government has established programs to assist. These programs are developed through AusIndustry, a division of the Department of Industry, Innovation and Science. AusIndustry is the federal government's principal agency for delivering assistance, programmes and services that support industry, research and innovation. It offers assistance programmes such as:

- *the Entrepreneurs' Programme*. This initiative is a multi-platform network of practical advice and support for businesses, including advice from people with private sector experience, co-funded grants to commercialise new products and processes, funding to take advantage of growth opportunities, and connection and collaboration opportunities.
- *the R&D Tax Incentive*. This scheme encourages business investment in R&D, as well as growing and sustaining innovative, competitive and export-orientated Australian industries. The tax incentive is an easy-to-access entitlement that is available to businesses of all sizes in all industry sectors. Under this scheme, eligible small to medium-sized companies with annual turnovers of less than \$20 million apply for a refundable tax offset of 45 cents for every dollar spent on R&D. A 40 per cent non-refundable tax offset is available to other eligible businesses. The Australian government has announced an intention to change the rates of assistance to 43.5 and 38.5 per cent respectively, pending legislation.
- *Regional Innovation Funds*. These initiatives provide support to stimulate investment and diversify the economic and employment base in the regions of Tasmania (Australian Government Innovation and Investment Fund), Geelong (Geelong Region Innovation and Investment Fund) and Melbourne's north (Melbourne's North Innovation and Investment Fund).

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 seek new business opportunities.

5.5.2 Global opportunities

Expanding a business's market share domestically is attractive because it is likely to be seen as easier and cheaper, with fewer international laws and customs to deal with, and no language barriers or long travel times. However, Australia is a relatively small market, and the ability to operate on a global scale provides numerous opportunities for a business to become more successful and increase its market share.

What opportunities are available for a business to take advantage of on a global scale? What strategies could a business use to take advantage of opportunities in a global market?

Exporting

A business exports when it sends goods or services to another country for sale. Once the business has considered laws in the other country, as well as cultural and demographic factors, exporting can allow the business to access larger markets. This strategy also provides a business with the opportunity to increase sales and profit, and can assist with spreading the risk of a business.

However, there are risks associated with exporting. It is important to understand the different cultures, languages, norms and ways of doing business in other countries. There will always be hidden costs involved in meeting regulations. The Australian Trade and Investment Commission (Austrade) provides help to businesses that wish to seek opportunities in overseas markets.

AUSTRADE

The Australian Trade and Investment Commission — Austrade — is Australia's leading trade and investment agency. They have a history of helping Australian businesses unlock opportunities and achieve their global ambitions.

Austrade connects Australian businesses to the world and the world to Australian businesses through:

- supporting new industries in developing global supply chains
- collaborating with businesses overseas to provide 'in-country' advice
- attracting investment
- assisting businesses navigate overseas markets
- reducing commercial risks.

Source: www.austrade.gov.au



Australian Government

Australian Trade and Investment Commission

on Resources

 **Weblink** Austrade

Partnering with an overseas business

In a similar vein to joint ventures, it is possible for a business to partner with a business overseas in order to allow the business to gain a share of that market. The overseas business will be able to provide local knowledge regarding culture, customs, norms and laws. The Australian business may be able to provide finance and expertise so both businesses benefit.

Opening an office/branch overseas

In addition to using the internet and an online shop to gain customers overseas, having a physical presence is also an important opportunity. Allowing overseas customers to visit a store and ask questions, browse or even make a complaint can raise the profile and sales of an Australian business.

Australian retail giant Harvey Norman has 220 stores in 8 countries across the globe, including New Zealand, Singapore, Malaysia, Ireland, Northern Ireland, Slovenia and Croatia. The business plans to open more bricks-and-mortar stores in Malaysia but is also looking at whether to open stores in Thailand or Vietnam. Harvey Norman executive chairman Gerry Harvey said that it's 'not going to happen tomorrow, but we do want to go to other countries'.

Australian retailer Harvey Norman has opened stores throughout the world, including in Malaysia and Slovenia.



Online shopping

Another means of expanding globally is through the creation of an online shop and platform. Many businesses offer customers the ability to browse available goods and services via the internet, order items and services, purchase, pay online and organise the shipment of goods. This allows the whole world to be a potential market for the business, encouraging the expansion of the customer base, sales and potentially increasing their market share. However, online shopping does have certain risks. It can be both time-consuming and expensive to create an online platform. The technology itself will impose a financial cost on a business and staff will need to be trained to use the platform. An online platform will also need to be explained to customers. Furthermore, a business should recognise that an online shopping platform can diminish the personal contact that it has with customers, meaning that they may not feel as connected to the business as they once did.

EXAM TIP

The **Unit 4, Area of Study 2** key knowledge does not stipulate a list of management strategies for responding to new domestic and global opportunities.

Students are free to use any such management strategy shown here or others that may have been taught in class. It is also important to note that some management strategies for seeking new opportunities domestically presented in this subtopic could also be considered management strategies for seeking new opportunities globally, and vice versa.

5.5.3 Evaluation of domestic and global opportunities

Opportunity	Strengths	Weaknesses
Multiple branding	Product range crosses different market segments, increasing total market share	May be costly to establish smaller, different lines of the product — profit per unit may be smaller
Mergers and acquisitions	- Take advantage of an existing business's contacts and market share - Less expensive means of moving into a new market	- Can be seen as negative by customers who may feel the 'old' business could lose their identity - Can be expensive
Product differentiation	- The business and/or product may gain a reputation for quality or some other feature. - Quality or uniqueness drives sales.	Can be expensive to create the differentiation and so may need to charge a higher price
Franchising	- Allows the business to establish more branches for little cost to the business - Potential losses are minimised if not successful as costs are borne by the franchisee	- Whole business can be negatively impacted by a poor reputation of one store - Franchisor can lose some control of operations
Diversification	- Opens a new market for the business - May attract new customers to original market as the business may gain a positive reputation for all their activities	- Expensive due to start-up costs - Entering a market with existing competitors who may be well-established
Joint ventures	- Gain access to an existing customer base - Costs are shared	- Profits are shared - Some loss of control of decision-making
Government services	- Access to experts in the area - Free services available and some funding available	- Limited access to financial assistance - Advice may be generic and not suitable to individual business scenario
Government investment in research and development	- Access to expertise assistance - Targeted help and advice available	Limited in size and scope
Exporting	- Creates a new market for the business - Increase size of customer base	- Competing against established businesses - May not be aware of local laws and customs
Partnering with an overseas business	Partner already has an established presence in the market	Sharing the identity and culture of another business may cause issues
Opening an office/branch overseas	- Establishes a presence in a new market that customers can access - Can adapt business to local conditions and customs	- Some initial costs - May not be aware of local laws and customs
Online shopping	Opens the world up as a potential market	Opens the business up to greater competition

KEY IDEAS

- New business opportunities can be found domestically and globally.
- Management strategies to seek domestic opportunities include multiple branding, product differentiation, franchising, diversification, joint ventures and government services.
- Management strategies to seek global opportunities include exporting, partnering with an overseas business, opening a branch overseas and creating an online store.
- Some management strategies for seeking new business opportunities domestically can also be strategies for seeking opportunities globally, and vice versa.

5.5 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain why it is important for businesses to seek new opportunities.
2. Explain the difference between multiple branding and product differentiation.
3. What are the benefits and costs of expanding domestically?
4. What are the benefits and costs of expanding globally?
5. Explain how the internet has allowed businesses to expand both domestically and globally.

APPLY your understanding

6. Use the **Small Business Victoria** weblink in the Resources tab and write a report outlining how this entity can assist businesses to take advantage of new markets.
7. Use the **Austrade** weblink in the Resources tab and write a report outlining how this government department can assist a business wishing to begin exporting overseas.
8. Select a product from the following list, then visit your local supermarket. Identify the number of brands sold in that product market. Read the labels and identify the manufacturers of those products.
 - Dog food
 - Breakfast cereals
 - Shampoos
 - Laundry powders
 - Dishwashing/dishwasher detergents
 - Toothpaste

EXAM practice

9. The owner of a small gardening and home maintenance business is considering a number of options in relation to new business opportunities. Describe two new domestic business opportunities the owner could seek to implement, and identify two key performance indicators the business could use to assess the success of these new business opportunities. **(8 marks)**
10. Explain one strategy a business could implement to seek new business opportunities on a global scale. **(2 marks)**
11. Describe a strategy a manufacturing business could implement to seek a new domestic opportunity. **(3 marks)**
12. During the COVID-19 pandemic a number of manufacturers switched from their normal production to the production of products such as hand sanitiser and face masks. Explain how this is considered a new domestic opportunity. **(2 marks)**
13. Explain a new domestic or global opportunity a business could adopt to counter a decline in market share. **(3 marks)**
14. 'Seeking a new domestic opportunity is always a better option than responding to key performance indicators.' Analyse this statement. **(5 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

5.6 APPLY YOUR SKILLS Seeking new business opportunities

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of business management applicable to managing change in a business
- Interpret business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the advantages and disadvantages of various strategies in implementing change in a business
- Propose and justify strategies in response to key performance indicators and to assist in implementing change in a business

EXPANSION INTO NEW MARKETS

Ego Pharmaceuticals is an Australian, family-owned business that manufactures dermatological skincare products, including well-known brands such as QV Skincare, SunSense, Aqium hand sanitiser and Pinetarsol. Established in 1953, it now produces 120 products, all of which are manufactured in Melbourne.

A key to the success of the company has been its expansion into overseas markets. Currently, Ego Pharmaceuticals exports to 27 countries in the Asia-Pacific region, Europe and the Middle East. One of the biggest growth areas for Ego Pharmaceuticals has been Taiwan.

The company started selling products in Taiwan in 2003 and the business remains confident of growth opportunities in the market, establishing Ego Pharmaceuticals Taiwan Pty Ltd in FY16/17 as a subsidiary to increase control of marketing and sales work, which has led to increased sales in Taiwan.

As a family-owned Australian brand, Ego Pharmaceuticals' reputation has been built on 67 years of dedication to providing its loyal customers with specialist, quality skincare. Ego's Managing Director and son of founder Gerald, Alan Oppenheim, said exports are now a huge focus for the organisation, with international sales making up 50 per cent of the business's revenue, and 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 Victoria. The business also runs on a pharmacy-only distribution model, which supports pharmacies all over the country.

These moves 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 2018 they sat at number 283 on the list, jumping 21 spots since placing number 304 in 2017. The list, published annually, considers company revenue over the latest 12-month accounting period and number of staff. In 2018 Ego had 566 staff globally and posted a revenue growth of 17.7 per cent for the previous financial year.



5.6 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your skills

1. Read the 'Expansion into new markets' case study. Explain why you believe Ego Pharmaceuticals began expanding overseas.
2. Explain why Ego Pharmaceuticals expanded into Taiwan.
3. Ego Pharmaceuticals' expansion into Taiwan involves more than just selling products there. Outline Ego's new presence in Taiwan.
4. Ego Pharmaceuticals is always looking for new opportunities. Explain why it is important for a business to do this.

APPLY your skills

5. Evaluate the local opportunity Ego Pharmaceuticals continues to maintain.
6. Propose and justify one new global business opportunity Ego Pharmaceuticals could consider.

EXAM practice

7. Explain what is meant by a 'new domestic business opportunity'. **(2 marks)**
8. Describe the global opportunity Ego Pharmaceuticals took advantage of. **(3 marks)**
9. Describe a key performance indicator that Ego Pharmaceuticals may have responded to when it expanded into Taiwan. **(3 marks)**
10. 'Expanding overseas is fraught with danger and businesses should look at domestic opportunities first.' Analyse this statement, indicating the extent to which you agree or disagree. **(5 marks)**
11. 'Small businesses need to continually seek new business opportunities or risk going out of business.' Discuss this statement. **(5 marks)**

Solutions and sample responses are available in your digital formats.

5.7 The principles of the Learning Organisation (Senge)

KEY CONCEPT Peter Senge believed that only learning organisations — organisations that are continually expanding their capabilities to create new ideas together — would excel during times of change. Senge's Learning Organisation is based on a number of principles including the five disciplines (systems thinking, personal mastery, mental models, building shared vision and team learning).

5.7.1 The learning organisation

Peter Senge is an American scientist who developed the concept in the 1990s that businesses should aim to become 'learning organisations' to excel in the future. He suggested that businesses must be dynamic entities, as they constantly have to adapt and improve in an effort to develop into the business they aspire to be, as outlined in their mission and vision statements. Senge theorised that learning organisations are those businesses where managers and staff continually seek to expand their capacity to achieve the results they desire. He believed these learning organisations encourage new patterns of thinking and operating, resulting in the aspiration of the business becoming more open-ended.



In identifying ‘learning organisations’, Senge described five principles, or disciplines, that he believes are necessary to generate a learning organisation. These disciplines are:

- systems thinking
- personal mastery
- mental models
- building shared vision
- team learning.

Systems thinking

According to Senge, systems thinking is ‘the cornerstone of the learning organisation’.

Systems thinking is the ability to see the big picture — to look beyond what is occurring just within a business. Senge stated that businesses 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

‘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.

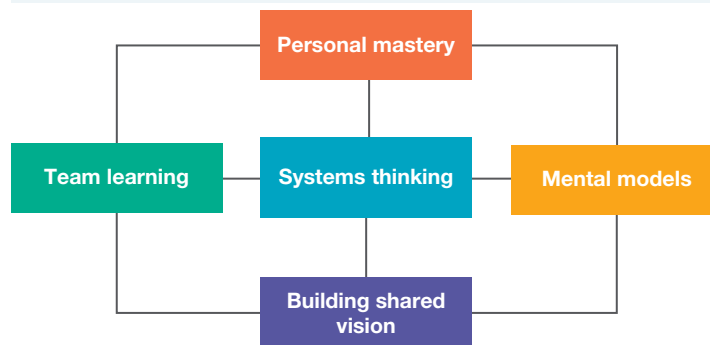
Personal mastery involves the people within a business developing proficiency; that is, the ability to undertake continual learning or development to continually show improvement and movement towards achieving the goal or vision the person has set for themselves. This can be achieved through training 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).

The five disciplines (or principles) of a learning organisation



To allow the business and individuals to change, the discipline of mental models requires businesses (and individuals) to look inside themselves. Businesses need to be able to scrutinise what they do, their systems and processes, and then act upon what they learn. For this to occur it will be necessary for people to learn new skills and develop new orientations, and for there to be institutional changes that foster such change.

The aim is to move the business in the right direction, which will entail working to go beyond the sorts of internal politics and game playing that dominate traditional businesses, through openness and honesty and the sharing of responsibility. A business with a more open culture will encourage and promote inquiry and trust, which is likely to support the successful implementation of change.

Building shared vision

Peter Senge starts from the position that ‘it’s the capacity to hold a shared picture of the future we seek to create’ (Senge, 1990, p. 9). Having a shared vision will motivate all members of the business. It will encourage risk-taking and experimentation, and foster innovation. People who work within the business 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.

According to Senge, a business that has a vision that is truly shared will have people who excel and learn because they want to (not because they are told they need to). A shared vision means that employees in the business are much more likely to support a change.



Senge also states that where a shared vision will foster genuine commitment and enrolment rather than compliance, leaders must recognise that attempting to dictate the vision may be 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.

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.

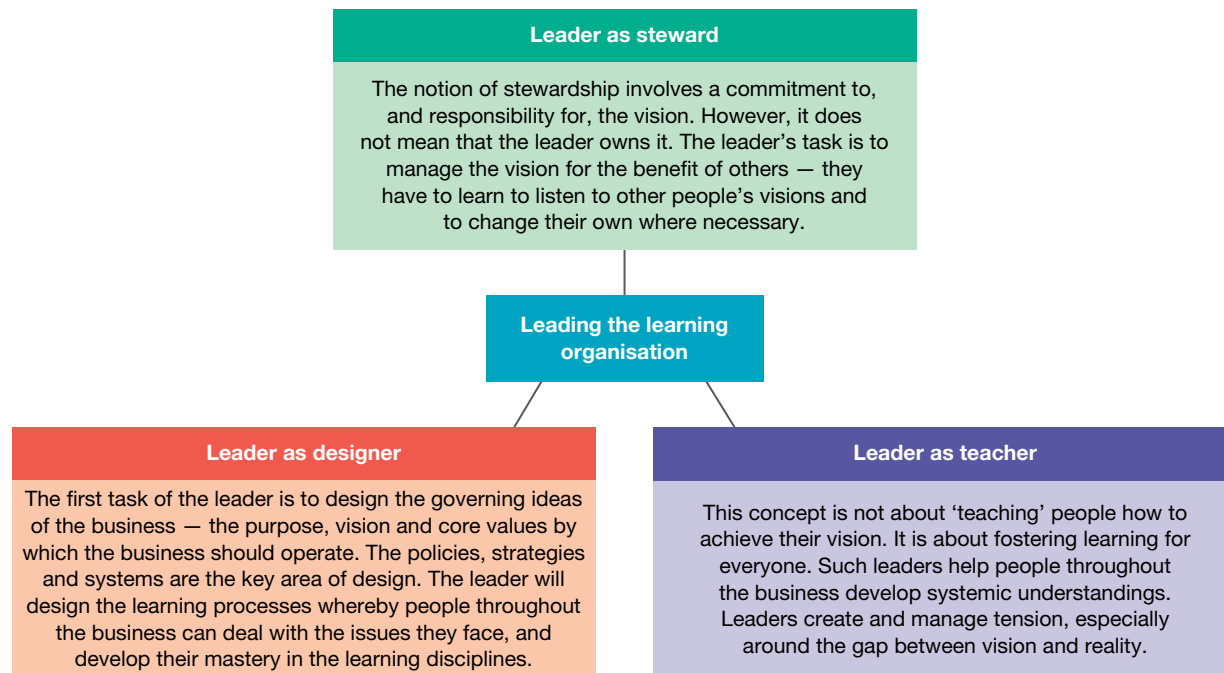
The discipline of team learning starts with what Senge referred to as ‘dialogue’. Dialogue is the concept of communicating openly, through the capacity of members of a team to suspend assumptions and enter into a genuine ‘thinking together’.

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 lead to support for change.

5.7.2 Leading the learning organisation

Peter Senge argues that learning organisations require a new view of leadership. Traditional leadership where leaders are those who set the direction of the business, make key decisions and energise staff is, according to Senge, an individualistic and non-systemic model of leadership. People who work for these traditional-style leaders are seen by Senge to have a sense of powerlessness, and lack personal vision and an inability to master the forces of change.

In a learning organisation, leaders are designers, stewards and teachers. They are responsible for building businesses where people continually expand their capabilities to understand complexity, clarify vision and improve shared mental models. These concepts are summarised in the 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.

5.7 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Define 'learning organisation'.
2. List the five disciplines of Senge's Learning Organisation.
3. Why do you believe it is important to build a shared vision for a business?
4. What is meant by 'team learning'? Provide examples from your experience where team learning exists.
5. Explain the role of a leader in a learning organisation.

APPLY your understanding

6. Explain the link between the five disciplines as explained by Senge. In your response, describe why systems thinking is considered the cornerstone of the five disciplines.
7. Explain the three roles of leadership in a learning organisation and distinguish them from the traditional role of a leader.

EXAM practice

8. Senge's Learning Organisation theory has systems thinking as the overarching principle. Explain this concept. **(2 marks)**
9. 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. **(8 marks)**
10. Explain what is meant by 'mental models' as part of Senge's Learning Organisation approach. **(3 marks)**
11. Analyse how becoming a 'learning organisation' can assist a business to deal with change. **(4 marks)**
12. 'Becoming a learning organisation sets up a business to effectively manage change both now and in the future.' Evaluate this statement. **(6 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

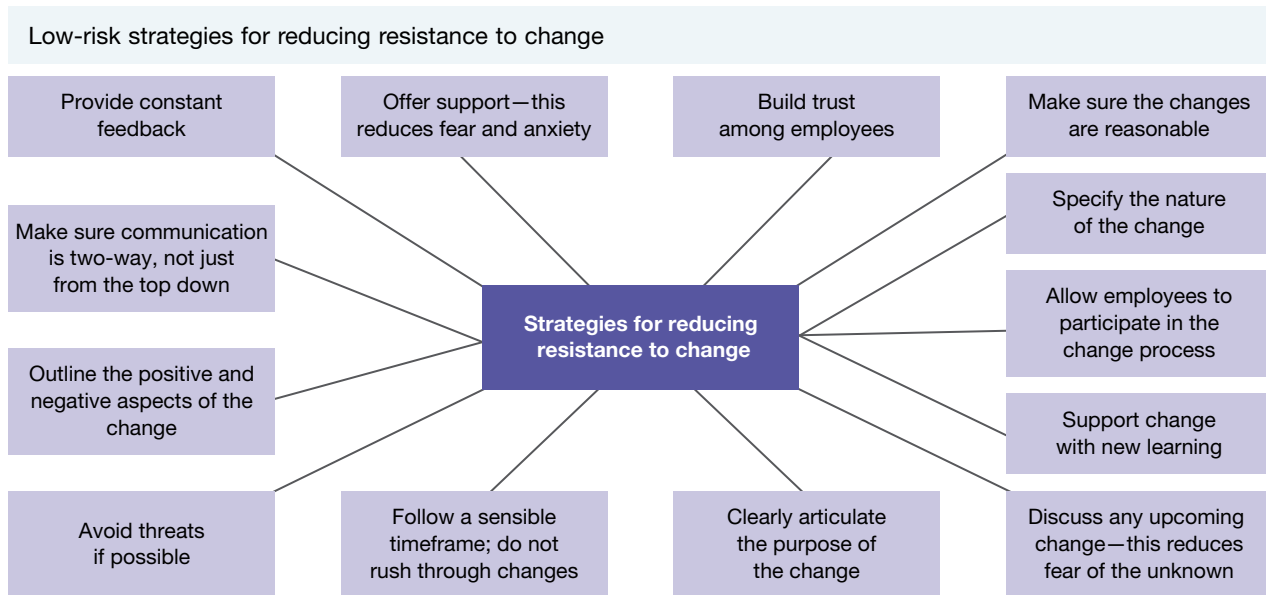
5.8 Low-risk strategies to overcome employee resistance

KEY CONCEPT Low-risk strategies, such as communication, empowerment, support and incentives, can be used to successfully overcome employee resistance, both in the short term and in the longer term.

5.8.1 Managing employee resistance — low-risk strategies

Businesses often fail to manage change well. Their record tends to be poor because, in the upheaval of a restructuring process, employees — the most crucial group of all — are often neglected. 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, such as communication, empowerment, support and incentives, are the best way to effectively manage change. They are considered low-risk because their use is likely to generate positive outcomes, both in the short term and also in the longer term. For example, the use of communication and empowerment is more likely to result in employees agreeing with the change, or supporting the change. Employees will feel valued as their ideas and feelings are taken into account, making successful change more likely.

EXAM TIP

The **Unit 4, Area of Study 2** outcome states that you need to ‘evaluate the effectiveness of a variety of strategies used by managers to implement change’. This suggests that you should know the advantages/strengths and disadvantages/limitations of each low-risk strategy to overcome employee resistance, as well as of each high-risk strategy.

Communication

The greater the sharing of information during the change process, the greater the level of trust between management and employees. Maintaining open lines of communication assists in the sharing of information at all levels of the business. As communication is a two-way process, leaders and managers also need to ensure that they provide all employees with the means to communicate their feedback, both positive and negative, to those leading the change.

DID YOU KNOW?

‘Employees who are not informed about why changes are necessary will ultimately resist such changes,’ says Hannah Russell, a change management consultant. ‘When they do not get the information they need, they turn to the rumour mill with all its inaccuracies.’

Empowerment

It is important that employees feel they have the opportunity for input into those decisions that have a direct effect on what they do or how they operate within the business. Top-down direction can lead to mistrust and lack of confidence in this process. Encouraging negotiation processes can empower employees and enhance the support they show and give for the direction of the change.

Giving all employees the opportunity to participate in teams, working together on clearly specified tasks, allows everyone to 'buy in' to the process. The business should also identify individuals who can act as supportive **change agents**. Such people fulfil a crucial role in helping to establish a positive and supportive culture.

change agent a person or group of people who act as catalysts, assuming responsibility for managing the change process

Empowering employees by giving them the opportunity to take part in negotiations can help them to buy in to the change process.



Support

Business change may result in some positions being terminated, so those likely to have their employment terminated need to be given appropriate support. This could involve the provision of assistance to find new employment. This sort of support is not only essential for the employee leaving the business, but is also important for maintaining the morale of other staff. If employees see their colleagues being treated poorly, they will be less supportive of the change process.

Employees who remain at the business following any job losses will also feel supported if they feel the business has confidence in them going forward. This can often be demonstrated through the provision of training for these employees. Training in the new processes or practices will see morale and confidence grow, and resistance will be lowered.

Incentives

Employee resistance can be overcome by providing incentives. This strategy could involve:

- providing bonuses
- offering promotions
- offering training and career advancement
- providing the opportunities of additional responsibility
- encouraging greater autonomy for employees.

Businesses often provide incentives to customers such as 'introductory offers' and 'buy one get one free' offers to incentivise customers. Similar strategies can be employed with staff, provided management is able to present the incentives as something other than a bribe. This type of strategy can reduce resistance, as employees will feel that the business has faith in their abilities and is willing to move forward with these employees 'on board'.

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.

5.8 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain what is meant by a 'low-risk strategy' for implementing change.
2. Select three strategies shown in the first figure in section 5.8.1 and explain why they are classified as low risk.
3. Outline two reasons why it is important to provide support for a person whose employment is to be terminated as a result of change in a business.
4. Explain the role of a change agent.
5. Explain how incentives differ from bribes and why they can be an appropriate strategy for managers to adopt.

APPLY your understanding

6. What types of tactics to reduce resistance to change have you observed recently? Were they successful in achieving their outcome?
7. Read the 'What is a team?' case study.
 - a. According to the author, what causes teams to form?
 - b. In the author's view, why is it important to clearly communicate to employees the goals of a change?
 - c. 'The whole becomes clearly more than the sum of the parts.' What does this statement mean?

EXAM practice

8. The decision of a company to acquire the shares in another company as part of a takeover may create concern among staff, leading to resistance to the change. Justify why employees of the company being acquired may resist this change. **(2 marks)**
9. Explain why employees may resist change. **(2 marks)**
10. Analyse how empowerment can be used to overcome employee resistance. **(4 marks)**
11. Explain how communication can be used to overcome employee resistance and why it is considered a low-risk strategy. **(4 marks)**
12. Evaluate two low-risk strategies the managers of a business could use to overcome employee resistance in the circumstances described in question 8 above. **(6 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

5.9 High-risk strategies to overcome employee resistance

► **KEY CONCEPT** High-risk strategies such as manipulation and threat can be used to overcome employee resistance relatively successfully in the short term. However, their use can lead to negative outcomes in the longer term, particularly if a change fails.

5.9.1 Managing employee resistance — high-risk strategies

The range of tactics examined so far relies on communication, involvement, support and negotiation — low-risk strategies. At the other end of the spectrum are some high-risk strategies. They are considered high risk because their failure may generate negative outcomes. While these strategies may work effectively in the short term, they run the risk, for example, of generating ill feeling between employees and employers over the longer term, which can permanently damage working relationships. Ultimately, any gains made may be outweighed by the instability within the business.

Manipulation

If a business wishes to introduce new technology, it may inform its staff of the exciting new training and promotional opportunities that the change will provide. However, it may withhold the fact that the new technology will result in a number of forced redundancies. This is an example of **manipulation**. Manipulation involves exerting undue influence over an employee that may be deceptive in order to get them to behave a certain way. While some people regard manipulation as skilful or artful, others argue that it is deceptive and devious, and therefore an unethical practice.

manipulation the skilful or devious exertion of influence over someone to get them to do what you want

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 tactics 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, overtime or ultimately, termination. A business that faces competition from imported products, for example, may advise its staff of the need to change work practices and accept a reduction in entitlements in order to lower the costs of production — or alternatively, four staff positions will have to be terminated. For example, in 2006, Qantas flight engineers were given an ultimatum by senior management that job losses would occur if current work practices and manning levels were not changed. This threat ultimately resulted in prolonged industrial action, causing disruption to the business through numerous flight delays.

Threats may cause the recipients to submit, but become more resentful. This in turn can escalate the resistance.



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.

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.

5.9 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain what is meant by a ‘high-risk strategy’ for implementing change.
2. In what ways are manipulation and threat high-risk tactics for the achievement of effective change management?
3. Do you regard (i) manipulation and (ii) threats as unethical business practices? Why? Share your answer with the rest of the class.
4. Identify some possible negative consequences of using high-risk tactics in order to reduce resistance to change.
5. Identify other high-risk strategies a manager might use to overcome resistance to change.

APPLY your understanding

6. Would an autocratic manager tend to use low-risk or high-risk tactics to reduce resistance to change? Give reasons for your answer.
7. Read the ‘Manipulate at your own peril!’ case study. In small groups, discuss the ethical dilemmas encountered when using manipulation as a tactic to reduce resistance to change. Select a spokesperson, then share your answer with the rest of the class.

EXAM practice

8. Employee resistance can be overcome by the use of low-risk and high-risk strategies. Distinguish between these different types of strategies. (3 marks)
9. A business is acquiring the shares of another company and the employees are displaying some resistance. Analyse the use of threats as a strategy that management could use in this situation. (4 marks)
10. Explain how manipulation can be used to overcome employee resistance and why it is considered a high-risk strategy. (4 marks)
11. 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. Analyse two high-risk strategies that could be used to overcome this resistance. (6 marks)

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions online only

Solutions and sample responses are available in your digital formats.

5.10 Key principles of the Three Step Change Model (Lewin)

KEY CONCEPT Kurt Lewin, in addition to developing his Force Field Analysis theory, also developed the Three Step Change Model.

5.10.1 Lewin's Three Step Change Model

Kurt Lewin was a German-American psychologist who is known as one of the founders of social psychology. He developed a seminal theory on the best approach for a business to manage change. Lewin believed that change occurs at many levels within a business, be it a large-scale or a small business. He suggested that change can occur at the individual level; that is, that each individual within the business is capable of undergoing change.

Lewin suggested that change could occur at a structural or systemic level. The business could undertake change that resulted in a new management structure or new systems that allow the business to operate more efficiently. He also suggested change could occur from inside the business through the culture of the business and the style of management in place within the business.

Lewin identified the three levels of change and incorporated them into a change management theory. He described his theory as the Three Step Change Model.

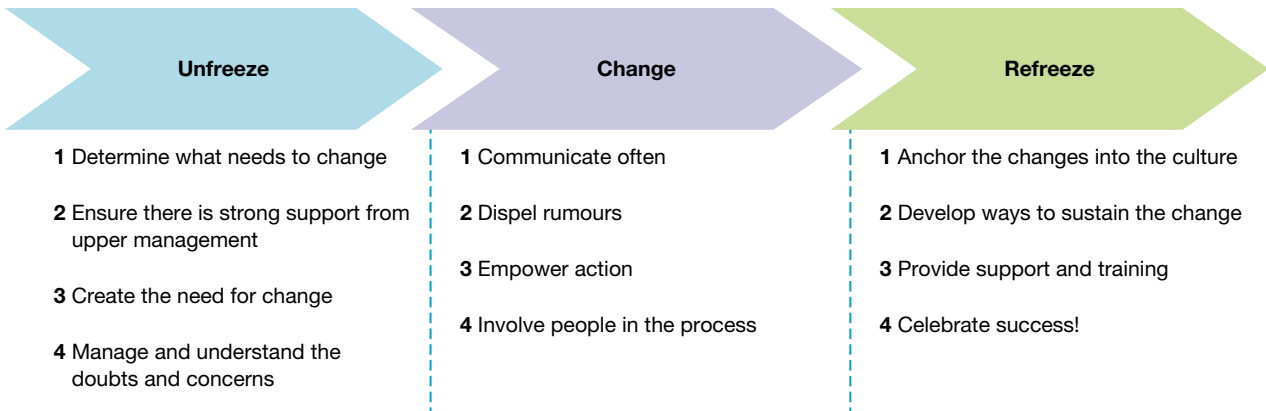
Kurt Lewin was one of the founders of social psychology.



on Resources

 **Video eLesson** Key principles of the Three Step Change Model (eles-2937)

Lewin's Three Step Change process — practical steps



Step 1 — Unfreeze

Businesses often become too comfortable in their current position, so change, or the pressure to change, can be difficult to accept. Lewin argued that to change effectively, a business needed to 'unfreeze'. To unfreeze means to 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 identified and changed. Employees also need to know that support is available from management to assist in the change process.

Unfreezing the business changes the status quo — the conditions in which the business is currently operating.

Step 2 — Change

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.

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 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.

5.10.2 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.

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.

5.10 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain why it is important for change to be implemented effectively.
2. Explain why adopting a model for implementing change can make the implementation more effective.
3. What are the three levels of change identified by Kurt Lewin?
4. Describe Lewin's theory of change management.
5. Explain why it is important for a business to 'refreeze' once change has been implemented.

APPLY your understanding

6. Using your school as an example, outline a recent change in policy. In your response, outline why the change was introduced and how stakeholders were informed. Was the change successful?

EXAM practice

7. Describe one of the key principles in Lewin's Three Step Change Model. **(2 marks)**
8. Explain what it means to 'unfreeze' as the first step in Lewin's Three Step Change Model. **(2 marks)**
9. When implementing change, it is often useful for management to adopt a change management theory. Explain Lewin's Three Step Change Model. **(6 marks)**
10. Crisp Chips currently operates in the snack-food market selling a range of potato chips, cheese snacks and other similar products. Management has seen an opportunity for the business to diversify into the dairy snack-food market within the next three years. Apply Lewin's Three Step Change Model to assist Crisp Chips with this future goal. **(4 marks)**
11. Discuss how managers could use Lewin's Three Step Change Model to respond to a significant change issue. Illustrate your answer with an example from a business that you have studied this year. **(10 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

5.11 The effect of change on stakeholders

KEY CONCEPT When a business undergoes change there will always be effects on stakeholders, including managers, employees, customers, suppliers and the general community. The impact of a change can be either positive or negative, depending upon the change that has occurred.

5.11.1 The effect on stakeholders

Stakeholders have an interest in the activities of a business. If the activities of a business change, then the interest of those stakeholders will also change. The impact can be either positive or negative, depending upon the change that has occurred.

Effect on managers

There are many sources of change, and when a change is undertaken there are numerous possible effects on the manager of a business. Some of these effects are summarised in the following table.

Many businesses are starting to realise that a team approach can be a catalyst for superior performance.



Change issue	Effect	Explanation
High rates of staff turnover, staff absenteeism and low employee morale	Change of management style	• If key performance data suggests that employees are not responding well to their work environment, then managers may need to change their management style. A more consultative style may improve morale and motivation.
Introduction of new technology	Change of processes	• This may require managers to alter their recruitment and selection processes to reflect the need for individuals who possess the knowledge and skills required to handle the changing circumstances.
Downsizing or expansion	Change of structure	• A change in the way the business operates may necessitate a change in the management structure of the business. New divisions or departments may open up opportunities for a new manager and new teams.
Downsizing or expansion, mergers or acquisitions	Change of employment	• Some changes may result in the downsizing of the business or outsourcing of a non-core activity. This can result in managers being made redundant as well as employees. • Alternatively, new promotional opportunities may arise in a bigger business.

Effect on employees

Employees are often the ones most affected by any change. We often think of change as leading to job losses through downsizing or outsourcing. However, these are only some of the possible effects of change to employees. Some other effects are shown in the following table.

Change issue	Effect	Explanation
Introduction of new technology	Change of work environment	• Some employees may become redundant. • Some employees may need to undergo retraining to be able to use the new technology. • Some employees may be offered redeployment into other areas of the business to retain their job.
Mergers or acquisitions	Change of working relationships	• Work teams may be changed, ended or introduced. • There may be a change in the culture of the business. • A new uniform, new vision statement and new values may all come into play as the new entity develops its own identity.
Downsizing or expansion	Change of structure	• New divisions or departments may arise; some may be merged. • New teams and new managers may be needed to suit the new divisions/structure.
New competitors entering the market	Change of focus or new strategies introduced	• The business may want to face this new competition by doing things differently — Porter's approaches. • Longer working hours, greater responsibility for existing employees and new processes may be implemented.

Customers

When a business undergoes change, the customers of that business may be affected. Some customers may not like the change, hoping the business will revert back to what it was. Some customers will embrace the change and may even promote the business to others. An example of this could be seen in the advertising campaign adopted by Aldi in 2015–16. During their campaign, Aldi used regular customers as spokespeople for the business who encouraged friends to try the business. The result was that new customers were gained and pre-conceived ideas were put to rest.

Other businesses have introduced changes over time and been met with a backlash initially before acceptance was won and customers returned. Sometimes it takes time for customers to accept the change and recognise there is no going back. Examples where this has occurred can be seen with the introduction of ATMs at banks, self-serve checkouts, the transition of Safeway stores in Victoria to Woolworths stores and the introduction of the Myki ticketing system for Victoria's public transport system. These changes were met with resistance from customers, but now they are generally accepted.

Considering that employees are a business's most valuable asset, it is important to manage transformational changes sensitively and professionally.



Suppliers

Change can bring new methods of production, new training programs for employees and hence new suppliers for a business. For some suppliers this creates opportunities as they gain additional customers for their product/service.

On the other hand, these new methods of production may lead to outsourcing, where businesses rearrange their workforces to employ a minimum full-time staff and use as many people from outside the business as possible on a contract, casual or part-time basis. In some cases these employees are based overseas and so, while the original business is able to keep labour costs to the lowest possible level, local suppliers lose income and staff.

The general community

When change occurs there can be a negative impact on the general community or a local community. In 2017, both Ford and Holden ceased manufacturing motor vehicles in Australia. There was a slow decrease in the workforce of these businesses as they slowly downsized. As this occurred the local communities suffered, as the employees were losing income and in turn were reducing their spending, causing local businesses to lose sales. The closures had a 'spin-off' effect on other businesses.

This effect is often more evident in smaller towns where there is only one major employer. Communities suffer when there is reduced employment in that community and less money being spent.

Car industry plant closures may have a negative impact on local and general communities.



EXAM TIP

The **Unit 4, Area of Study 2** outcome states that you need to 'discuss the effect of change on the stakeholders of a business'. This suggests that you should know the positive effects of change on stakeholders, as well as the negative effects.

KEY IDEAS

- Key stakeholders can be affected by the business undergoing change.
- The effect of change may be positive or negative.
- Managers may need to change their style, restructure the business or change their roles.
- Employees may require retraining or redeployment, or face redundancy.
- Customers may need to adapt to a new environment or new methods of service, or a change in quality or price.
- Suppliers may lose contracts, be required to lower costs to remain competitive, or face increased competition.
- The general community may suffer if businesses close, or may benefit from expansion.

5.11 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain how change may impact managers both positively and negatively.
2. Explain how the culture of a business can be negatively impacted by change.
3. Change can improve the skills of the workforce. Discuss how this may occur.
4. What are the benefits to customers of change?
5. Why are alterations to the management of human resources necessary in response to change?
6. In 2013, Telstra employees protested at the company's annual general meeting against call centre jobs being outsourced to other countries.
 - a. Explain how outsourcing may affect suppliers.
 - b. List reasons why Telstra employees protested against the possible outsourcing of jobs.
 - c. What are the possible benefits to customers that outsourcing may bring?

APPLY your understanding

7. Use the internet to investigate an example of a small rural area that has suffered a decline in business numbers and/or population due to the closure of a significant business. Write a report describing the impact on the local community and suppliers.
8. Discuss how a change in a business may have a differing effect on the managers and employees of that business.

EXAM practice

9. Explain why change may impact stakeholders. **(2 marks)**
10. All change has consequences. Analyse how a change may both negatively and positively impact employees. **(5 marks)**
11. 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. **(4 marks)**
12. Uber Eats and Menulog have changed the fast-food and delivery markets in a way not envisaged by traditional food outlets. Discuss the effect of online food deliveries from restaurants and fast-food outlets on two stakeholders. **(4 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

5.12 Corporate social responsibility considerations when implementing change

KEY CONCEPT Whenever a business undergoes change there are effects on numerous areas of the business. One such area is the corporate social responsibility position of a business.

5.12.1 Corporate social responsibility as a driving force

During the past 20 years there has been growing pressure on businesses to improve their **corporate social responsibility**. Corporate social responsibility is a business's initiatives to assess and take 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.

The heart of corporate social responsibility is adopting a **triple bottom line** approach and monitoring changes against this standard. The triple bottom line is a phrase used to describe the separate financial, social and environmental 'bottom lines' of businesses. A triple bottom line measures a business's:

- economic value
- 'people account', which measures the business's degree of social responsibility
- 'planet account', which measures the business's environmental responsibility.

The desire to be seen as socially responsible will often drive businesses to undertake change to improve their profit, but at the same time to do so without further damaging the environment, without mistreating employees, suppliers or customers, as well as giving back to the community in which they operate.

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

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

ecological sustainability occurs when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs

5.12.2 Ecological sustainability as a driving force

Ecological sustainability is an area of significant corporate social responsibility that businesses must consider. The Earth is a fragile system that we need to take care of so it can maintain itself. The health of the natural environment has a direct impact on society's quality of life. Consequently, a business needs to balance economic and environmental concerns. In other words, businesses are being driven to undertake sustainable development. They are being asked to take increasing responsibility for the protection of the environment, recognising that the pursuit of profit should not be at the expense of the environment and that the business has an obligation to leave the environment as they found it.

Victorian Surfacing Manager George Hatzimanolis and Production Coordinator Simon Jordan at the launch of TonePave, a road-surfacing material made from recycled printer toner cartridges.



5.12.3 Business ethics as a driving force

Business ethics is not concerned with legal obligations, but with what is morally right or wrong — and all the shades of grey in between. Businesses want to be seen as responsible corporate citizens, conscious of the high ethical standards expected of them by their customers and society at large. As such, businesses will make changes to policies, processes and practices to ensure they are seen as ethical.

Business ethics are concerned with what is morally right or wrong.



5.12.4 Change management strategies

There are a number of change management strategies businesses can implement to meet corporate social responsibility expectations. Some examples of these strategies include the following:

- The social conscience of responsible managers has led them to adopt policies of conservation, recycling and restoration. For example, surfwear manufacturer Billabong has developed its own environmental policy. Billabong will conduct business only with partners who share its commitment to the environment.
- Businesses evaluate the full environmental effects of their operations. This can be done by preparing a **sustainability report** that details how the business's practices and operations affect society and the environment.
- Production processes need to be modified to bring them into line with ecologically sustainable practices.
- Managers should encourage standards of honesty and integrity, and expect ethical behaviour from all employees.
- Stakeholders must be dealt with honestly and fairly.
- The business should avoid using misleading or deceptive product descriptions.
- Employees should be provided with a safe working environment, their confidential personal information should be kept secret, and discrimination should be abolished.
- A corporate code of conduct should be implemented as it provides internal stakeholders with ethical standards to uphold.

business ethics the application of moral standards to business behaviour

sustainability report a comprehensive report of what a business has done, and is doing, with regard to social issues that affect it

5.12.5 Corporate social responsibility considerations

Depending upon the change occurring within a business, the corporate social responsibility considerations may differ. Some examples are shown in the following table.

Change	Corporate social responsibility consideration
Change of supplier	Source supplies from a local supplier. If supplies are sourced from overseas, ensure workers are not exploited, are paid fairly and have decent working conditions. Ensure suppliers uphold the same social responsibility standards.
Introducing new technology	Ensure technology does not add to pollution or create additional waste. Ensure workers are given the opportunity to retrain to operate new technology.
Downsizing	Ensure employees are kept informed of changes and processes for redundancies (if needed).
Merger or takeover	Ensure existing employees are treated appropriately by the new management team and all legal obligations are honoured.

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.

5.12 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain what is meant by 'corporate social responsibility'.
2. Why is it important for a business to consider its corporate social responsibility behaviour when undergoing change?
3. Explain what is meant by the 'triple bottom line'.
4. Outline some corporate social responsibility considerations that need to be taken into account in the following change circumstances:
 - Merger of two businesses
 - Introduction of new technology
 - Changing suppliers.
5. Explain how a code of conduct can assist a business in meeting its obligations to corporate social responsibility.

APPLY your understanding

6. Describe strategies that a business could adopt to meet its social responsibility obligations during negotiations with employees over wage rises.
7. Describe strategies that a business could adopt to meet its social responsibility obligations during the introduction of self-serve checkouts at its stores.

EXAM practice

8. Define 'corporate social responsibility'. (2 marks)
9. Explain why it is important for a business to consider corporate social responsibility when making changes. (3 marks)

10. Describe a social responsibility consideration that a manager must take into account when a proposed change will result in employee redundancies. **(3 marks)**
11. Aussie Farmers Direct has suffered falling sales in recent years and registered a loss in 2018, forcing it to suspend operations. Describe two corporate social responsibility considerations a business in this situation must address. **(4 marks)**
12. One strategy businesses may implement to improve sales and profits is to source their materials offshore. Explain the corporate social responsibility issue this may create. **(2 marks)**
13. 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. **(10 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

5.13 EXTEND YOUR KNOWLEDGE The impact of change on stakeholders and social responsibility

KEY CONCEPT Whenever a business undergoes change, management must consider the impact of that change on stakeholders and the corporate social responsibility considerations of that change.

POOR PERFORMANCE LEADS TO STORE CLOSURES AND JOB LOSSES

Donut King, Gloria Jean's and Michel's Patisserie are all well-known names in Australia. Every major shopping centre 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.

Managing Director Andre Nell indicated RFG had to change its business model if it wanted to remain successful. At December 2017, the company held 2450 outlets across all franchises in Australia. The future success of the company depended upon maintaining a healthy and sustainable franchise network, and these cuts were part of this renewal of the business.

By early 2018, already 66 outlets had been closed. Trading on shares in RFG was suspended in February 2018, but auditors approved the plan and signed off on the accounts of the business, and trading recommenced on 5 March 2018.

Franchises selling coffee and doughnuts are two of the staple groups under the Retail Food Group banner.



In a recent update, RFG indicated that the changes have been successful. While 2019 saw an additional 74 store closures, significant gains have been made in revenue earnings and cost reduction. In the first half of 2020 the business has reported a profit of \$45.8 million — a 124 per cent improvement on the \$101.5 million loss reported the previous year.

5.13 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Read the 'Poor performance leads to store closures and job losses' case study. Identify and describe the key performance indicator linked to the situation faced by RFG.
2. One key stakeholder of RFG are the franchisees. Explain how the financial performance of RFG will impact them.
3. A reason given for the fall in profit of RFG has been poor performance in shopping centres. Explain what this means.
4. Explain the effect of this performance on employees, suppliers and the community in general.
5. Explain the effect of this performance on the shopping centres where these stores are located.

EXTEND your understanding

6. Explain what is meant by 'corporate social responsibility'.
7. Explain how RFG can deal with their departing employees in a socially responsible manner.

EXAM practice

8. Referring to the case study, explain the effect of the store closures on suppliers. **(2 marks)**
9. The store closures and poor performance resulted in the trading of RFG shares being suspended. Explain the impact of this on shareholders. **(2 marks)**
10. 'The closing of a number of stores may negatively impact some stakeholders and positively impact others.' With the use of specific examples, analyse this statement. **(5 marks)**
11. Some employees have lost their job as a result of the store closures. Explain how managers should deal with this situation in a socially responsible manner. **(4 marks)**
12. '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. **(5 marks)**
13. The move to become more socially responsible can positively impact one stakeholder while negatively impacting one other. Explain how this can occur. **(4 marks)**

Solutions and sample responses are available in your digital formats.

5.14 Reviewing key performance indicators to evaluate transformation

KEY CONCEPT It is important to review key performance indicators so that a business can evaluate the effectiveness of a transformation.

5.14.1 Evaluating transformation

How does a business know if a change has been successful? A business will need to review key performance indicators (KPIs) once a transformation has been implemented as part of its evaluation and review of the changes it has introduced. If this is not done, then it is very unlikely that the business will be able to determine whether a transformation was successful, or whether there is a need to make any further changes or modifications.

The objectives of the business should be reflected in the KPIs that it uses as sources of data to analyse its performance. It follows then, that when a business reviews KPIs 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. KPIs should then be checked frequently, in particular at important steps in the change process.

KPIs 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 KPIs 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 KPIs 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 KPIs to evaluate their performance in response to transformation. Of particular importance are measures related to the financial viability of the business, such as net profit figures, and measures that suggest whether or not the business is meeting customers' needs, such as the number of customer complaints.



A business must review key performance indicators to evaluate the effectiveness of business transformation. It will need to determine if a change was worthwhile and whether further corrective action is necessary.



SURFSTITCH WARNS OF LOSSES

Online surf and skatewear retailer SurfStitch announced in May 2017 that it expected to lose between \$10.5 million and \$11.5 million in the 2016–17 financial year. While this was an improvement on the company's loss of \$18.8 million in 2015–16, SurfStitch had been expecting to return to profit in 2018. Following the announcement, shares in SurfStitch plunged almost 30 per cent.

In a May 2017 media statement, SurfStitch said that it had made substantial progress on plans to reduce costs, streamline operations and transfer its core SurfStitch.com website to its new ecommerce platform. The company also said that it would be winding down and closing its North American operational infrastructure.

SurfStitch used key performance indicators to evaluate the effectiveness of transformation, then introduced new strategies in response.



SurfStitch's Australasian and British businesses had been close to breaking even for some time. However, its North American business had been losing money, despite major restructuring in 2016. SurfStitch decided to close its operations in North America to preserve its cash flow, and would instead run the North American business from Australia.

Unfortunately, SurfStitch Group was placed into voluntary administration in August 2017. It was hoped that the company could be restructured and then have its shares relisted on the Australian Securities Exchange.

SurfStitch has subsequently been acquired by private equity firm Alceon Group. This group has been successful in acquiring a number of apparel manufacturers and retail outlets, including well-known brands such as Noni B, Specialty Fashion Group's Katies, Millers, Autograph, Crossroads and Rivers brands, EziBuy and Ginger & Smart. The purchase of SurfStitch was to result in a return to investors in the online surfwear company of between \$6 million and \$20 million.

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.

5.14 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Explain why it is important for a business to review or evaluate the effectiveness of a transformation.
2. Using examples, outline how a business could use key performance indicators to evaluate the effectiveness of a transformation.
3. Read the 'SurfStitch warns of losses' case study.
 - a. What changes did SurfStitch introduce?
 - b. What key performance indicators was SurfStitch using to evaluate the effectiveness of its changes?
 - c. What changes did SurfStitch introduce for success in the future?

APPLY your understanding

4. Using online sources, or the **SurfStitch** weblink in the Resources tab, find information that updates SurfStitch's net profit figures and number of sales to determine if the changes introduced at the company have been successful.
5. Two years ago, Yvette Brown decided to seek new opportunities domestically by franchising her small business, Non Sense Designs. Now that Yvette's business has been franchised, explain to her the importance of reviewing key performance indicators to evaluate the effectiveness of the transformation of her business.

EXAM practice

6. 'Change often occurs as a result of the data provided by 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. **(4 marks)**
7. A business is concerned with the level of sales and profit and has implemented a strategy of increased advertising to improve these two areas. Explain why it is important to review performance in these areas at a later date. **(2 marks)**
8. To deal with data showing the business had a high level of staff turnover, the manager of the business decided to change their 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. **(4 marks)**
9. Key performance indicators should be reviewed to evaluate transformation. Explain what is meant by 'transformation'. **(2 marks)**
10. 'If a change is not successful and key performance indicator performance shows no improvement, the business should go back to its original position. Another change is not appropriate as it may worsen the situation.' Analyse this statement. **(5 marks)**

studyon

To answer past VCAA exam questions online and to receive immediate feedback and sample responses for every question go to your learnON title at www.jacplus.com.au.

studyON: Past VCAA exam questions **online only**

Solutions and sample responses are available in your digital formats.

5.15 EXTEND YOUR KNOWLEDGE The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation

KEY CONCEPT Businesses use information drawn from key performance indicators to drive change. Once the change has been implemented it is important to review performance in these areas to evaluate whether the business has successfully changed or whether further change is necessary.

WOOLWORTHS 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. The change at Woolworths came about amid increasing public pressure to tackle the issue of plastic bag use in Australia. The company began phasing out the bags following the announcement, encouraging customers to pick up reusable bags instead, and introduced a total ban in mid-2018. Single-use, non-biodegradable plastic bags were replaced with a range of alternative shopping bag options available for purchase at checkouts, including reusable fabric bags or thicker plastic bags. Alternatively, customers can now bring their own shopping bags.

The change would be expected to result in a cut in costs at Woolworths, thereby responding to its net profit figures (it reported a full-year loss of \$1.24 billion in 2015–16). The ban on plastic bags might also be expected to impact positively on sales, which improved over the 2016 financial year for its food business, but declined across the group.

Largely, Woolworths' decision was made as a result of customer feedback. There was increasing public pressure on government and on supermarkets to tackle the issue of plastic bags use in Australia. 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.

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.



Woolworths introduces self-serve checkouts for trolleys at Millers Junction, Altona in 2019.



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.

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.

Further changes linked to the environment include Woolworths stocking two products manufactured by the SECOS Group (SES) — certified compostable bin liners that some local councils have approved for disposal in organic food waste bins.

The single-use plastic bag ban was the second major change for Woolworths in the last 13 years. In 2008, Woolworths rolled out self-serve checkouts in 70 stores across Australia. That number has grown steadily, and the success of this strategy has led to further changes mooted for the future. In November 2019, Woolworths announced it was planning on introducing larger self-serve checkout facilities to cater for shoppers with trolleys — where customers unload their shopping on to a conveyor belt before scanning and packing the items themselves as usual.

It's a concept that is being trialled at Woolworths' Gregory Hills store in Sydney, as well as the newly opened Millers Junction store in Melbourne, which now offers the trolley self-serve checkout, eight manned checkouts and a traditional self-serve area. Customers are now provided with a choice as they can pick the checkout option that works best for the shop they are doing at that particular time.

While this was happening in late 2019 and early 2020, Woolworths was also dealing with the COVID-19 pandemic and its impact on shopping and shoppers. Over the first six months of 2020, Woolworths introduced a range of measures to deal with the requirements of social distancing and the protection of staff and customers during this unprecedented time. This scenario led Woolworths to introduce changes in stores to assist with social distancing and hygiene.

The first change was the installation of clear screens between self-service 'assisted' checkouts and at staffed checkouts. Woolworths also made provisions for the 1.5-metre social distancing rule that was introduced in all retail outlets, resulting in every second checkout in self-service areas being closed to allow for adequate distancing.

The final change was the introduction of hand sanitiser stations located in store so that customers were able to sanitise their hands on the way in and on the way out.

Given their commitment to change, it is expected that Woolworths will continue to work on additional ways to keep customers safe and improve their shopping experience.

Clear screens were introduced at checkouts in Woolworths stores during the COVID-19 pandemic.



Limits were imposed on the number of people in Woolworths stores at any given time to allow for social distancing.



5.15 EXERCISE

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

TEST your understanding

1. Read the 'Woolworths is constantly changing' case study. Describe the changes at Woolworths.
2. Who are the stakeholders at Woolworths?
3. Outline some key performance indicators that have impacted Woolworths.
4. Why do you think the phasing out of single-use plastic bags in Woolworths stores will result in:
 - a. lower costs
 - b. increased sales
 - c. increased profit?
5. Explain how Woolworths could have applied Lewin's Three Step Change Model to its change process.
6. Outline the corporate social responsibility consideration related to the changes at Woolworths.
7. Construct a mind map summarising the effect of the changes on Woolworths' stakeholders, including managers, employees, suppliers, customers and the general community.

EXTEND your understanding

8. How should Woolworths use information regarding key performance indicators to evaluate the change process? In your response, explain three specific key performance indicators.
9. Discuss whether high-risk or low-risk strategies for overcoming resistance would be more appropriate in this case.
10. If you were a manager at Woolworths, how would you apply low-risk strategies to introduce transformation?

EXAM practice

11. Identify and define two key performance indicators that contributed to Woolworths undertaking change. **(4 marks)**
12. With reference to question 11 above, explain why it is important to review performance in those key performance indicators once the change has been implemented. **(4 marks)**
13. '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. **(5 marks)**
14. 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. **(4 marks)**
15. 'Change is constant and so review of change should also be constant.' Analyse this statement. **(5 marks)**

Solutions and sample responses are available in your digital formats.

5.16 Review

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

- Staff training, staff motivation, change in management styles or skills, increased investment in technology, improving quality in production, cost cutting, initiation of lean production techniques and redeployment of resources (natural, labour and capital) can all be used to respond to key performance indicators.
- Investment in new technology, improving quality in production, cost cutting and lean production can all be used to increase market share, sales and profit.
- Introducing training programs can improve productivity, staff turnover, reduce the number of workplace accidents and improve the level of staff satisfaction.
- Key performance indicators that measure staff motivation can be improved through training and other motivation strategies such as team building, goal setting and reward programs.
- Cutting costs can improve performance indicators such as net profit figures.
- Lean production and redeployment of resources can reduce waste and improve productivity.

Management strategies to seek new business opportunities both domestically and globally

- New business opportunities can be found domestically and globally.
- Management strategies to seek domestic opportunities include multiple branding, product differentiation, franchising, diversification, joint ventures and government services.
- Management strategies to seek global opportunities include exporting, partnering with an overseas business, opening a branch overseas and creating an online store.
- Some management strategies for seeking new business opportunities domestically can also be strategies for seeking opportunities globally, and vice versa.

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 greater chance of not delivering change effectively.
- Manipulating employees is a strategy that relies on deceiving employees into accepting the change.
- A threat is a means of gaining support for a change but may result in a lack of trust or ownership.

Key principles of the Three Step Change Model (Lewin)

- Kurt Lewin developed the Three Step 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 stakeholders

- Key stakeholders can be affected by the business undergoing change.
- The effect of change may be positive or negative.
- Managers may need to change their style, restructure the business or change their roles.
- Employees may require retraining or redeployment, or face redundancy.
- Customers may need to adapt to a new environment or new methods of service, or a change in quality or price.
- Suppliers may lose contracts, be required to lower costs to remain competitive, or face increased competition.
- The general community may suffer if businesses close, or may benefit from expansion.

Corporate social responsibility considerations when implementing change

- Businesses need to consider the impact of change on society.
- Change should not mean ignoring the obligations of the business to 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.



Resources



To access key concept summaries and past VCAA exam questions, download and print the **studyON: Revision and past VCAA exam question booklet** (sonr-0136).

5.16.2 Key terms

business ethics the application of moral standards to business behaviour

change agent a person or group of people who act as catalysts, assuming responsibility for managing the change process

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

ecological sustainability occurs when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs

franchisee the individual or business that purchases a franchise

franchisor an individual or business that grants the right to use a franchise



leadership the process of positively influencing and encouraging individuals to set and achieve objectives
manipulation the skilful or devious exertion of influence over someone to get them to do what you want
redeployment the assignment of resources, including natural, labour and capital resources, to another area of the business
sustainability report a comprehensive report of what a business has done, and is doing, with regard to social issues that affect it
triple bottom line the economic, social and environmental performance of a business

on Resources

 **Digital documents** Key terms glossary (doc-29456)
 Missing word glossary quiz (doc-29457)
 Crossword (doc-29458)

5.16.3 Practice school-assessed coursework

OUTCOME 2

Evaluate the effectiveness of a variety of strategies used by managers to implement change and discuss the effect of change on the stakeholders of the business.

ASSESSMENT task — structured questions

Time allowed: 80 minutes
Marks allocated: 50 marks (The marks for each question are indicated at the end of each question.)
Conditions: Closed book (No notes or textbooks may be used when completing this task.)

Section A (33 marks)

1. Define the following terms and provide an example for each.
 - a. High-risk strategies (2 marks)
 - b. Corporate social responsibility (2 marks)
2. a. Describe the key features of Lewin's Three Step Change Model. (3 marks)
 b. Explain how this model could be used by a business wishing to change its production methods from a predominantly labour-intensive system to a capital-intensive system. (6 marks)
3. Describe the five disciplines of Senge's Learning Organisation. (5 marks)
4. Propose and justify one low-risk strategy that could be used by a business to overcome employee resistance to change. (4 marks)
5. A local business has just decided to increase its use of technology in an effort to reduce costs.
 - a. Explain why, in the short term, introducing new technology may not reduce costs. (3 marks)
 - b. Analyse one possible effect on each of the following stakeholders if the change is implemented. (6 marks)
 - Customers
 - Employees
 - Suppliers
 - c. Describe one other strategy management could implement to reduce costs. (2 marks)

Section B (17 marks)

Superior Wine Growers

Superior Wine Growers is a medium-sized business sourcing grapes from local and overseas vineyards. These grapes are then sold to wineries who produce a variety of wines for the retail market in Australia. The past two years have seen disappointing results, as shown in the following table.

Key performance indicator	2020 (12 months to June 30)	2021 (12 months to June 30)
Number of sales (units)	6.7 million	2.5 million
Number of customer complaints	1100	4300
Level of wastage (industry average 12.3%)	14%	29.2%
Net profit figures	\$4.8 million	\$1.4 million

CEO Jessica Day addressed senior management to discuss the issues.

Our results for 2021 show a significant decline in business performance. These key performance indicators suggest we are less efficient and less effective than we have been since our first year of operations in 1987. Change will have to occur — all elements of the business will need to be examined and no idea will be ignored.

A planning group will be drawn from this group to chart our way forward, providing strategies and timelines for the reversal of business performance.

Wastage, quality, pricing and new opportunities must be at the forefront of our planning.

Read the 'Superior Wine Growers' case study, then answer the following questions.

1. Explain how important Jessica Day's leadership will be during the upcoming period of change. **(2 marks)**
2. Explain the role that the key performance indicators provided may play in leading to strategies to improve performance. **(2 marks)**
3. Describe one global opportunity that management at Superior Wine Growers may consider. **(3 marks)**
4. Evaluate two strategies that Superior Wine Growers could implement to respond to information provided by the key performance indicators. **(8 marks)**
5. Explain why it is important for Jessica Day to review these key performance indicators once the changes have been implemented. **(2 marks)**



Resources



Digital document School-assessed coursework (doc-29459)

5.16 Exercises

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au.

5.16 Exercise 1: Test and apply

TEST your understanding

1. What is meant by the term 'leader'?
2. Explain why leaders are important during a period of change.
3. Briefly outline each of the following.
 - a. Key performance indicators
 - b. Management strategies
 - c. Management styles
 - d. Lean production
4. Referring to specific key performance indicators, explain how changing management styles may improve performance.

5. Referring to specific key performance indicators, explain how increased investment in technology may improve performance.
6. Referring to specific key performance indicators, explain how improving quality in production may improve performance.
7. Explain how multiple branding can create new opportunities for a business.
8. Outline the role Austrade and Small Business Victoria could play in assisting a business to take advantage of new opportunities.
9. Define what is meant by a 'learning organisation'.
10. List and briefly outline the five disciplines of a learning organisation.
11. Explain what is meant by a 'leader as a steward'.
12. Distinguish between a low-risk and a high-risk strategy for overcoming change.
13. Explain why communication is considered a low-risk strategy.
14. Explain why threats are considered a high-risk strategy.
15. Outline Lewin's Three Step Change Model of change management.
16. Explain how change can both positively and negatively affect the general community.
17. Describe how change can both positively and negatively affect employees.
18. Outline how change can both positively and negatively affect customers.
19. Explain why businesses should consider their corporate social responsibility obligations when implementing change.
20. Why is it important to review key performance indicators to evaluate business transformation?

APPLY your understanding

21. 'In order to accelerate change, a leader is needed. This leader may be in the form of a 'change agent'. Someone in the business may undertake this role or they may come from an external position. The change agent focuses on initiating the change, determining what part of the business should lead the change, the direction of the change and, most importantly, how the change will be sustained. This person often enlists others to be role models of change, sometimes working through a committee or project team.'
 - a. Discuss the role of a change agent in creating a culture of change.
 - b. Use a current example from a business to support your discussion.
22. 'A business without an online presence is a business preparing to fail.' Discuss this statement.
23. Describe how Austrade can specifically assist businesses to take advantage of global business opportunities.
24. Analyse the use of manipulation to overcome resistance to change.
25. Analyse how a change in a business that leads to new production methods may impact suppliers and employees.

5.16 Exercise 2: Exam practice

Resources



Teacher-led video Topic 5 Exam practice solutions (tlvd-1844)

Question 1 (2 marks)

Explain why businesses should review performance in key performance indicators.

Question 2 (2 marks)

Explain what is meant by a 'learning organisation'.

Question 3 (4 marks)

Evaluate Lewin's Three Step Change Model.

Question 4 (5 marks)

Evaluate one domestic business opportunity a business could consider as a means of improving performance in their key performance indicators.

Question 5 (2 marks)

Explain how a change in management style can lead to a lower rate of staff turnover.

Question 6 (3 marks)

Employee resistance can be overcome by the use of high-risk and low-risk strategies. Distinguish between these different types of strategies.

Question 7 (5 marks)

Describe Senge's principles of team learning and building a shared vision, and explain their link to the senior management of a business.

Question 8 (8 marks)

Evaluate two domestic business opportunities a business could consider as a means of improving performance in their key performance indicators.

Question 9 (6 marks)

When implementing change it is often useful for management to adopt a change management theory. Explain and apply Lewin's Three Step Change Model to the situation at a contemporary business you have studied this year.

Question 10 (8 marks)

A strategy that a business could adopt is to seek new business opportunities. Describe two new domestic business opportunities and identify two key performance indicators a contemporary business you have studied could use to assess the success of these new business opportunities.

Question 11 (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 12 (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.

studyon**Past VCAA examinations** online only

Sit past VCAA examinations and receive immediate feedback, marking guides and examiner's report notes. Access Course Content and select 'Past VCAA examinations' to sit the examinations online or offline.

Solutions and sample responses are available in your digital formats.

teachon**Test maker**

Create unique tests and exams from our extensive range of questions, including past VCAA exam questions.

Access the Assignments section in learnON to begin creating and assigning assessments to students.

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 ethics** the application of moral standards to business behaviour
- career advancement** the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring rewards, such as increased salary, fringe benefits and increased responsibilities
- change** any alteration in the internal or external environments
- change agent** a person or group of people who act as catalysts, assuming responsibility for managing the change process
- collective bargaining** determining the terms and conditions of employment through direct negotiation between unions and employers
- common law individual (employment) contract** covers those employees who are not under any Award or collective/enterprise agreements
- communicating** the ability to transfer information from a sender to a receiver, and to listen to feedback
- competitive advantage** occurs when a firm, industry or economy has a lower cost price structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market.
- competitors** other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business
- computer-aided design** a computerised design tool that allows a business to create product possibilities from a series of input parameters
- computer-aided manufacturing** the use of software to 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

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

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

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

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

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

driving forces those forces that support the change

ecological sustainability occurs when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs

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

efficiency how well a business uses resources to achieve objectives

employee observation a strategy where a variety of opinions on the performance of employees is sought with the aim of arriving at a more comprehensive picture of past and current performance

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

employer associations organisations that represent and assist employer groups

enterprise agreement an agreement on pay and conditions of work made at the workplace level and negotiated between groups of employees (or represented by their union) and employers

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

environmental sustainability a business making decisions that will allow it, and the rest of society, to continue to interact with the environment

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

Force Field Analysis outlines the process of determining which forces drive and which resist a proposed change

forecasting a materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events

franchisee the individual or business that purchases a franchise

franchisor an individual or business that grants the right to use a franchise

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

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

grievance procedure a formalised set of steps whereby the employee and employer can resolve matters relating to complaints about wages, hours, working conditions or disciplinary action

Hierarchy of Needs Maslow's sequence of human needs in the order of their importance

human resource management the effective management of the formal relationship between the employer and employees

human resource manager coordinates all the activities involved in acquiring, developing, maintaining and terminating employees from a business's human resources

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

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

innovation a process that occurs when something already established is improved upon

inputs resources used in the process of production

intangibles services that cannot be touched

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

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

inventory goods and materials held as stock by a business

inventory control ensures that costs are minimised and that the operations system has access to the right amounts of inputs when required

investment in training the direction of finances, 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 specific criteria used to measure the efficiency and/or effectiveness of the business's performance

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

leadership the process of positively influencing and encouraging individuals to set and achieve objectives

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

lean management an approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality

level of wastage the amount of unwanted or unusable material created by the production process of a business

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

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

liquidator an external party appointed to carry out the liquidation process

lockout occurs when employers close the workplace for a period of time as a means of applying pressure to employees during a period of industrial conflict

log of claims a list of demands made by workers (often through their union) against their employers. These demands cover specific wages and conditions. Employers may also serve a counter-log of claims on the union.

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

management by objectives a process by which management and employees agree on a set of goals for each employee, with these goals all contributing to the objectives of the business as a whole

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

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

manipulation the skilful or devious exertion of influence over someone to get them to do what you want

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

master production schedule a plan that details what is to be produced and when

materials handling the physical handling of goods in warehouses and at distribution points

materials management the strategy that manages the use, storage and delivery of materials to ensure the right amount of inputs is available when required in the operations system

materials requirement planning involves developing an itemised list of all materials involved in production to meet the specified orders

mediation the confidential discussion of issues in a non-threatening environment, in the presence of a neutral, objective third party, 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 numbers found in an income statement that show net profit — what remains when expenses are deducted from the revenue earned

niche market a narrowly selected market segment within a larger market

number of customer complaints the amount of customers expressing their dissatisfaction with the business, either spoken or in written form

number of sales a measure of the amount of goods or services (products) sold

number of workplace accidents indicates how safe the workplace is for employees

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

off-the-job training occurs when employees learn skills in a location away from the workplace. It usually involves sending individuals or groups of employees to a particular specialised training institution (such as a university or TAFE college).

on-the-job training occurs when employees learn a specific set of skills to perform particular tasks within the workplace. This training usually occurs in the working environment, and uses the equipment, machinery and documents that are present in that workplace.

operating environment consists of stakeholders who have some direct impact on the operation of the business

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

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 to initiate change rather than simply to react to events

procurement the process of researching and selecting suppliers, establishing payment terms, negotiating contracts, and the actual purchasing of resources that are vital to the operations of the business

product differentiation the use of factors such as brand names, delivery methods and advertising to establish differences between substitutable products

production plan an outline of the activities undertaken to combine resources (inputs) to create goods or services (outputs)

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

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

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

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

quality the degree of excellence of goods or services and their fitness for a stated purpose

quality assurance the use of a system so that a business achieves set standards in production

quality circles groups of workers who meet to solve problems relating to quality

quality control the use of inspections at various points in the production process to check for problems and defects

rate of productivity growth the change in productivity in one year compared to the previous year

rate of staff absenteeism the number of workers who neglect to turn up for work when they are scheduled to do so

reactive to wait for a change to occur and then respond to it

redeployment the assignment of resources, including natural, labour and capital resources, to another area of the business

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

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

resignation the voluntary ending of employment by the employee 'quitting' their job

restraining forces those forces that work against the change

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

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

robotics highly specialised form of technology capable of complex tasks

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

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

shareholders (or members) the owners of a company

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

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

sole trader a business owned and operated by one person

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

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

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

strategies the actions that a business takes to achieve specific objectives

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

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

supply chain the range of suppliers from which the business purchases materials and resources

support the assistance or services (such as counselling and mentoring) provided by the business to help employees cope with difficulties that may impede their work performance

sustainability report a comprehensive report of what a business has done, and is doing, with regard to social issues that affect it

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

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

tangibles goods that can be touched

termination the ending of the employment of an employee

Total Quality Management an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation

trade unions organisations formed by employees in an industry, trade or occupation to represent them in efforts to improve wages and the working conditions of their members

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

transformation the conversion of inputs (resources) into outputs (goods or services)

transition issues the process or a period of changing from one job to another or from one set of circumstances to another

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

unfair dismissal when an employee is dismissed because the employer has discriminated against them in some way, such as firing someone because she is pregnant

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

vision statement states what the business aspires to become

waste minimisation a process involving the reduction of the amount of unwanted or unusable resources produced by a business in an attempt to improve the efficiency and effectiveness of operations

website development the creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products

INDEX

A

absenteeism 194, 303, 351
adaptability 190
agreements 222
 collective 188–98
 individual 188–98
Aldi 328
Amazon 330
annual performance review 167
Apple Inc. 333
appraisal 162–3, 208
 common methods of 162–3
appropriateness of management
 styles 71–2
arbitration 200, 208
areas of management
 responsibility 56–9
 finance 57
 human resources 57–8
 operations 56–7
 sales and marketing 58
 technology support 58–9
Arnott's 11
assets 7, 101
Australian Bureau of
 Statistics (ABS) 7
Australian Council of Trade Unions
 (CTU) 180
Australia Post 9, 219, 297
Australian Securities and Investments
 Commission (ASIC) 13, 16
Australian Trade and Investment
 Commission 364
autocratic management style 65, 101
 advantages and disadvantages of 65
automated production line 235–8, 285
Avon 298
Awards 186, 215, 222
 industry-wide 186–7
 modernisation 186

B

BHP 52–3
bonuses 140–1
Boral Limited 263–4
broader community, as stakeholders 45
Bunnings UK 337–9
business activity 10
business competitiveness 219, 285
business ethics 388
business objectives 29–31
 analysing performance 33

 developing business strategies 33
 fulfil a market need 31
 fulfil a social need 31
 growing or expanding
 the business 31
 increase market share 30
 make a profit 30
 operations and 219–21
 setting 31–2
 shareholder expectations 31
business performance
 efficiency and effectiveness 300
 key performance indicators 300
business size 7–8
business stakeholders
 in external environment 42–5
 in internal environment 38–40
business strategies 33
business types 12–13, 15–20

C

CAD *see* computer-aided design
Cadbury 271–3
CAM *see* computer-aided
 manufacturing
capital equipment 228
career advancement 142–3
 effects on short-and long-term
 employee motivation 142–3
CEO *see* chief executive officer
CFO *see* chief financial officer
challenge, goal-setting principles 125
change 296, 341, 381
 and keeping staff on board 324
 in management styles or skills 352
 managing 296–7
change agent 375, 399
change management
 leadership in 348–9
 strategies 388
chief executive officer (CEO) 56
chief financial officer (CFO) 60
choco management 94–5
Circle Recruitment & HR 322
Citywide Health 93–4
clarity, goal-setting principles 125
Cochlear 259
Coles supermarkets 62–3, 337–8
collective bargaining 183, 208
commission 140–1
commitment, goal-setting
 principles 125

communicating 78, 101
 objectives 32
communication 374
 as a dynamic leadership
 skill 78
 problems 79
Compelling Customer Experience
 (CCE) 110
competitive advantage 43, 101, 296,
 327, 341
competitive scope 327
competitors 43, 101, 313
computer-aided design (CAD) 285
computer-aided manufacturing
 (CAM) 286
consultative management style
 68, 101
 advantages and disadvantages of 68
consumer groups 44
contingency management
 theory 72, 101
continuous improvement 253, 286
Corporations Act 2001 (Cwlth) 16, 17
corporate culture 89–91, 96–104, 101
 developing a positive 90–1
 elements of 89
 official and real 89
 corporate social responsibility 49–
 50, 101, 267–8, 387, 399
 considerations 389
 environmental sustainability 267
cost advantage 326
cost cutting 353
critical incident method, appraisal 162
customers 43, 101, 384

D

data report 358
decision-making 85–6, 101
delegating 79, 101
delegation vs. abdication 80
Deloitte 168
development 157, 208
dialogue 371
differentiation advantage 326
differentiation strategies 329
directors 39, 101
dismissal 171–2, 208
dispute resolution 197–200
 arbitration 200
 at the Fair Work Commission 200
 common law action 200

- grievance procedures 198
- in Awards 199
- in enterprise agreements 199
- mediation 199
- negotiation 197
- disputes 194, 208
 - causes of 194–5
- diversification 361
- domestic business
 - opportunities 359–63
- diversification 361
- franchising 361
- government investment in research
 - and development 363
- government services 362
- joint ventures 361–2
- multiple branding 359
- product differentiation 360–1
- Domino's 361
- drive
 - to acquire 129
 - to bond 130
 - to defend 131
 - to learn 130–1
- driving forces 307, 341
 - for change in business 311–16

E

- ecological sustainability 387, 399
- economic manager 181
- effective negotiators 190
- effectiveness 33, 101, 219, 224, 300, 341
 - efficiency and 226
- effect of change on
 - stakeholders 383–5
- customers 384
- employees 384
- general community 385
- managers 383
- suppliers 385
- efficiency 33, 101, 219, 225, 300, 341
 - and effectiveness 226
- Ego Pharmaceuticals 368
- employee empowerment 252
- employee motivation
 - career advancement on 142–3
 - investment in training on 144
 - performance-related pay on 141
 - sanction on 146
 - support on 145
- employee observation 165–6, 208
- employee resistance, managing
 - high-risk strategies 378–9
 - low-risk strategies 373–6
- employees 40, 101, 110, 175–6, 312, 319, 349, 384

- employee self-evaluation 165
- employer associations 179–80, 208
- employers 175, 181
- employment agreements,
 - negotiating 177
- employment arrangements 113
- employment conditions 175, 183, 184, 194
- employment contracts
 - for business management students 203
- employment cycle 112–14
 - establishment phase 112–13
 - maintenance phase 113–14
 - termination phase 114
- empowerment 375
- enterprise agreement 185–6, 203, 208
 - approval process 191
 - and awards 191
 - negotiations 190
- entitlement and transition issues 114
- entitlement issues 172, 208
- entrepreneurs' programme 363
- environmental damage 53
- environmental sustainability 267, 286
- essay method, appraisal 162
- establishment phase, employment
 - cycle 112–13
- experienced manager 74
- exporting 364
- external stakeholders 42, 46
- extrinsic rewards 133–6

F

- Fabulous Fashions (FF) 335
- fair trade 272–3
- Fair Work Commission (FWC) 181, 187, 208
- FareShare 35–6
- FedEx Express 110
- feedback, goal-setting principles 126
- finance 57
- financial considerations 320
- financial cost 320
- financial institutions 16
- financial motivation 148–50
- Fonda 149
- Force Field Analysis 310, 341
 - benefits of 310
 - diagram 309
 - key principles of 308
 - limitations of 310
- forces affecting change
 - change and keeping staff on board 324
 - newspaper portfolio 322
- forecasting 243, 286

- formal business training 157
- four drives 129
 - and employee motivation 129–31
- Four Drive Theory 128–9, 134, 206
 - strengths and weaknesses of 131
- Four Principles 260
- franchisee 361, 399
- franchising 361
- franchisor 361, 399

G

- gainsharing 140–1
- GBEs *see* government business enterprises
- general community 385
- generic strategies approach 326–7
- globalisation 314–15, 341
- global business
 - opportunities 364–5, 368
- exporting 364
- online shopping 365
- opening an office/branch
 - overseas 365
- partnering with an overseas
 - business 364
- global outsourcing 276, 286
 - strengths and weaknesses of 274, 276
- global sourcing 274–84, 286
- goal-setting principles 125–6
 - challenge 125
 - clarity 125
 - commitment 125
 - feedback 126
 - task complexity 126
- Goal Setting Theory 124–6, 134, 206
 - strengths and weaknesses of 127
- Google 118
- government 44, 101
- government business enterprises (GBEs) 9, 20, 101
- government investment in research and development 363
- governments and government
 - organisations 181–4
 - Fair Work Commission 181–3
- government services 362
- grievance procedures 198, 208

H

- Hallmark Cards 261
- healthy management 93
- Hierarchy of Needs 120, 208
- high-quality products 329
- human resource
 - management 115–16, 208

human resource manager 115, 117,
176–7, 208
dealing with disputes
and conflict 177
implementing agreements 177
negotiating employment
agreements 177
training other managers and
supervisors 177
human resources 57–8, 115–19

I

i=Change 27–8
implements change 346
improving quality in production 353
inappropriate dismissal technique 172
incentives 376
incorporation 15–16, 101
increased investment in
technology 352
industrial action 171, 194, 196, 200
individual contracts 187
induction 113
industry 10, 101
industry-wide awards 183
innovation 315–16, 341
inputs 228–9, 286
of manufacturing and service
businesses 229
intangibles 221, 286
interest groups 43–4, 101
internal stakeholders 41
International Organization for
Standardization (ISO) 279
interpersonal skills 87, 101
intrinsic rewards 133–6
inventory 241, 286
inventory control 245–6, 286
investment in training 144, 208
advantages and disadvantages
of 144
effects on short- and long-term
employee motivation 144

J

Jetstar 332
JIT *see* Just In Time
job rotation 157
joint ventures 361–2
Just In Time (JIT) 241, 246, 286

K

key performance indicators
(KPIs) 35–6, 101, 300, 341, 351
evaluating transformation 392
and management strategies 355
as sources of data 301–4
KFC South Pacific (SOPAC) 92–3

L

laissez-faire management
style 70–1, 101
advantages of 71
Lantern Group 137
large business 7–9, 56, 175,
222, 300, 316
leadership 92, 348, 399
in change management 348–9
leading 84–5, 101
lean management 256–60, 260, 286
strengths and weaknesses of 261
lean production techniques 354
learning organisation 369–71
building shared vision 371
leading 372
mental models 370–1
personal mastery 370
systems thinking 370
team learning 371
legislation 313, 319
level of staff turnover 303
level of wastage 303, 341
limited liability 16, 102
limited partnerships 13
liquidation 16, 101
lockout 194, 208
logs of claims 179, 208
lower cost strategies 327–8

M

macro environment 101
maintenance phase, employment
cycle 113–4
M&J Chickens 221
management 4, 40, 102
by objectives 164, 208
management skills 76, 77,
96–104, 101, 352
communicating 78
decision-making 85–6
delegating 79
interpersonal skills 87
leading 84–5
planning 81–2
research on 76
management strategies
change in management styles or
management skills 352
cost cutting 353
improving quality in
production 353
increased investment in
technology 352
initiating lean production
techniques 354
redeployment of resources 354

staff motivation 351
staff training 351
management style 64–6,
96–104, 101, 352
appropriateness of 71–2
autocratic 65
consultative 68
laissez-faire 70–1, 101
participative 68–9
persuasive 65–6
managers 312, 318, 349, 383
managing change 296–7
managing employees
and business objectives 115
managing termination 114
manipulation 378, 400
manufacturing and
service businesses 229
Maritime Union of Australia (MUA)
196
market share 7, 30, 102
Marriott Resort 160
Maslow's Hierarchy of Needs 120–2,
134, 206
strengths and weaknesses of 122
master production schedule
(MPS) 244, 286
materials 228
materials handling 242, 286
materials management 241–2, 286
materials planning 244–5
master production schedule 244
materials requirement planning
(MRP) 244–5, 286
mediation 199, 208
Medibank Private Limited 24
medium-sized business 7, 30
medium-term planning 81
mental health days 194
mental models 370–1
mentoring 157
Metro Property Management 159
Microsoft 78
mission statement 32, 102
motivation 120, 151, 208, 351
motivational theories 124–6
Four Drives and employee
motivation 129–31
Four Drive Theory 128–9
Goal Setting Theory 124–7
motivation strategies 139–46, 206
career advancement 142–3
investment in training 144
performance-related pay 140
sanction 145
support 145
MPS *see* master production schedule

MRP *see* materials requirement
planning
multiple branding 329, 359

N

Nars Chocolates 94–5
National Australia Bank (NAB) 324–5
National Broadband Network
(NBN) 5
NBN Co Limited 5, 21, 269
need 120, 208
negotiation 189, 197, 209
 in employee relations 189–90
 process 190
net profit figures 341
newspaper portfolio 322
niche market 314, 341
number of customer
 complaints 304, 341
number of sales 302, 341
number of workplace
 accidents 304, 341

O

off-the-job training 156, 209
 advantages and disadvantages
 of 156
office technology 234
official and real corporate culture 89
offshoring 275
on-the-job training 156, 209
ongoing training, technology 155
online shopping 365
opening an office/branch overseas 365
operating environment 101
operational planning 81, 101
operations 56–7
 and business objectives 219–21
operations management 218, 286
 global considerations in 274–84
 manufacturing and service
 businesses 221–2
 socially responsible 274
operations system 216
 key elements of 228–38
 of manufacturing and service
 businesses 231–3
Optiver 148–9
Optus 11, 276–7
organisational inertia 319, 341
outputs 230, 286
outsourcing 275–6, 392
overseas manufacture 275–84, 286

P

participants in the macro environment
 peak employer bodies 181
 peak union bodies 180

participants in the operating
 environment
 employer associations 179–80
 trade unions 179
participative management
 style 68–9, 101
 advantages and disadvantages of 69
partnering with an overseas
 business 364
partnership 13–14, 102
partnership agreement 13
pay increase 140–1
peak employer bodies 181
peak union bodies 180
penalty rates 184, 209
percentage of market share 301, 341
performance management 114, 161–6,
 207, 209
 appraisal 162–3
 employee observation 165–6
 employee self-evaluation 165
 management by objectives 164
performance-related pay 140, 209
 advantages and disadvantages 142
 effects on short- and long-term
 employee motivation 141
personal mastery 370
persuasive management style 65–6,
 66, 101
 advantages and disadvantages of 66
picket lines 194
planning 81–2, 101
 levels 81
 process 81–2
Porter's Generic Strategies 326–9
 differentiation strategies 329
 generic strategies approach 326–7
 lower cost strategies 327–8
potential conflicts between
 stakeholders 48
preparation 190
primary industry 10
private limited companies 16, 102
private sector 9, 23
privatisation 23
problem solving 190
procurement 235, 286
product differentiation 329, 341, 360–1
production plan 244, 286
productivity 116, 209, 301, 341
profit 6, 30, 102
profit sharing 140, 141
protected and unprotected action 196
protected industrial action 196, 209
public listed companies 18
public sector 9
Publicis Sapient 360

purchasing new equipment 320
pursuit of profit 314

Q

Qantas Airways Limited 346–7
Qantas implements change 346–7
quality 353, 248, 286
 management of 248–60
quality assurance 250–1, 286
quality circles 252, 286
quality control 249–51, 286
quaternary sector 10
quinary sector 10

R

rate of productivity growth 301, 341
rate of staff absenteeism 303, 341
R&D tax incentive 363
REA Group 280–1
reactive 296, 341
real corporate culture 89
recruitment 113
redeployment of resources 354, 400
reduction of costs 314
redundancy 170–1
redundancy payments 320
refreeze 381–2
regional innovation funds 363
relationship to business
 objectives 116–17
remuneration 113
reorganising plant layout 320
research and development 329
resignation 170
restraining forces 307, 318–20, 341
 employees 319
 financial considerations 320
 legislation 319
 managers 318
 organisational inertia 319
 time 319
Retail Food Group (RFG) 390–1
retirement 170
retraining the workforce 320
revenue 7, 102
robotics 235, 286

S

sales and marketing 58
Samarco 54
sanction 145–6, 209
 advantages and disadvantages
 of 146
 effects on short- and long-term
 employee motivation 146
secondary industry 10
SEEK 152
selection 113

- self-evaluation 165, 209
- service business 221–2, 229–31
- Semco Partners 96–7
- shared vision 371
- shareholders 7, 39, 102
 - expectations 31
- silent partner 13, 102
- Six Sigma 263–4
- sleeping partner 13, 102
- small business 31, 78, 220, 296
- Small Business Victoria 363
- social enterprises 19–20, 26, 102
- societal attitudes 316
- sole trader 12, 102
- South32 218
- specific issue groups 44
- staff
 - motivation 351
 - planning 112
 - retention 159
 - training 351
 - turnover 303, 341
- stakeholder engagement 52
- stakeholders 38, 102
- strategic management 326–9
- strategic planning 81, 101
- strategies 33, 102
- strike 194, 209
- suppliers 43, 102, 385
- supply chain 277, 286
- supply chain management 277
- support 145, 209, 375
 - advantages and disadvantages of 145
 - effects on short- and long-term employee motivation 145
- SurfStitch 393
- sustainability report 388, 400
- sustainable operations 271
- SWOT analysis 82–2, 102
- systems thinking 370

T

- tactical planning 81, 101
- tangibles 286
- Target 338
- task complexity, goal-setting
 - principles 126

- team learning 371
- technological developments 233
 - automated production lines 235–8
 - CAD/CAM 237–9
 - office technology 234
 - website development 234–5
- technology 315, 352
- TechnologyOne 110
- technology support 58–9
- termination 209
- termination management 169–73
 - dismissal 171–2
 - entitlement issues 172
 - redundancy 170–1
 - resignation 170
 - retirement 170
 - transition issues 172–3
- termination phase, employment cycle 114
- tertiary industry 10
- Third Horizon 360
- Three Step Change Model 380–1
 - change 381
 - refreeze 381
 - unfreeze 380
- Top Employers Institute 118
- total quality management (TQM) 251–5, 286
 - continuous improvement 253
 - customer focus 253–5
 - employee empowerment 252
- Toyota 216, 275, 302
- trade unions 44, 179–80, 209
- training 113, 154–5, 209, 351
 - benefits of 155
 - to develop employees 157
 - to improve staff retention 159
 - options 155–6, 206–7
- transformation 229, 286
- transition issues 172–3, 209
- triple bottom line 50, 102, 387, 400
- trustworthiness 190
- types of businesses 12, 209
 - government business enterprises (GBEs) 20–21
 - incorporation 15–16

- partnerships 13–14
- private limited companies 16
- public listed companies 18
- social enterprises 19–20
- sole traders 12–13

U

- unfair dismissal 209
- unfreeze 381–2
- unlimited liability 13, 102
- unprotected industrial action 196

V

- voluntary redundancy 171
- Vanguard Laundry Services 27
- vision statement 32, 102
- Visual Graphics 159

W

- waste, from process and production of
 - outputs 268–9
- waste minimisation 255, 263, 286
 - lean management 256–60
- website development 234–35, 286
 - advantages and disadvantages of 235, 236, 238
- Wesfarmers 4, 312, 337–9
- Woolworths Group Ltd 256, 294–5, 395–6
- work bans 194
- work-to-rule 194
- workplace accidents 304, 351, 353
- workplace disputes 194, 202
- workplace participation in action 96
- workplace relations 175
 - employees 176
 - employers 175
 - governments and government organisations 181–4
 - human resource managers 176–7
 - participants in the macro environment 180–1
 - participants in the operating environment 179–80
- written partnership agreement 13

Y

- Yarra Valley Water 50