

VCTA Victorian Commercial Teachers Association

Cambridge VCE Business Management

Units 3 & 4

Second Edition

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Debbie Sekula

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About the authors



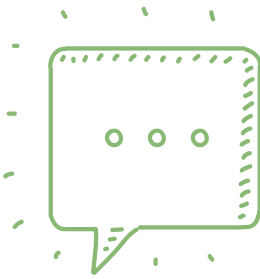
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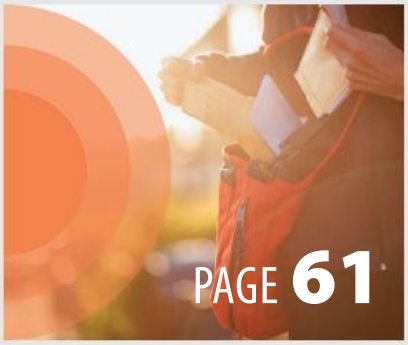
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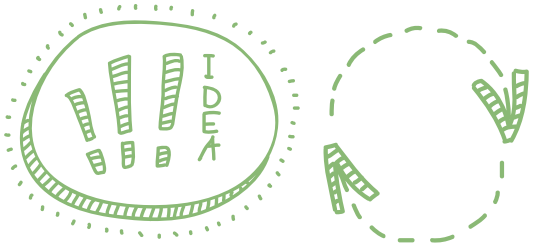
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Key knowledge table



		Area of study	Chapter	Key knowledge
UNIT 3	MANAGING A BUSINESS	**Part 1** AOS1 Business foundations	**1** Business foundations	• Types of businesses including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises • Business objectives including to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations • The areas of management responsibility including operations, finance, human resources, sales and marketing, and technology support, and how each area contributes to the achievement of business objectives
			2 Stakeholders and corporate culture	• Characteristics of stakeholders of businesses including their interests, potential conflicts between stakeholders, and corporate social responsibility considerations • Corporate culture, both official and real, and strategies for its development
			3 Management styles, skills and their interrelationship	• Management styles including autocratic, persuasive, consultative, participative and laissez-faire • The appropriateness of management styles in relation to the nature of the task, time, experience of employees and manager preference • Management skills including communicating, delegating, planning, leading, decision-making and interpersonal • The relationship between management styles and management skills
		Part 2 AOS2 Managing employees	**4** Employees: business objectives and motivation	• The relationship between managing employees and business objectives • Key principles of the following theories of motivation: Hierarchy of Needs (Maslow), Goal Setting Theory (Locke and Latham) and the Four Drive Theory (Lawrence and Nohria) • Motivation strategies including performance-related pay, career advancement, investment in training, support and sanction • Advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation
			5 Training, performance management and termination management	• Training options including on-the-job training and off-the-job training, and the advantages and disadvantages of each • Performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation • Termination management including retirement, redundancy, resignation and dismissal, entitlement and transition issues
			6 Workplace relations	• The roles of participants in the workplace including human resource managers, employees, employer associations, unions, and the Fair Work Commission • Awards and agreements as methods of determining wages and conditions of work • An overview of the dispute resolution process including grievance procedures, mediation and arbitration

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		Area of study	Chapter	Key knowledge
UNIT 3	MANAGING A BUSINESS	**Part 3** AOS3 Operations management	**7** An introduction to operations management	• The relationship between operations management and business objectives • Key elements of an operations system: inputs, processes and outputs • Characteristics of operations management within both manufacturing and service businesses
			8 Optimising operations	• Strategies to improve the efficiency and effectiveness of operations related to technological developments, including the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development • Strategies to improve the efficiency and effectiveness of operations related to materials, including forecasting, master production schedule, materials requirement planning and Just In Time • Strategies to improve the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management • Strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including the principles of lean management
			9 Corporate social responsibility and global issues in operations management	• Corporate social responsibility considerations in an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs • Global considerations in operations management, including global sourcing of inputs, overseas manufacturing, global outsourcing and an overview of supply chain management
UNIT 4	TRANSFORMING A BUSINESS	**Part 1** AOS1 Reviewing performance – the need for change	**10** Reviewing performance	• Key performance indicators as sources of data to analyse the performance of businesses, including percentage of market share, net profit figures, rate of productivity growth, number of sales, rates of staff absenteeism, level of staff turnover, level of wastage, number of customer complaints and number of workplace accidents
			11 Forces for change	• The concept of business change • Key principles of the Force Field Analysis theory (Lewin) • Driving forces for change in business, including managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes • Restraining forces in businesses, including managers, employees, time, organisational inertia, legislation and financial considerations
			12 Porter's Generic Strategies approach	• The two key approaches, lower cost and differentiation, to strategic management by Porter's Generic Strategies (1985)
		Part 2 AOS 2 Implementing change	**13** Leadership and strategies to respond to KPIs	• The importance of leadership in change management • Management strategies to respond to key performance indicators, including staff training, staff motivation, change in management styles or management skills, increased investment in technology, improving quality in production, cost cutting, initiating lean production techniques and redeployment of resources (natural, labour and capital)

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		Area of study	Chapter	Key knowledge
UNIT 4	TRANSFORMING A BUSINESS		**14** Seeking new business opportunities	• Management strategies to seek new business opportunities, both domestically and globally
			15 Principles of the Learning Organisation, the Three Step Change Model and strategies to overcome employee resistance to change	• An overview of the principles of the Learning Organisation (Senge) • Low-risk strategies to overcome employee resistance, including communication, empowerment, support and incentives • High-risk strategies to overcome employee resistance, including manipulation and threat • Key principles of the Three Step Change Model (Lewin)
			16 The effect of change on stakeholders and corporate social responsibility	• The effect of change on stakeholders, including managers, employees, customers, suppliers and the general community • Corporate social responsibility considerations when implementing change
			17 Evaluation of business transformation	• The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation

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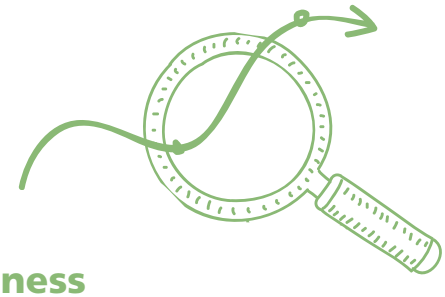
Key skills-based terms used in outcomes and examination questions



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

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Overview of areas of study and coursework assessment



Managing a business and Transforming a business

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

UNIT 3 MANAGING A BUSINESS: AREAS OF STUDY

1 Business foundations
2 Managing employees
3 Operations management

UNIT 3 COURSEWORK ASSESSMENT CHART

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

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UNIT 4 TRANSFORMING A BUSINESS: AREAS OF STUDY

1 Reviewing performance – the need for change
2 Implementing change

UNIT 4 COURSEWORK ASSESSMENT CHART

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

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

ASSESSMENT CONTRIBUTION CHART

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

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Unit 3

MANAGING A BUSINESS

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Part 1
Area of Study 1
BUSINESS FOUNDATIONS

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 1

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

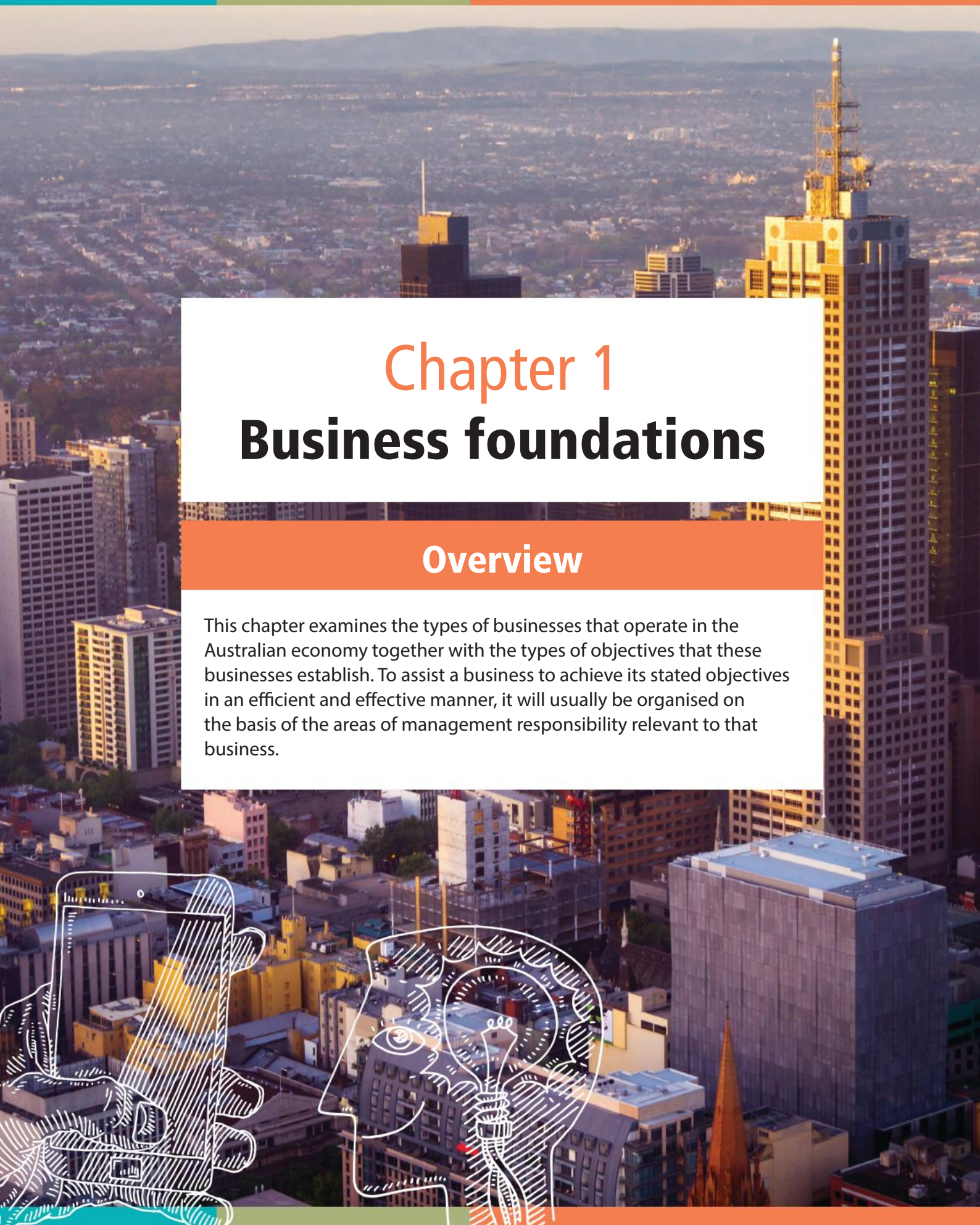
To achieve this outcome the student will draw on key knowledge (listed at the start of each chapter) and key skills outlined in Area of Study 1.

Key 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: VCAA, *VCE Business Management Study Design 2017–2021*, pp. 16–17.)

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Chapter 1
Business foundations

Overview

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

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Key terms

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

Key knowledge

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

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

What's ahead

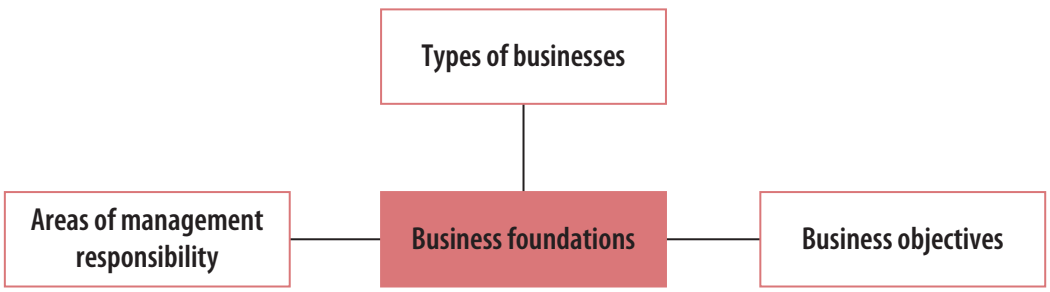


Figure 1.1 The three business foundations

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1.1 Businesses in Australia

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

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

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

public sector part of the economy operated by the government

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

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

Types of businesses

Sole trader

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

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

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

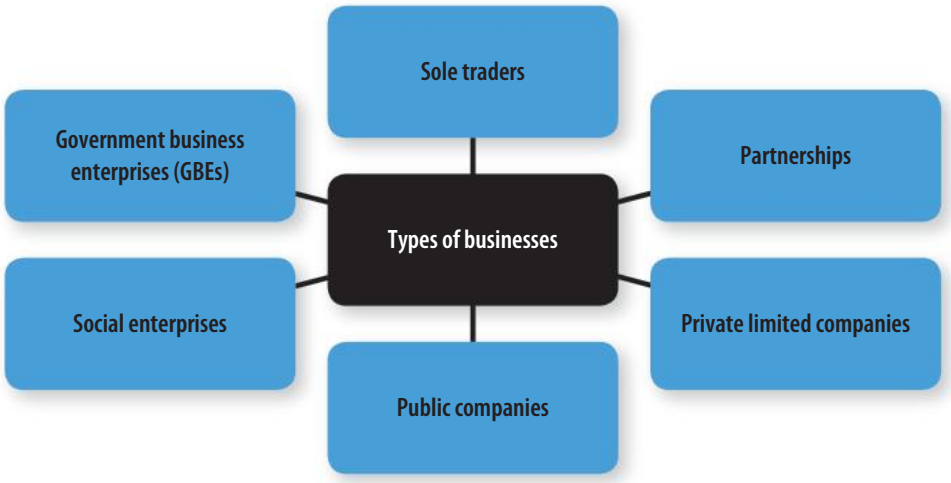


Figure 1.2 The six types of businesses

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

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

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

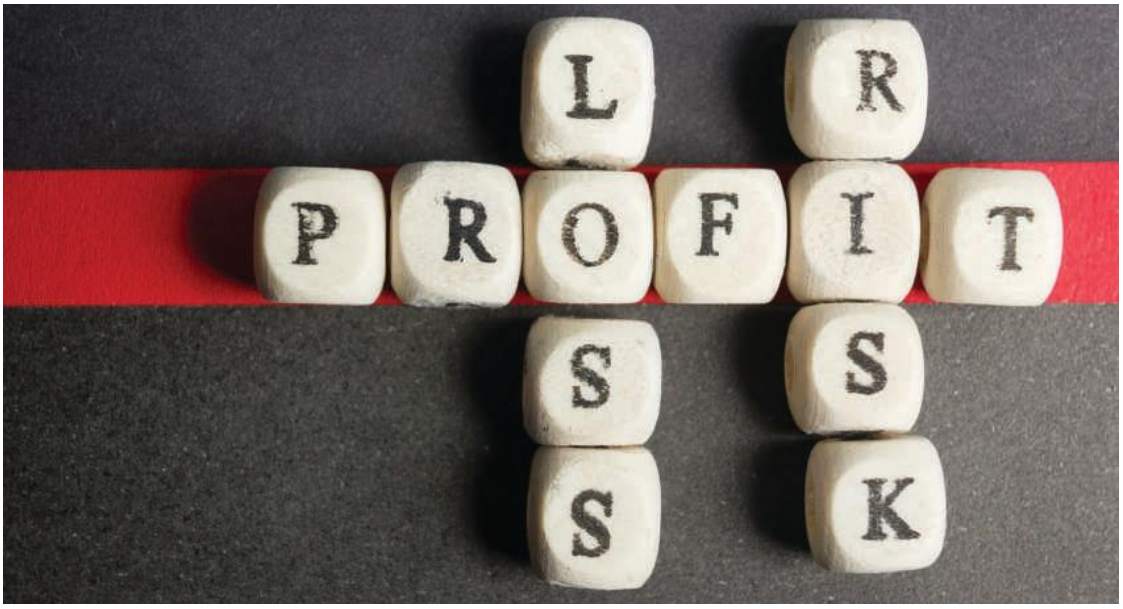


Figure 1.3 A sole trader gets to keep all the profits but carries full responsibility for risk and loss.

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

Advantages	Disadvantages
Simple and inexpensive to establish	Unlimited liability for owner
Owner has total control over business	Harder for owner to get finance for the business
Simple to wind up	Reliant on owner's own knowledge and skills
Minimal government regulation	Business ends when owner dies (no perpetuity)
No potential disputes with other owners/partners	

Partnership

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

partnership a legal form of business ownership where two or more people (partners) work together

There are two types of business partnership:

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

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partnership agreement a formal document that outlines the duties and responsibilities of the parties to a partnership

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

Partnership agreements contain the following:

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

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



perpetuity having ongoing life; that is, never-ending

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

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

Advantages	Disadvantages
Inexpensive and simple to set up	Personal unlimited liability of partners
Risk is shared between partners	Liability for debts incurred by other partners
Minimal government regulation	Business could be threatened by one partner leaving (i.e. no perpetuity)
Workload may be shared	Potential for disputes and personality clashes
Offers broader access to capital, knowledge, skills and experience	Difficulty in finding suitable partners
Taxation is calculated on personal income of partners	

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Company

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

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

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

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

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

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



Establishing a company means the business:

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

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

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

Private limited company

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

1. Shareholders – the company has a minimum of one shareholder and is restricted to a maximum of 50 non-employee shareholders.
2. Shares – can only be traded with the permission of other shareholders, which must be given before any transaction takes place.
3. Directors – at least one (who lives in Australia).
4. Company secretary – not required.

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

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

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

Public company

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

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

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

1 Shareholders – at least one (no limit on the total number)
2 Directors – at least three (two of which must live in Australia)
3 Company secretary – at least one (living in Australia)

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

Advantages	Disadvantages
Limited liability for the shareholders (owners)	Highly complex structure
Able to gain extra capital through selling extra shares	High establishment costs
Separate legal entity	Needs more accountability and compliance paperwork (e.g. publishing of annual report and audited accounts)
Existence is not threatened by death or removal of one of the directors or shareholders (i.e. has perpetuity)	Additional compliance costs
Easy transfer of ownership by selling and buying shares on listed securities exchanges	
Experienced management team and board of directors	
Company tax rate is lower than personal income tax rate	

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ACTIVITY 1.1

Analysis of business structures/types

Draw up the following table in your workbook. Fill in the table using information from the article 'Choosing the right business structure' on the CommBank website.

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

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Social enterprises

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

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

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

Social enterprises are run like a business, as they produce goods or services to sell, but redirect the surplus in pursuit of social or environmental goals. In other words, a social enterprise aims to make a profit in order to help solve a social or environmental problem. The majority of social enterprises adopt the legal structure of a company. To assist them in the management of their business, the social entrepreneurs behind the business will seek to appoint directors to their boards who are specialists in key areas, including community development, business, vocational training, law and accountancy. It is estimated that there are in excess of 20 000 social enterprises operating in every industry within the Australian economy. The majority operate as small businesses (73%) and target their business activities towards assisting people with disabilities (35%), young people (33%) and disadvantaged women (28%).

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

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



CASE STUDY 1.1

Social enterprises: HoMie

HoMie began with a group of friends talking to people living on the streets. Marcus Crook, Nick Pearce and Robbie Gillies started to share these stories via their Facebook page 'Homelessness in Melbourne' and wanted to connect with people experiencing homelessness to give them a platform to be heard and understood. Three years later, HoMie is now a social enterprise with a community of over 50 000 people and a dedicated core of volunteers.

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Figure 1.6 HoMie: a social enterprise creating pathways out of homelessness

HoMie's primary mission is to provide pathways out of homelessness. It does this by providing new clothing, training and job opportunities to people experiencing homelessness. HoMie's other goals are to change negative public attitudes towards homelessness, mobilise human compassion and make donating easier through innovative platforms.

The founders have opened a flagship fashion store and pathway project in Brunswick which offers Melbourne's homeless a chance to get off the street, build confidence and kick-start their careers. Working with service providers they vet applicants for the program, which offers on-the-job training to help participants complete a retail operations certificate and gain permanent part-time employment with a larger retailer. Each trainee is mentored individually by the HoMie staff and supported by AFL homeless support charity Ladder, the Brotherhood of St Laurence youth foyers and Melbourne City Mission. It is the hope of the founders that this will act as a starting point for a larger-scale training concept that will continue to grow.

The HoMie store also hosts monthly VIP days where homeless youth are able to come and select five pieces of clothing, get a haircut and enjoy a meal.

After paying staff wages, store rent and paying for their products to be made, 100% of the profits goes towards providing pathways out of homelessness. It's not just about shelter, but empowering people to learn, make social connections and become self-sufficient. This is HoMie's long-term goal, because it leads to long-term results and fewer people on the streets.

HoMie's efforts range from small victories to big picture thinking – from distributing items of brand-new clothing to Melbourne's homeless community, to partnering with local services to fund a new training program called the Pathway Project.

(Source: Based on 'About us', HoMie website.)

In 2017, three young people completed 384 hours of retail education & training through HoMie's 'Pathway Project', Australia's first ever accredited Retail Training and Employment Program for young Melburnians aged 18–25 who are suffering from homelessness or hardship. Since then, all have found employment across Melbourne. HoMie has now started its second round of the Pathway Project and looks forward to having three new HoMie trainees as part of its growing family!

If you would like to support HoMie in continuing to run the Pathway Project, purchase some of its street wear – 100% of the proceeds go directly into its social impact programs.

HoMie will continue to run the Pathway Project as an early intervention for young Melburnians suffering from homelessness or hardship as a way to disrupt cycles of poverty during adolescence, before poverty has had a chance to become chronic, entrenched and irreversible.

(Source: Based on HoMie Facebook post, 1 February 2018.)

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ANALYSIS

Visit the HoMie website and answer the following questions.

1. Describe the inspiration behind social entrepreneurs Marcus, Nick and Robbie starting this social enterprise.
2. Outline the primary mission of HoMie.
3. Describe three goals of this social enterprise.
4. Explain the strategies being adopted by HoMie to assist in reducing the suffering of youth homelessness or hardship.
5. Describe the purpose of the Pathway Project and identify measures that can be used to determine whether it is a successful program.
6. Explain how HoMie earns its income and where the income remaining after costs have been deducted is distributed.



CASE STUDY **1.2**

Social enterprises: building a more inclusive Australian economy

Social enterprises need to be recognised for the important contribution they are making to the economy of Australia in terms of making it more equitable, stable and sustainable. Social enterprises are led by an economic, social, cultural or environmental mission to benefit the community. They aim to address social issues, such as homelessness or social exclusion, reducing environmental impact through recycling or creating responsibly sourced and produced products and services.

Social enterprises often face difficulties such as financing or attracting the right kind of business partners. Currently there are in excess of 20,000 social enterprises operating in Australia and this number is growing partly due to initiatives of governments (local and state) and some large businesses deciding to source goods from these enterprises to meet their own social and sustainability criteria. It is essential that businesses (acting as buyers) commit and set

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an example to their competitors to support these enterprises so they can grow and increase their important contribution to the Australian economy.

One such example is that of the John Holland Group where via their landscape contractor, Australian Ecosystems, it entered into a partnership with Knoxbrooke's Yarra View Nursery to supply 100,000 plants and trees with a value of $550,000 for the Mernda Rail Project. The Yarra View Nursery is Australia's largest social enterprise production nursery employing more than 100 adults with an intellectual disability with the aim of assisting them to realise their full potential in a supported employment program.



Figure 1.7 Social enterprises should be recognised for the invaluable contribution they make to Australian society.

ANALYSIS

1 Identify the main difficulties faced by social enterprises when trying to work towards achieving their mission of benefiting members of our community.
2 Using your favourite search engine, find the 2018 Social Enterprise Awards winners page on the Social Traders website. Choose two examples of business that are partnering with social enterprises. Describe the nature of the partnership.

Government business enterprises

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

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

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

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CASE STUDY 1.3

Three different government business enterprises

NATIONAL BROADBAND NETWORK

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

AUSTRALIA POST

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

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

AUSTRALIAN RAIL TRACK CORPORATION

Australian Rail Track Corporation (ARTC) provides an important part of the transport supply chain. It aims to provide rail transport that is cost-efficient, reliable and safe across five states through its provision and maintenance of its 8500-kilometre rail network. It works with other rail operators to provide access to rail for businesses and producers across Australia. Billions of

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dollars have been invested to build, extend and upgrade its network to get freight off the road and onto rail. This is seen as 'good for business, motorists, the environment and communities'. Rail transport is used to move large volumes of freight, such as fresh produce, coal, timber and aggregates.

In the quest to transform the way goods are moved between Melbourne and Brisbane and between the east coast, Adelaide and Perth, the government has entered into a multi-billion-dollar infrastructure project to be delivered in partnership with the private sector. Early construction works commenced in 2017 on this freight rail infrastructure project aimed at connecting regional Australia to global markets, with the first trains being expected to operate in 2024–25.

ANALYSIS

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

SAC AND EXAM TIPS – linked to key skills

Define – requires you to accurately state the precise meaning of a term or concept.
Describe – requires you to provide a detailed account.
Apply – requires you to show or make links, relationships or connections between using theory and a practical example.
Discuss the key characteristics of businesses – requires you to state arguments or opinions that cover both sides of an issue or response involved in stimulus material.

1.2 Business objectives

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

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

objectives statements of desired achievement that provide direction for the business

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

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Figure 1.8 SMART objectives

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

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

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

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

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

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

ACTIVITY 1.2

Determine whether the following statements meet the SMART test.

1 Samantha plans to open a garden nursery business next year and aims to achieve a 60% market share within two years.
2 Walter would like to start up a small IT software business in the next two years. He would like the business to make a small profit within four years.
3 Petra is in Year 12 and would like to gain a high enough ATAR to be offered a place in an interior design course at the local university. She is studying four hours every night and has received high marks for the work she has completed so far.

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

1 The **vision statement** and mission statement express the purpose or reason the business exists. Virgin Australia, for example, states that it wants to revolutionise air travel across all market segments and that it will do this by providing a seamless experience across all international and domestic markets, while retaining the same excellent service (see Virgin Australia website). The vision statement outlines the values of the business and relates to key groups, including shareholders, employees and customers. Some businesses also produce a **values statement**, which outlines a business's corporate values and cultural priorities. These are usually set by the board of directors or senior managers and reflect the direction and objectives of the business.



Figure 1.9 One of Virgin Australia's strategic objectives is to revolutionise air travel across all markets.

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

ACTIVITY 1.3

1 Explain the difference between a vision statement and a values statement.
2 Discuss the importance of developing a values statement.

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CASE STUDY
1.4

Woolworths' customer-first approach

Major retailer Woolworths has identified its goal as 'to have Customers put us 1st, across all our brands'.

To achieve this, Woolworths has set five priorities:

1 Building a customer and store-led culture and team
2 Generating sustainable sales momentum in Food
3 Evolving our Drinks business to provide even more value and convenience to customers
4 Empowering our portfolio businesses to pursue strategies to deliver shareholder value
5 Becoming a lean retailer through end-to-end process and systems excellence

It all starts with building a great retail team that listens to customers, team members and suppliers. Through our Voice of the Customer programme across our brands, our store teams and Support Office team receive daily feedback from our customers. This means our team can focus every day on continuing to improve our offer and shopping experience for our customers.

Our Australian Food team has rallied behind our purpose 'we bring a little good to everyone every day' and is working towards a clear strategy to put our customers 1st.

Retailing never stands still. That's why it's such an exciting business to be in. Right now, retailers everywhere are experiencing huge changes in the ways they operate. It's being driven by customer demand, by technology and by choice. We are responding to this new era in three ways.

1 We are **placing** the customer at the heart of our business
2 We are **listening** to what customers want
3 We are **creating** new and innovative ways for them to shop with us

(Source: 'Strategy and objectives', Woolworths Group website.)

CONTINUED ITEM

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Figure 1.10 Woolworths – Customer 1st Team and Culture

ANALYSIS

1 Discuss whether you believe that the objectives and the five priority areas identified by Woolworths will assist it to meet the challenges currently being experienced by businesses in the retail sector.

Typical business objectives



Figure 1.11 Typical business objectives

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

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

Financial objectives

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

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Many businesses in Australia are part of the private sector and have been established to make a profit. Reducing the operational costs for a business is one strategy that a business can adopt to achieve a financial objective such as increasing profit. The business may then set an objective such as 'to reduce costs associated with providing a product or service'. Other businesses may adopt a strategy similar to Woolworths' to transform their business with the expectation of increasing their level of profit.

Marketing objectives

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

ACTIVITY 1.4

1 Identify some typical ways in which businesses market their products.
2 Research a well-known business and identify and analyse its marketing methods.



CASE STUDY **1.5**

Twins Pantry: targeting a niche market

Twins Pantry is a brand built on love – the love of good food, quality, healthy eating and more than anything, the love of living. Dekel and Tomer Kagan, identical twin brothers who are both internationally experienced pastry chefs, decided there was a niche in the Australian gourmet food market for moreish treats that were using no artificial colours, no preservatives, and were dairy free and kosher.

CONTINUED ITEM

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Their moreish nut treats such as almonds (pesto, honey caramelised), cashews (honey caramelised or peppered), pecans, macadamias (honey caramelised), peanuts, chilli and lime nuts, and Mexican spiced nuts are sold at various Regional Farmers Markets. One of their successful marketing strategies at these markets is to have some of the nuts roasting at the back of their stall to create an enticing fragrance and offering tastings of all their nuts to customers.

ANALYSIS

1 Identify the characteristics of this business that would put it into a niche market.
2 Describe the market into which Twins Pantry seeks to gain a market share.
3 Search for the Twins Pantry website online. Analyse whether you believe that there is a demand or need for the products offered by this business.

Social objectives

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

Social objectives relate to the role of a business in the community. They go beyond the financial objectives and revolve around the business as a 'good citizen'. Social objectives may relate to a number of different areas, such as: the provision of community services and facilities; and contribution to community causes at the local, state, national or world level, such as providing local job opportunities or focusing on the environment by minimising waste and recycling.

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

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



Figure 1.12 Nespresso is an example of a business that promotes social objectives.

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CASE STUDY
1.6

Unilever and sustainability

Unilever is a large pharmacy and personal care business with more than 400 brands in its range of products. Seven out of every 10 households around the world contain at least one Unilever product, and its range of world-leading, household-name brands includes Lipton, Knorr, Dove, Axe, Hellmann's and Omo. Trusted local brands designed to meet the specific needs of consumers in their home market include Blue Band, Pureit and Suave. Unilever has established that the purpose of its business is to make sustainable living commonplace. To assist it in fulfilling this vision to grow its business, while decoupling its environment footprint from its growth and increasing its positive social impact, it has created a Sustainable Living Plan. Unilever believes that being faced with the challenge of climate change and the need for human development, it wants to move towards a world where everyone can live well and within the natural limits of the planet. Unilever has been recognised as a high performer for the following initiatives:

- attaining its goal of zero non-hazardous waste sent to landfill across its manufacturing networks, warehouses and offices in Australia
- redesigning the 500-millilitre Lipton Ice Tea bottle, saving 343 tonnes of PET and 60 tonnes of polypropylene a year
- removing the foil wrapping from Lipton Black tea bags, saving an estimated 41 tonnes of material a year
- creating shorter ice-cream sticks for popular products like Gaytime and Paddle Pop, saving 16 tonnes of wood annually.

ANALYSIS

1 Visit the Unilever website and list other actions the business is undertaking as part of its vision to make sustainable living more commonplace.
2 Evaluate whether the vision of Unilever will contribute to the overall profitability of the business.

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ACTIVITY 1.5

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

Shareholder expectations

shareholder owner of a company

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

Shareholders are the owners of a company and are also **stakeholders** in that business. Individuals may own the entire company, or through buying shares be involved in the ownership, based on the number of shares they own, of either private or public companies. All shareholders expect the business they have invested in to be successful. Shareholders also expect the business to make a profit and for any shares purchased to increase in value and dividends to be paid. Shareholders can pressure a business, regardless of size, to make certain decisions and can therefore influence the strategic objectives and direction of the business. The pressure may be in the form of wanting the business to become more sustainable in its operations. While this may incur a short-term expense for the business, it has also been proven that this can contribute to greater profitability in the long term and therefore increased financial returns for shareholders.

Providing a service or product within budgetary constraints

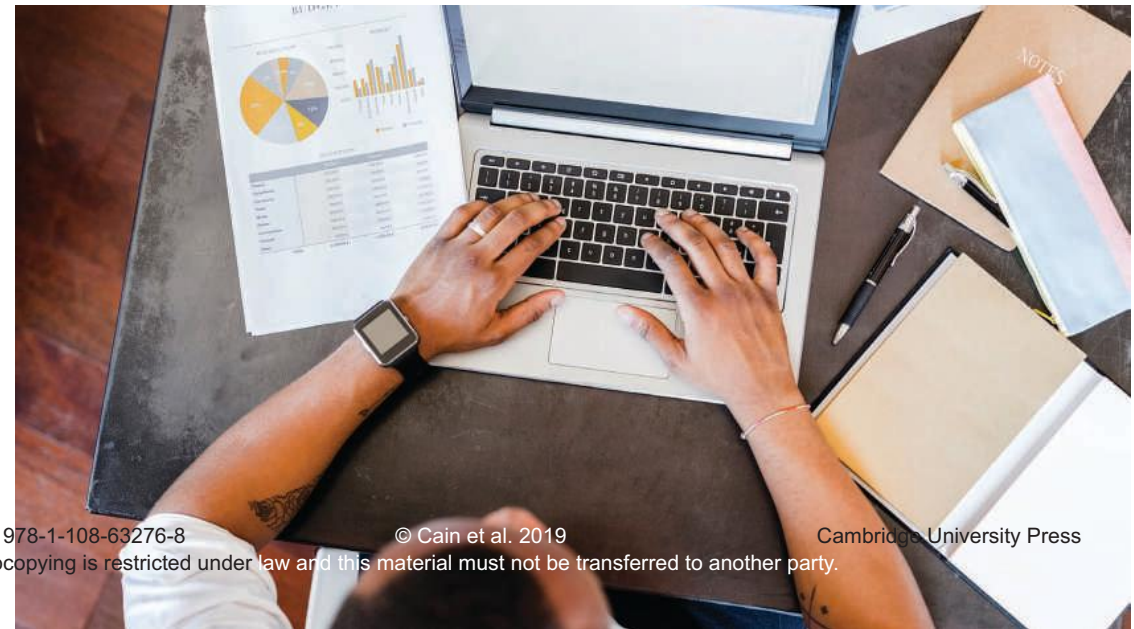
efficiency the best use of resources in the production of goods and/or services. The outcome can be judged on both the quality and quantity of the goods or services produced.

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

ACTIVITY 1.6

1 Identify the key expectations of shareholders and analyse their power to influence a business.
2 Outline some potential methods of increasing efficiency in a business.

Figure 1.13 Maintaining efficiency is crucial to a successful business.



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1.3 Areas of management responsibility



Figure 1.14 Areas of management responsibility

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

- **Operations** – the business function responsible for managing the process of creating goods and services. It involves planning, organising, coordinating and controlling all the resources needed to produce the goods or services provided by a business. It involves managing the raw materials or component parts, equipment, technology, information and people and any other resources required as input for the production process, their transformation and finally the output created. This area of management responsibility is core to the business, as its output provides the revenue stream for the business and is closely aligned to helping the business to achieve its financial objectives, specifically relating to increasing the profitability and productivity of the business.
- **Finance** – the functional area responsible for planning and preparing internal financial information such as budgets, which then act to guide the financial decision-making of the business in the forthcoming financial year. It is also responsible for keeping and maintaining financial records such as sales revenue and business expenses, paying creditors and employees, and monitoring cash flow to ensure the business has sufficient working capital to maintain its various activities. Finally, it is responsible for preparing financial accounts, such as the Profit and Loss Statement and Balance Sheet, so that the business can assess and analyse its financial



Figure 1.15 Operations areas of responsibility

Figure 1.16 Creating and reviewing business finances



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Figure 1.17 Human resources manages the people within a business.

performance. This management area provides the business with the data and measurement tools that can be used to assess whether the business has achieved its financial objectives.

- **Human resources** – the functional area that relates to managing the overall relationship the business has with its employees. Management is responsible for establishing the relationship through various steps – HR planning, recruitment, selection and determining the employment arrangements and forms of remuneration. The maintenance phase is the next step in the relationship and incorporates the induction process, training and developing employees in both their skills and as a person, while also managing and evaluating their performance. It is also the responsibility of this area of management to ensure that workplace relations is harmonious and there is no conflict disrupting the productivity levels at the workplace. Finally, when the employment relationship is to be terminated either voluntarily or involuntarily, it is responsible for ensuring that matters are carried out in an ethical, consistent and transparent manner. If a business sets strategic objectives relating to increasing productivity, profitability and performance, responsibility then rests with human resources to ensure that it develops a positive and diverse work environment in that business, boosts employee morale, recruits and retains top talent and promotes work–life balance and wellness.
- **Sales and marketing** – in some businesses, these two management responsibilities can be split. First, marketing is responsible for developing strategies, such as market research, advertising and branding, to create an ongoing relationship between the business and its customers. This functional area generates customer demand, understands the customers' wants and needs and is then responsible for promoting the product or service to the target customers. It acts as the 'window' to customers. Second, sales is also about developing relationships; however, its focus is the relationship with an individual customer. It is based on the reality that the product or service is now potentially able to be purchased, so generating revenue for the business. An important objective for many businesses is the desire to increase their market share. The strategies undertaken and outcomes achieved by this management area therefore play a vital role in the achievement of this objective.



Figure 1.18 Billboards are a form of advertising used to attract consumers to a product or service.

- **Technology support** – has the primary focus of assisting a business to create value by using technology. The technology being adopted can be broad in nature, while its main aim is to meet the business objectives of increasing the efficiency, productivity and cost-effectiveness of the business. Management of this area must ensure that they work collaboratively with all other functional areas within the business. The nature of activity undertaken by the business will act to determine the type of technologies that are adopted. For instance, in a

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manufacturing business, technology will be used to support production (computer-aided manufacturing), the ordering of stock and inventory control, tracking work in progress and finally supplying the goods produced to fulfil an order made by a customer. In a service business such as a hospital, technology support would involve the detailed record keeping of patient particulars and care provided while attending the hospital. In addition, it would relate to ensuring medical technology required by and used in the hospital operates correctly.

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

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



Figure 1.19 Typical organisational chart

ACTIVITY 1.7

1 Identify the key responsibilities of human resources and evaluate its role in a business.
2 Explain why technology support is crucial to the smooth running of a business.

SAC AND EXAM TIPS – linked to key skills

Analyse case studies and contemporary examples of business management – requires you to break the case studies or examples into parts and examine.
Evaluate business information and ideas – requires you to apply a weighted criteria to the relative strengths and weaknesses of the information or ideas provided in the stimulus material while also providing your opinion.

Figure 1.20 Technology support provides essential assistance to all areas of a business.



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Chapter summary

- There are several different types of business ownership and legal structures.
- A public sector business is owned by government.
- A private sector business is owned by individuals.
- The most common legal structures for business are:
  - sole trader
  - partnership
  - company.
- There are two types of company:
  - private limited
  - publicly listed.
- A company is a separate legal entity to its owners/shareholders, who enjoy the benefits of limited liability.
- Social enterprises exist to pursue social and/or environmental goals.
- Government business enterprises are government-owned (public sector) enterprises that have adopted a corporate model.
- All businesses must establish aims or objectives.
- Objectives should be set using the SMART principle.
- Business objectives can include making a profit, increasing market share, fulfilling a market and/or social need and meeting shareholder expectations.
- Vision and mission statements are important for all businesses.
- A values statement allows a business to focus on what is important in the business related to its shared values and cultural priorities.
- Stakeholders have expectations regarding the performance of a business.
- It is important for businesses to continually revisit objectives and look at ways to improve financial and other objectives.
- All businesses need to be managed through performing various functions that relate to certain aspects of the business.
- Common areas of management responsibility are: operations, finance, human resources, sales and marketing, and technology support.
- An organisational chart is a graphic representation of these management responsibility areas.

Chapter summary tasks

1 Identify the importance for a business of developing a mission statement and a vision statement.

2 Identify and describe the mistake or error in the following statements.
   a Mary is going to establish a chain of shoe shops that will have 75% market share by 2021.
   b Jerome wants to achieve a big profit for his new home repairs business in the next three years.
   c Don is going to retire at 30, after running his business for two years.

3 Explain why it is important for a business to set clear financial, market and/or social objectives.

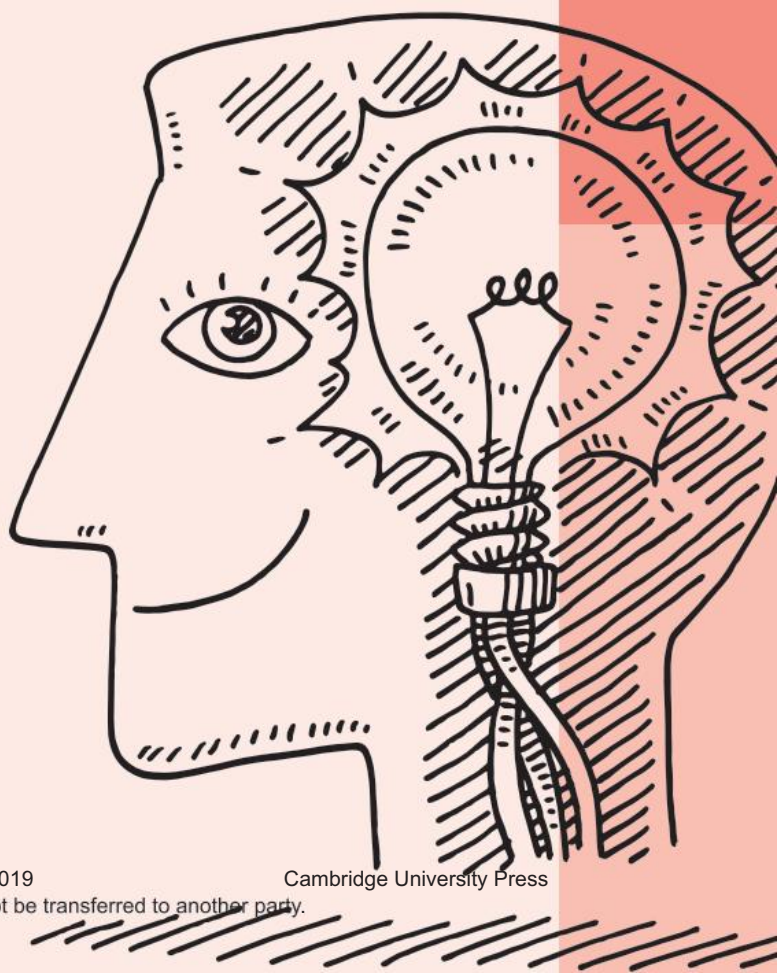
4 Explain why a profit-based business would continually look at ways to increase efficiency and productivity.

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5 Define the following terms and use each in a sentence to demonstrate your understanding of the term:
   a sole trader
   b social enterprise
   c incorporation.
6 Outline what the term 'limited liability' refers to. Identify which business structures offer limited liability to a business owner/shareholder.
7 Compare the differences and similarities between a private limited company operating as a for-profit business and a social enterprise such as HoMie.
8 Identify three government business enterprises (GBEs). Visit their websites and identify the key values and objectives of each GBE. Explain the features all three GBEs have in common. Identify and explain any differences.
9 Describe the function of the following departments: sales and marketing, and finance.
10 Identify which functional area of a business brings revenue into the business.
11 Identify which functional areas of the business act to support the operations of the business.

Examination preparation

1 **Discuss** the implications of a business adopting a legal structure of a private limited company rather than that of a public listed company. **(4 marks)**
2 **Explain** what is meant by the term 'unlimited liability'. **Identify** which types of business legal structures involve unlimited liability for business owners and their potential consequences. **(3 marks)**
3 **Identify** two characteristics of a social enterprise and a government business enterprise. **(4 marks)**
4 **Explain** why it is important for all businesses, regardless of their size, to ensure that they have clearly articulated business objectives. **(4 marks)**



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Chapter 2
Stakeholders and corporate culture

Overview

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

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Key terms

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

Key knowledge

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

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

What's ahead



Figure 2.1 Elements of business success



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2.1 Stakeholders of businesses

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

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

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

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

At each level of the business environment (**macro**, **operating** and **internal**), there are *stakeholders* or pressures that impact directly on the business. A stakeholder can either affect or be affected by the operations of a business. Ideally, all stakeholders should want the business to achieve its aims or objectives. In reality, this does not occur, as various stakeholders – a **competitor**, for example – would have conflicting interests. In addition, the needs of stakeholders can actually be at variance with each other. Lobby groups interested in the environment may have interests that differ from interests of those who believe the only purpose of a business is to make a sizeable profit. Success comes from working out strategies to overcome or satisfy these varying interests.

Table 2.1 sets out some of the major stakeholders of a business, together with their most likely interests and issues. These stakeholders are generally drawn from the internal and operating environment of the business. Table 2.2 on page 34 sets out examples of some stakeholders who may be in conflict with each other.

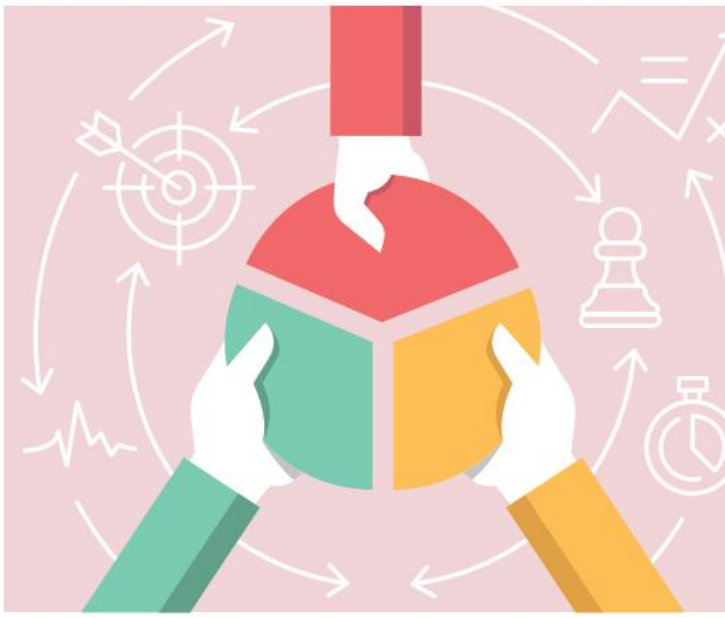


Figure 2.2 Stakeholders can have a significant effect on the success of a business.



Figure 2.3 Examples of stakeholders of a business

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

Stakeholder	Interests and issues	Level of business environment
Shareholders (of a company) or owner (either as a sole trader or partner)	• All forms of ownership – profitability of the business; ensuring its business operations are ethical; adopting socially responsible behaviour • Shareholders – receiving dividends (dividend yield); increase in value of shares (capital appreciation)	Internal environment
Directors of a company or partners in a partnership	• Developing and directing major business decisions and strategies • Ensuring strict adherence to corporate governance, social responsibility, and ethical and honest behaviour • Gaining personal power and status by being a director/partner of a business • To be well remunerated (money and share options)	Internal environment
Management	• To be involved in setting goals and objectives • To achieve goals and objectives • To secure their position within the business and work on their career development • To receive a fair remuneration package (pay and **fringe benefits**) • To gain job satisfaction • To work for a business that is ethical and socially responsible	Internal environment
Employees	• To receive a fair wage or salary • To work in a non-discriminatory and ethical workplace • To have the opportunity of career advancement • To gain job satisfaction • To feel secure in the long-term survival of their job • To work for a business that is ethical and socially responsible	Internal environment
Trade unions	• To negotiate for their members' fair wages, working conditions, working hours and other related work issues • To be represented in the workplace • To be involved in the decision-making with management over issues relating to employees • To ensure the welfare of their members, both health and safety • To be able to act as bargaining agents for employees when negotiating new collective agreements	Operating environment
Customers	• To obtain quality goods and services • To receive high levels of customer service (pre- and post-sale) • To potentially establish a long-term relationship with the business • To ensure that products are Australian made • To support Australian-owned businesses • To ensure that the business is acting in an ethical and socially responsible manner	Operating environment
Suppliers	• To ensure their customers' business is profitable (so they get paid) • To be paid promptly • To be able to establish and guarantee a long-term preferred supplier relationship	Operating environment

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

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Creditors/banks	• To be paid repayments, both principal and interest, due on loans • To be repaid loans in full • To ensure all banking interests of the business are secured by that bank • To be certain that customers are being open and honest in their financial dealings	Operating environment
Competitors	• To ensure they gain a competitive edge over the business and a greater market share • To differentiate their product or services from their competitors • To compare and evaluate their performance against other businesses	Operating environment
Community/society	• To benefit from the employment opportunities created by the business • For the business to participate in their community • To ensure that the business is a socially responsible corporate citizen • To ensure the business is ethical in its operations • To ensure the business operations are environmentally responsible and sustainable	Macro environment
Government	• To receive taxation revenue from profitable businesses • To provide incentives for businesses to relocate to benefit a community • To provide a legislative framework to control business operations • To provide assistance to businesses to establish and run their operations	Macro environment

Table 2.2 Examples of stakeholders and potential areas of conflict

Stakeholders	Potential conflicting issues
Business owners, directors and shareholders	The amount of business profit to be distributed at the end of the financial year. Shareholders want to receive a substantial dividend; owners/directors want to distribute a smaller portion of the profit, retaining an amount for building the business.
Management and suppliers	Suppliers want to be ensured a guaranteed supplier relationship where the price paid is fair and to be paid promptly. Management wants to ensure that the quality of the goods being supplied is consistent, supplied on time and of high standard but at the lowest cost possible.
Business owners and community	Business operations may cause environmental issues due to the business owners not installing or failing to maintain equipment, resulting in pollution (air or water). Community want to live in an environmentally friendly area with no danger to community from pollutants.
Management and customers	Reduction in quality of goods and services provided to customers with no reduction in prices being charged. Customers are looking for quality goods for a reasonable price (i.e. not being overcharged or under-serviced).

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ACTIVITY 2.1

Retail environment in Australia

Long-established large department stores such as Myer, David Jones and Harris Scarfe and their discount equivalents Kmart, Target, Big W and Best & Less are in a state of uncertainty about their future viability. When examining their current business models, it is apparent that there are too many department store outlets not producing sufficient revenue and they are burdened with long-term operating lease commitments, usually in major shopping centres. The discount chains also face problems as they sell basically the same product but with different labels, which can be bought online more easily and for a cheaper price. It should be noted that Australia is not alone in this change in its retail environment; it is happening worldwide.

Set out below is a list of strategies that these businesses could adopt to ensure their ongoing profitability.

- Reduce the number of stores, which are costly to run both in terms of lease payments and not creating sufficient sales revenue.
- Concentrate on ensuring large flagship stores carry stock that is appealing to customers and create a point of difference to online stores.
- Be prepared to take one large write-down or readjustment of the business operations to ensure the restructure takes place.
- Ensure that shareholders understand that the write-down is part of the overall business strategy to increase the profitability of the business.

1 Identify the stakeholders of the major department stores Myer, David Jones and Harris Scarfe.
2 Describe the nature of the interest that the above stakeholders have with these three businesses.
3 Identify and describe potential conflicts that may occur between these stakeholders.
4 Identify the stakeholders and the nature of their interest in the discount stores Kmart, Target, Big W and Best & Less.
5 Identify and describe any potential conflicts that may occur between the large department stores and the discount stores.

ACTIVITY 2.2

1 Identify and describe the stakeholders that you believe would have a particular interest in the operations of the following smaller-sized businesses:
   a local family-run fruit shop
   b shoe shop operating in a local strip shopping centre
   c online cosmetic business
   d online party supply shop.

2 Choose two from the four examples of businesses listed in question 1. For each of these two business examples, identify two stakeholders and describe the conflicting interests they would have in each of those businesses. For instance, the customers of a local fruit shop would want that shop to be open seven days a week. However, the owners of that family business would not want to open every day, as they would not be able to provide fresh produce on a Sunday as the wholesale fruit and vegetable market would be closed. In addition, it would have a significant impact on their family life if they opened the shop on Sundays and worked in the shop themselves.

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

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

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

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

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

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

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Figure 2.4 Three actions required to gain packaging sustainability

and for promoting the provision of good business practices for a fair and efficient marketplace. Many businesses take their responsibility to the community and the environment very seriously and have become signatories to the Australian Packaging Covenant. The Australian Packaging Covenant Strategic Plan 2017–2022 has set as one of its targets 'to tangibly reduce landfill'. The plan states that businesses must adopt a corporate socially responsible approach to achieve this target.

Waste has become an increasing problem in our society. It is estimated that there are 18 000 pieces of plastic floating in every square kilometre of ocean, with Australia's marine life being dramatically impacted. To help our community overcome this complex issue, businesses of all sizes need to adopt a corporate social responsibility approach. For instance, takeaway and quick service restaurants can change their packaging material options to use materials that meet the product need with less environmental impact. Larger businesses can invest in packaging design and research to limit the negative environmental impact of their own packaging. Woolworths decided to take the step of removing (banning) single-use plastic bags from its stores. This highly publicised action that was effective from 20 June 2018 incurred a backlash from a large group of customers not ready for this change. For customers who had forgotten to bring their own bags, Woolworths offered to sell them a reusable bag for 15 cents. The backlash from these important stakeholders was sufficiently strong enough that Woolworths decided to support its customers to make this transition away from single-use plastic bags by offering free reusable bags for a period of 10 days.

Figure 2.5 Many businesses incorporate environmental protection into their corporate social responsibility approach.



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CASE STUDY
2.1

Sustainable packaging: KeepCup

In the late 1990s, Abigail Forsyth and her brother Jamie ran a cafe business called Bluebag in Melbourne. As their business grew, Abigail and Jamie became increasingly concerned about the volume of packaging waste generated by their business and their customers who were using disposable cups. They discovered disposable cups were not recyclable. Following research into what reusable cups were currently on the market and not being happy with any of them, they felt the only option lay in developing and selling a reusable cup that people would want to purchase because it looked and felt good to use. Design professionals were used to create prototypes, which were then tested, with design faults being corrected. Eighteen months later, the KeepCup was launched at a Melbourne design expo, which resulted in 1000 KeepCups being sold in six hours. There was initial pushback from some cafes fearing that using these reusable cups could be illegal for health reasons. Legal opinion was sought and the finding was that using a reusable cup would not contravene health regulations.

Figure 2.6
Environmental responsibility is at the core of KeepCup's business.

This was the start of a behavioural change where consumers realised that you could purchase a product that was sustainable, was made of quality materials and was reusable while not having a negative environmental impact. KeepCup has now expanded globally; however, it retains its manufacturing base in Melbourne, the city with the reputation for its speciality coffee and cafe culture.

Since KeepCup was launched in 2009, over 10 million KeepCups have been sold in 32 countries around the world, with customers diverting billions of disposable cups from landfill.

ANALYSIS

1 Identify and explain the interests of stakeholders of KeepCup.
2 Describe the actions the owners of KeepCup have taken that demonstrate their commitment to running an ethical and socially responsible business.
3 Outline what actions consumers, cafe owners and businesses can take to support the behavioural change instigated by KeepCup.

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Social responsibility requires a business to be working to improve its positive impact on society and to reduce any negative impact it may have. Westpac believes that it must conduct its business to meet its financial, social and environmental responsibilities. To do this, it needs to establish a set of values and behaviour that underpin its everyday activities in how it conducts its dealings with its people (employees), customers and the community. One such initiative is the bank's Reconciliation Action Plan 2018–2020 (RAP), which focuses on providing meaningful careers for Indigenous Australians, providing them with better banking experiences, backing Indigenous businesses and helping their communities to prosper. In addition, it states in its Community and Sustainability report that 'our priority is to fully integrate corporate responsibility, including best practice governance, into our business model. Adopting a total responsibility approach is now part of the normal way we go about our business and it is greatly enhancing our sustainability'.

Another way for a business to demonstrate its commitment to being socially responsible is the way it interacts with its local community. Each year, more than 100 businesses, including Fonterra (dairy), Kinross Farms (eggs), Woolworths (meat), Boscastle (pastry) and Costa Farms (fresh vegetables), donate perfectly good surplus food that would otherwise end up in landfill to FareShare, a not-for-profit community organisation. With the help of chefs and teams of volunteers, this food is made into approximately 25 000 nutritious meals, which are then given to charities to distribute to Victorians who are doing it tough.

ACTIVITY 2.3

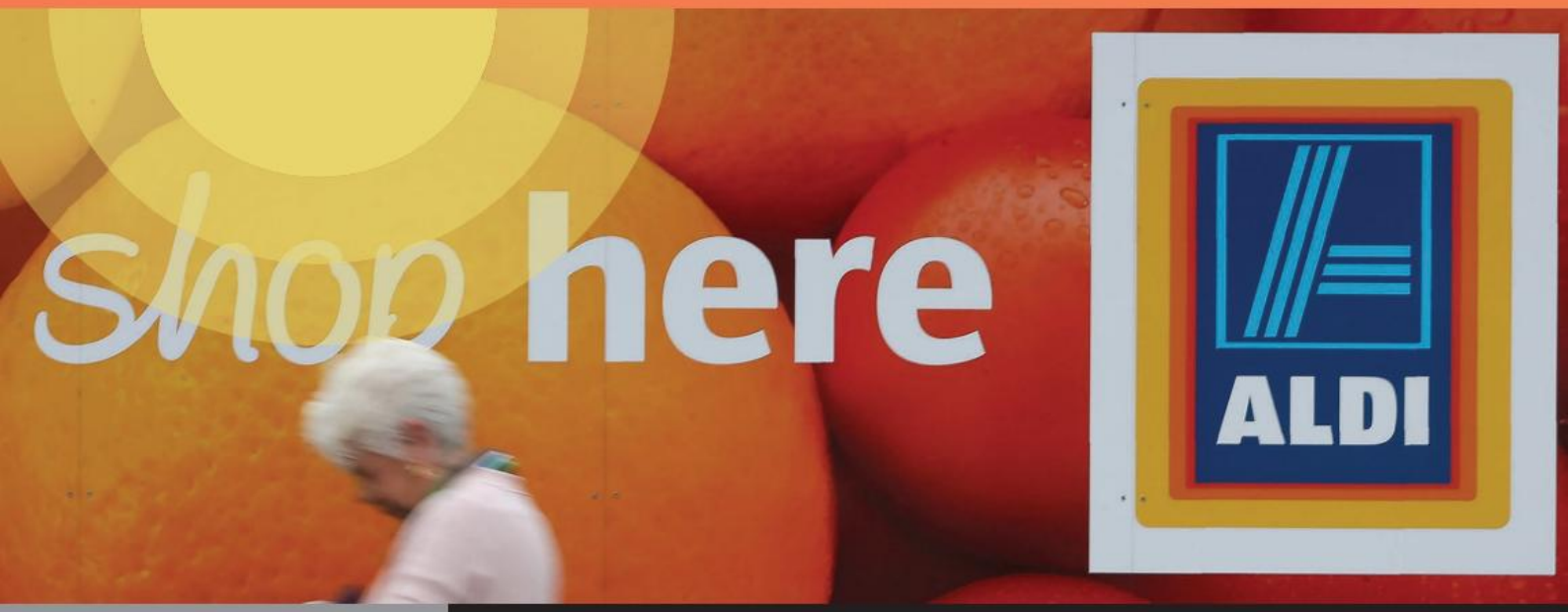
1 Identify two businesses that demonstrate their social responsibility to the community, either at a particular time of year, such as Christmas, or for a special cause, such as cancer research. For instance, Telstra has established a foundation to provide assistance to a broad range of groups and activities.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

SAC AND EXAM TIPS – linked to key skills

Discuss the key characteristics of stakeholders – requires you to state arguments or opinions that cover both sides of an issue or response related to stakeholders involved in stimulus material.



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CASE STUDY
2.2

ALDI and social responsibility

ALDI commenced operations in Germany in 1946 and is one of the world's largest privately owned companies. It is now one of Australia's top 10 retailers, with its stakeholders being suppliers, customers, employees, competitors and the communities in which it operates. ALDI maintains a consistent business model and shop layout and its core business strength has been its determination to offer shoppers a narrow range of low-price, good-quality, and often private-label, grocery products from its small stand-alone sites.

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

ANALYSIS

Visit the ALDI website and answer the following questions.

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

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2.2 Corporate culture

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

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

The importance of a business possessing a positive corporate culture has been highlighted in recent times by Angus Armour, CEO of the Australian Institute of Company Directors. He states that any board now looking at potential CEO candidates should consider 'is this the sort of person who can create an internal and external culture that is meaningful, do they have the capacity to lead people in the direction they need to go and the discipline to ensure a corporate culture is maintained. The ability to manage culture is now as critical for a board as the ability to manage its profit and loss'. Matt Comyn was appointed as CEO of the Commonwealth Bank in January 2018, at a time when the bank was before the Australian Prudential Regulation Authority to answer questions relating to a string of financial scandals about its banking practices. The real problem for the bank was its culture, which rewarded success at any cost, creating a trust deficit and reputation damage with its community. Time will be the judge of whether the bank is able to rebuild its reputation and positive corporate culture. Another business that has needed to work on improving its corporate culture is 7-Eleven, which was found to have been participating in a wages scandal.

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

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

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

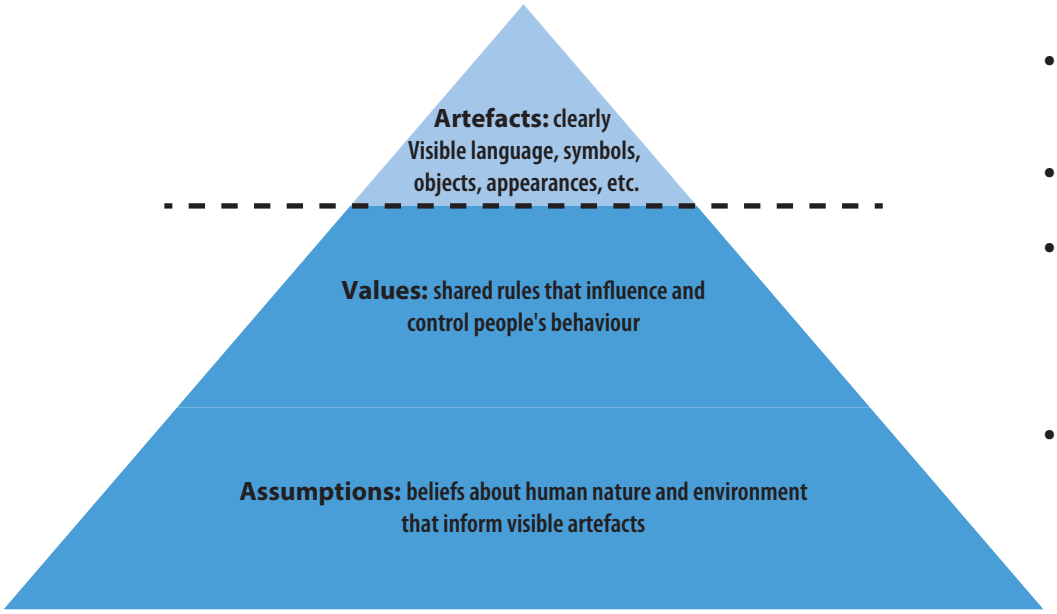


Figure 2.7 Corporate culture includes observable and non-observable elements.

Corporate culture is:

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

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Official and real corporate culture

Businesses are very aware of the importance of developing a positive corporate culture. The first step to developing and promoting a desired culture is to establish the **official corporate culture**. This is a set of values and beliefs that the business wants to present to the public as its own. Official corporate culture is visible through business or company documents, goals, mission and official statements. Often slogans and logos are developed to represent official culture. The official or desired culture is, however, not always reflected in existing real or actual culture. The **real (unofficial) culture** is what actually prevails in a business. Real culture can be gleaned through observation of what actually occurs and the real relationships and interactions between people.

official corporate culture desired culture a business wishes to establish

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

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

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

Strategies to develop corporate culture (official and real)

The culture of a business is a crucial determinant of its efficiency, effectiveness and therefore productivity. Developing the corporate culture for a business relies on the following **strategies** or factors.

The creation of formal written mission, vision and values statements

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

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



ACTIVITY 2.4

1 Brainstorm some examples of the observable elements of corporate culture. Then, select a well-known business and identify the observable elements of its corporate culture.
2 Explain why it is important for a business to maintain an appealing official corporate culture.
3 Identify potential consequences to a business if its 'real corporate culture' is considered to be 'toxic'.
4 Explain the differences between a mission statement, a vision statement and a values statement.

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CASE STUDY
2.3

The core values of the Cotton On Group

In 1991, Cotton On opened its first retail store in Geelong and since then has grown to become the Cotton On Group, which has over 1500 stores across seven brands in 19 countries. Regarded as one of Australia's leading global fashion brands, it aims to provide customers with trends they want, when they want it and at the right price.

Cotton On has identified six values that underpin the business and the way those within the business work. These values were instilled in the business by its founder, Nigel Austin, and form the basis of everything done at Cotton On and act to guide its decision-making.

The six values that underpin the business are:

- *Ever better* – having a learning culture; being ambitious, fearless, innovative and focused, on a journey of continuous improvement by striving to be better at everything they do and taking pride in their work
- *Personal leadership* – accountability at all levels; roles approached with clarity and confidence; question, listen, take risks and seek feedback
- *People first* – team-based decision-making; supportive, collaborative and acting to empower and inspire
- *Keeping it real* – adopting a can-do, solutions-focused mindset, ensuring they serve their customers; being humble, resourceful and adopting a hands-on approach
- *Fun* – fun and energetic teams who are passionate, spirited, youthful, engaged, vibrant and dynamic, who thrive on adventure
- *Integrity* – ethical, honest, transparent, responsible and humanitarian; aspiring to do the right thing, having a positive impact on the world and taking a zero-tolerance approach to unethical behaviour.

ANALYSIS

Visit the Cotton On Group website. Identify and explain how the above six values relate to the way the business operates. Provide examples to support your explanation.

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Establishing management structures

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

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

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

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

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

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

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

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

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

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

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

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

Choice of management styles

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

In contrast, a manager who uses the participative style to manage their subordinates places emphasis on ensuring that workers gain job satisfaction as well as achieving their assigned

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work tasks. Greater emphasis is placed on the employees' contribution to the process of decision-making, and communication is open.

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

ACTIVITY 2.5

1 Explain why you think some businesses choose to maintain a high level of structure and a clear chain of command.
2 Outline how increased employee engagement through a process of delayering can assist a business with meeting its goals.
3 Construct a list of the positives and negatives of both autocratic and employee-centred management styles.

Implementation of policies

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

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

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

Official business documentation and forms of communication

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

People

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

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

diversity human characteristics that make people different from one another

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

ACTIVITY 2.6

1 Explain how diversity can enrich corporate culture.
2 Brainstorm businesses that you think would adopt a less formal approach to communication and interaction and outline why this would be the case.
3 Identify how policies can help to strengthen and protect a business's corporate culture.



CASE STUDY 2.4

Corporate culture: Bunnings

WHO WE ARE

Our ambition is to provide our customers with the widest range of home improvement products in accordance with our lowest prices policy, backed with the best service.

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

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

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

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

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

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

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

(Source: 'About us', Bunnings website.)

ANALYSIS

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

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

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

Physical environment and material symbols

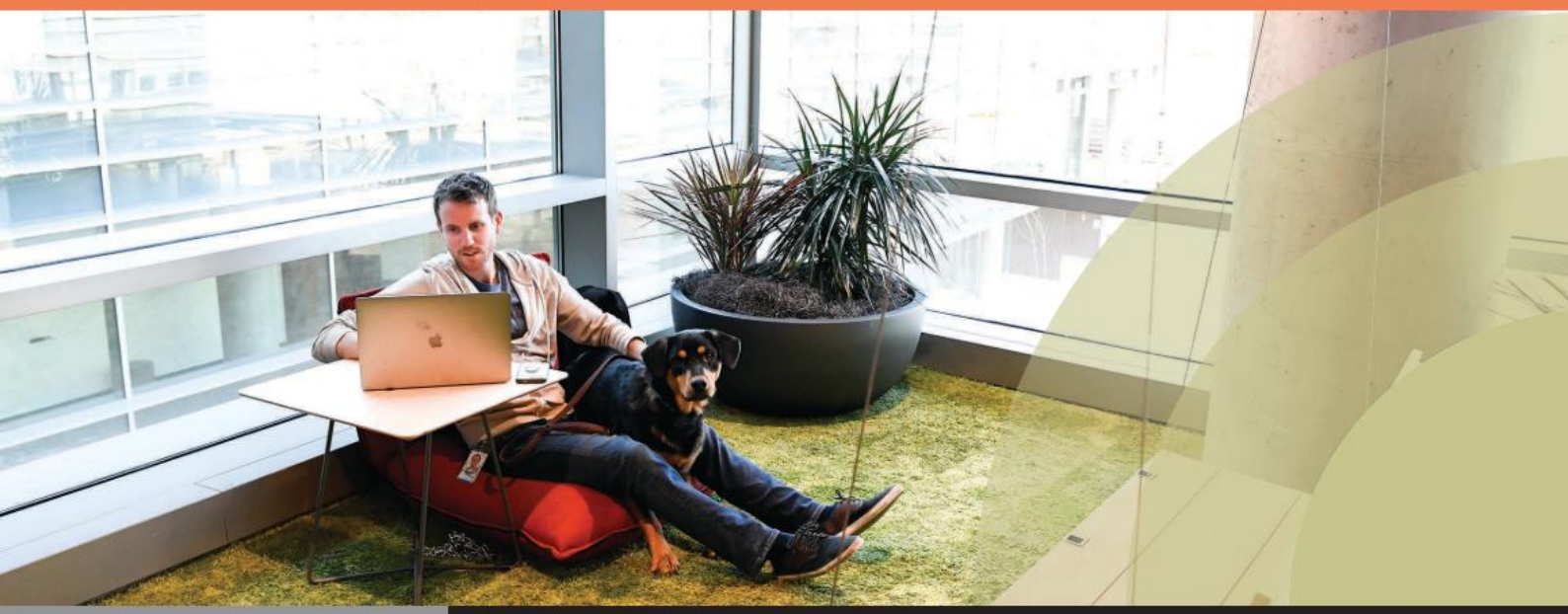
Physical environment is a significant indicator of culture. Open-plan offices, for example, promote lateral communication, team building and collaboration. The location of a business also affects its culture. For example, an inner-city 'hipster' location will promote an entirely different culture to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

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



Figure 2.9 Corporate culture is often reflected in the dress code of the business – formal or casual.

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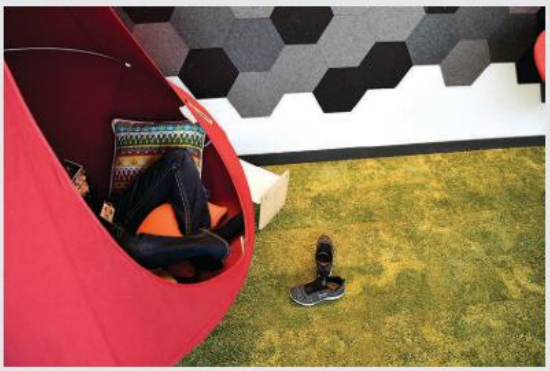
CASE STUDY
2.5

Corporate culture: Google

In February 2018, Google was judged by Forbes Technology Council to be the tech company with the best corporate culture. The Council members outlined the following 13 reasons for arriving at their decision:

- True flexibility – employees having a flexible schedule and the ability to approach and work on the type of work that best suits them leads to greater creativity and productivity.
- The freedom to be creative – giving people a chance to solve huge problems, amplifying to the maximum the most fun part of working in technology.
- A fun environment – providing the perks, environment and flexibility for employees working long days and even weekends makes for a very creative and enjoyable workplace.
- The people and their expertise – instant access to experts, smart and capable people who are also kind and humble.
- Dog-friendly workplace – enhances the quality of work–life and blurs the distinction between home and work life.
- Shared values across the organisation.
- Constant innovation and promotion of collaboration.
- Trust in employees – leads to creativity, outstanding performance and job satisfaction.
- Alignment with employees' needs and wants – its amenities, pay and work–life balance.

Figure 2.10 Snapshots of the working conditions for teammates at Google.





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- A growth and improvement mindset – no room for complacency.
- A dedicated focus on employee happiness – perks such as free organic chef-prepared meals, free health and dental, hybrid car subsidies, nap pods, video games, ping pong, on-site physicians.
- Radical candour – caring personally and challenging directly helps to foster a joyful and effective workplace.
- A clear purpose – ensuring it sticks to its mission 'To organize the world's information and make it universally accessible and useful'.

ANALYSIS

1 Discuss whether you would want to undertake an internship with Google. As part of your discussion, refer to the specific reasons mentioned that would support or deter you in your decision.
2 Watch the comedy movie *The Internship*, released in 2013, starring Owen Wilson and Vince Vaughn. Describe the ways in which the main characters needed to change to fit in with the culture at Google.

ACTIVITY 2.7

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

1 The receptionist is wearing a uniform bearing the company name and logo.
2 Staff address each other as Mr or Ms, never by first names.
3 A values statement for the business is displayed in the reception area.
4 Staff are rewarded for increased sales figures with bonuses.
5 Staff may work from home when caring for a sick family member.
6 Employees must make an appointment if they want to speak with their manager.
7 Employees are encouraged to actively contribute ideas at weekly staff meetings.
8 Correct procedures must be followed without fail.
9 The workers employed at the business come from a diverse group.
10 An environmental policy is on prominent display at the front office.
11 Work hours are very flexible.



Figure 2.11 Office celebrations strengthen employee relations and highlight the importance of good work.

Stories, narratives and rituals

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

Establishing and acknowledging rituals that express key values and expectations within a business should be encouraged. Examples of these are: recognition and reward

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ceremonies, weekly social get-togethers, participating in social club activities or the annual Christmas party. These rituals help to underscore the importance placed on the positive benefits gained through social interaction in the workplace and the celebration of a job well done.

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



CASE STUDY **2.6**

Corporate culture: Netflix

Netflix is an American online subscription-based streaming service that provides popular movies and TV shows through the internet.

> Our core philosophy is people over process. More specifically, we have great people working together as a dream team. With this approach, we are a more flexible, fun, stimulating, creative, collaborative and successful organization.
>
> (Source: 'Netflix Culture', Netflix website.)

ANALYSIS

Visit the Netflix website and go to its 'Culture' page.

1 Describe the corporate culture of this dynamic business.
2 Explain how its core philosophy of 'people over process' is reflected in its corporate culture.

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SAC AND EXAM TIPS – linked to key skills

Propose and justify management strategies for developing corporate culture – requires you to put forward a plan or suggestion for consideration by others as to management strategies to be used to develop corporate culture. You then need to provide valid reasons or evidence to support your plan or suggestions.

Chapter summary

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

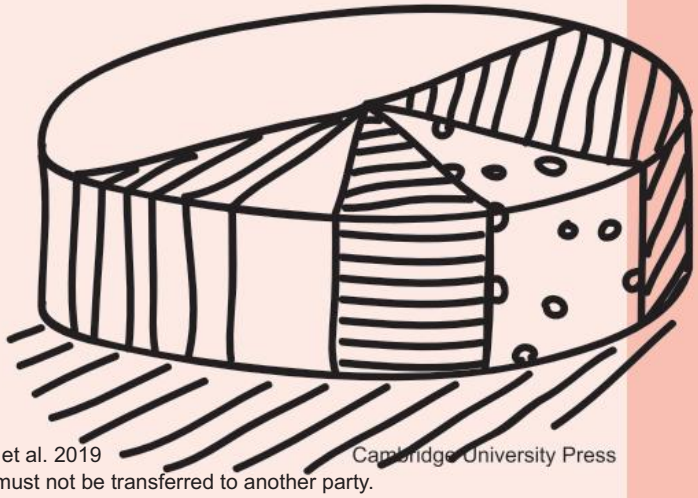
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Chapter summary tasks

1 Define the term 'stakeholders' and use it in a sentence to demonstrate your understanding of the term.
2 Identify stakeholders that are in the macro environment of a business. Describe the area of interest or possible conflict they may have with a business.
3 Identify stakeholders that are in the operating environment of a business. Describe the area of interest or possible conflict they may have with a business.
4 Identify stakeholders that are in the internal environment of a business. Describe the area of interest or possible conflict they may have with a business.
5 Explain what the term 'culture' means in terms of a business.
6 Outline three observable factors that indicate aspects of the culture of a business to an outside observer.
7 Outline three non-observable factors that indicate aspects of the culture of a business.
8 Identify strategies that management can use to develop the corporate culture of a business.

Examination preparation

1 **Discuss** this statement: 'Businesses that choose to ignore the interests or issues of their stakeholders are doomed to fail.' **(5 marks)**
2 Virgo Ltd, a real estate agency with 80 employees, recently employed a management consultant to investigate the reasons why the business had suffered a significant loss of market share. The consultant's report highlighted that the corporate culture was poor, which then negatively impacted on the level of customer service provided by agents. They were not interested in attracting clients to list their properties with them, either for sale or rental. It was seen that the real culture was significantly different from the official culture.
   a **Define** and **explain** the key differences between:
      — real corporate culture
      — official corporate culture. **(2 marks)**
   b **Discuss** the effect each of the following is likely to have on the corporate culture, competitiveness and market share at Virgo Ltd:
      — staff arriving late to meet clients
      — establishing a policy setting out distinct procedures and steps that all staff must undertake when dealing with clients
      — greater input from the agents in the decision-making of the agency
      — a vision/values statement that states 'Happy clients are our first priority'. **(8 marks)**



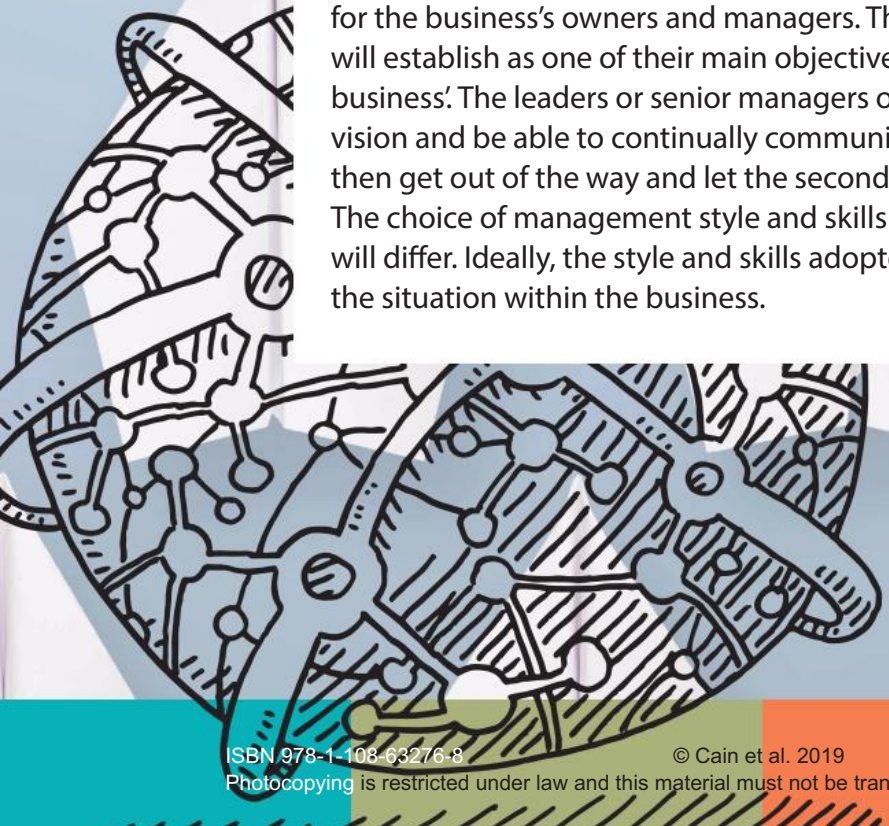
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Chapter 3

Management styles, skills and their interrelationship

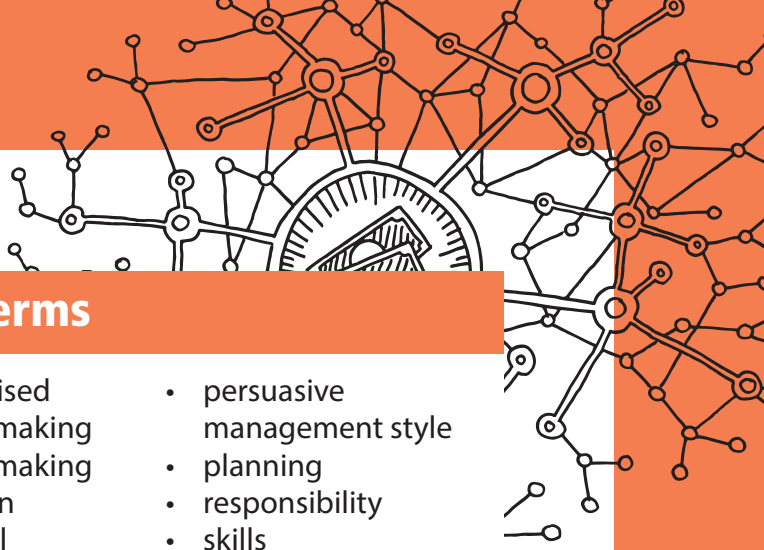
Overview

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



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Key terms

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

Key knowledge

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

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

What's ahead

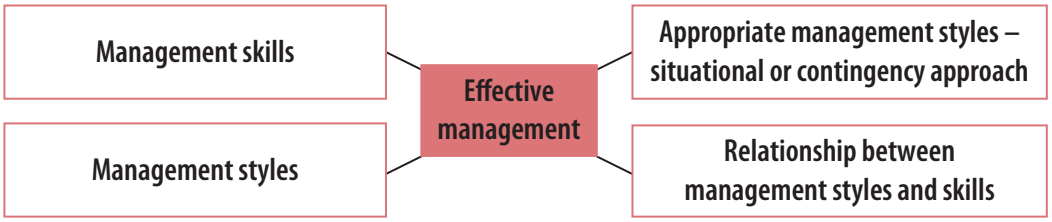


Figure 3.1 Four aspects of effective management

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3.1 Management styles

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

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

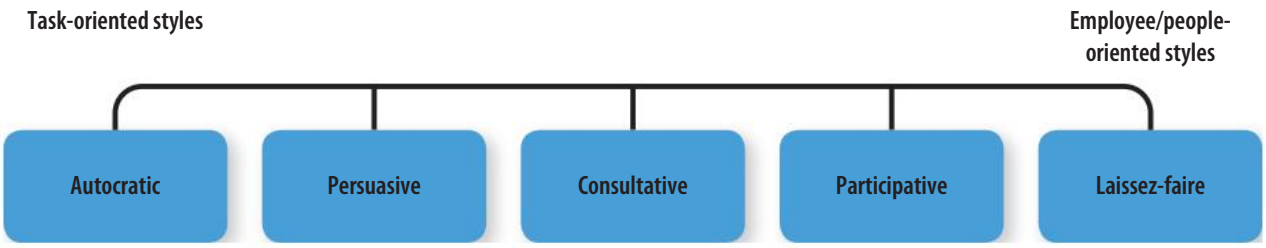
Management styles can have specific features. For example, the way managers interact with employees will depend on how they exercise authority, the degree of task or employee orientation, and the manner of communication ('top-down', 'bottom-up' or lateral). The type of management structure adopted by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

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

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

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

Figure 3.2 Management style continuum



Types of management style

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

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

Autocratic management style

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

The characteristics of autocratic management style are:

- Managers have the desire to be in control and to retain authority. This is apparent when they are undertaking planning or coordinating various human and physical activities of the

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

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

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

Table 3.1 Advantages and disadvantages of an autocratic management style

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

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Rupert Murdoch at News International

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

Figure 3.3 Rupert Murdoch is an autocratic leader.

ACTIVITY 3.1

Describe how you might feel if you were an employee under the management of an autocratic leader. Explain how these feelings may disrupt or even aid your ability to be a productive employee.

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

Persuasive management style

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

Figure 3.4 Feeling like a puppet – being told what to do, when to do it, without any say in decision-making – may be due to an autocratic or persuasive management style



The characteristics of a persuasive management style are:

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

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Table 3.2 Advantages and disadvantages of a persuasive management style

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

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

Consultative management style

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

The characteristics of a consultative management style are:

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



Figure 3.5 A consultative manager seeks input from their staff.

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

Table 3.3 Advantages and disadvantages of a consultative management style

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

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Participative management style

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

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

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

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

The characteristics of a participative management style are:

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

Table 3.4 Advantages and disadvantages of a participative management style

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

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

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Laissez-faire management style

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

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

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



Figure 3.6 Sharing creative and innovative ideas with team members

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

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

ACTIVITY 3.2

1 Identify potential workplaces where a laissez-faire management style would not work particularly well.
2 Explain how a laissez-faire style might suit employees who work well in both team and autonomous work situations.

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Contingency or situational management approach

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

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

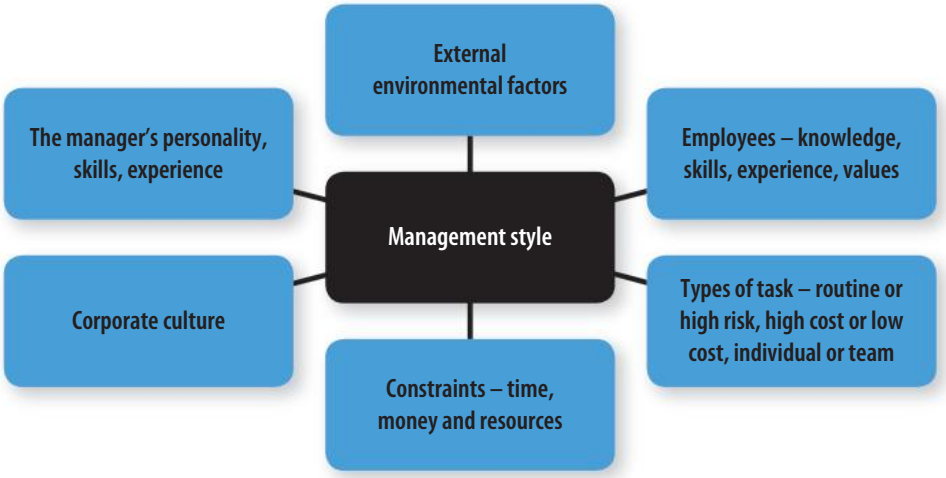


Figure 3.7 Variables influencing the choice of management style

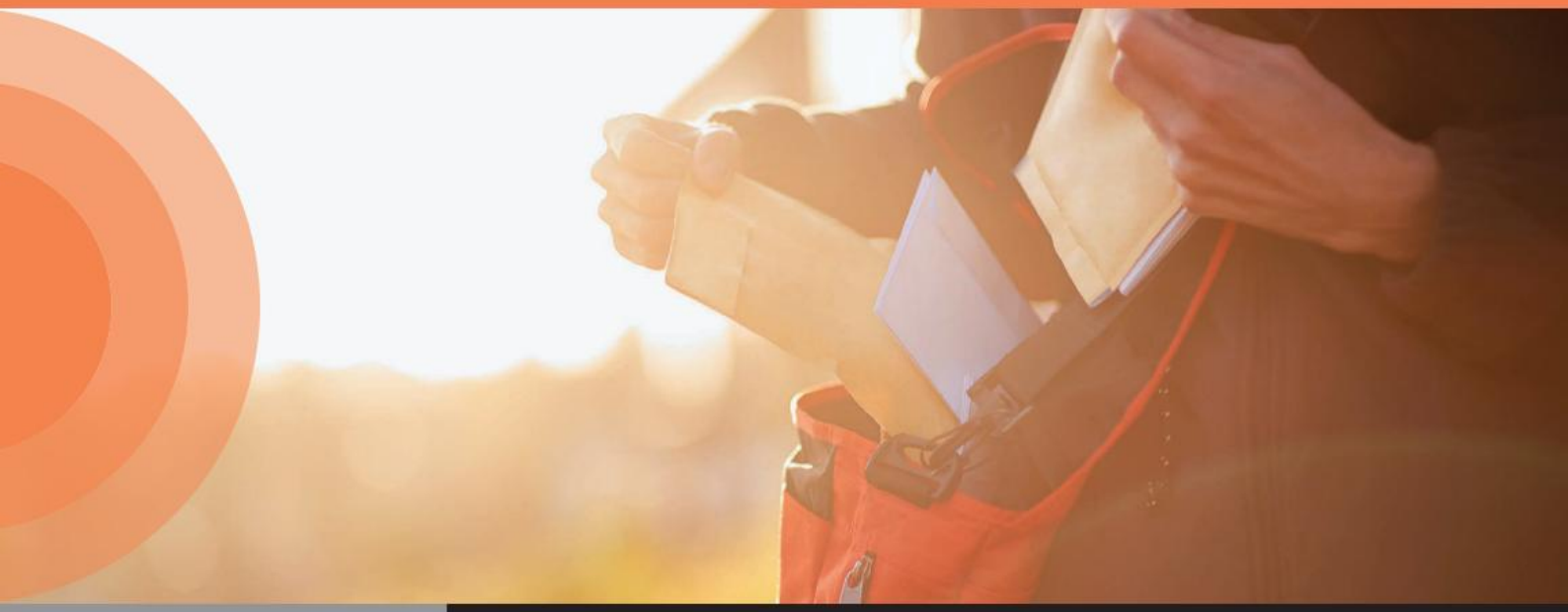
This approach works by applying a range of variables to assist in selecting the most appropriate management style for managing a given situation. The following are considered:

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

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

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

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CASE STUDY
3.1

Christine Holgate – CEO of Australia Post



In October 2017, Christine Holgate took over from Ahmed Fahour as the first female chief executive of Australia Post, a government business enterprise with 30 000 employees and an annual revenue of $6.5 billion. The business challenge facing her is to remodel Australia's postal service into a modern logistics powerhouse in an age of digital disruption. Holgate sees herself as a 'free-market socialist' who has a hard head and a soft heart. She is not motivated by money but rather by altruism and making a social contribution.

Figure 3.8 Christine Holgate is described as a decisive and caring CEO.

Marcus Blackmore, Chairman of Blackmores, where Christine was CEO before being appointed to Australia Post, describes her as a 'benevolent dictator'. She wants to get on with the job and is decisive while also caring about the people it affects.

Australia Post's Chairman, John Stanhope, noted that along with her proven ability to grow a business in Asia and success in working in highly regulated industries, she is a warm, authentic and honest leader who is good at motivating people.

Others who have worked with Christine have commented that she is very genuine and personable, smart, ambitious, driven, frank, accessible, trusting and demonstrative, with a keen interest in the role she can play in the community.

ANALYSIS

1 Identify the management style you would recommend Christine Holgate adopt to manage Australia Post into becoming a modern logistics powerhouse in an age of digital disruption.
2 Describe the characteristics of the style and justify your choice of style.

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ACTIVITY 3.3

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

1 Henry is an experienced business analyst at a major insurance company. He has been appointed as project manager of a team of six employees who have the task of developing and implementing a new travel insurance product. His team members have been drawn from a variety of functional areas within the insurance company; for example, consumer insurance products, info technology, risk management, legal, finance and marketing. All members of his team are highly skilled and knowledgeable and capable of working unsupervised. Henry does, however, feel that final decisions must be checked by him before they present the new travel insurance product to senior management for approval prior to implementation.

2 Hazel decided that she wanted to start up and run a social media company. At university she had studied Business Studies and Computer Science. Having just finished her studies, she did not have any start-up capital; however, she knew that raising funds through crowdfunding has become a very popular way to raise capital. A group of her fellow university students were excited by her idea and keen to join her in this entrepreneurial venture.

3.2 Management skills

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

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

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



Figure 3.9 Six important management skills

No matter what the size of the business, their management level (senior, middle or front-line management) or their area of management responsibility (operations, finance, human resource management, sales and marketing or technology support), managers will need to possess a range of skills, such as:

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

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

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Communication skills

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

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

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

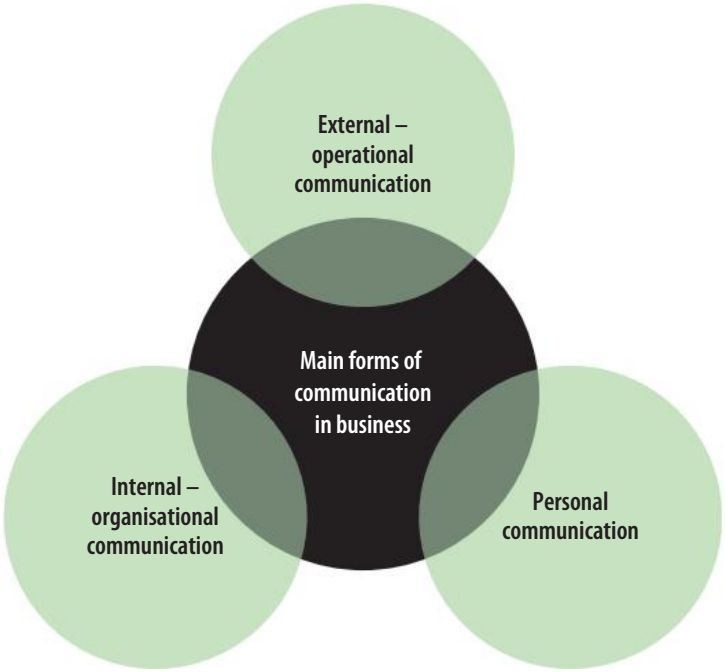


Figure 3.10
Main forms of communication used by managers

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

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

- reading – which involves the manager locating, understanding and interpreting written data and information, such as letters, reports, emails, documents, policies, procedures, codes of practice, contracts and graphs
- written – which can express thoughts and ideas, information and messages through emails, word-processing documents, manuals and reports
- oral – which can enable the manager to communicate orally by talking to people individually or in groups (small or large) to disseminate information and gain feedback. Listening to oral

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messages is an essential form of communication as a manager receives, attends to, interprets and responds to oral messages. If managers do not develop the skill of listening, they may not hear the suggestions or information from the most valuable employees.

ACTIVITY 3.4

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



Figure 3.11 The owner and staff at a busy bakery need to effectively communicate with all its stakeholders.

Scenario 1

David owns and operates a bakery in a busy strip shopping centre in suburban Melbourne. The bakery operates seven days a week with baking staff starting work at 4 a.m. each day. In this busy business, there are three qualified and very experienced bakers, three apprentice bakers and eight shop assistants. To ensure that the business runs smoothly, David needs to plan to have sufficient basic supplies (flour, yeast) and any special ingredients, such as dried fruit, nuts, salami, pineapple and mushrooms, in stock so they can prepare and bake their selection of baked items for sale each day. He must also make sure that all equipment, such as ovens, dough-making machinery and refrigerators, is in working order.

David does not now work at the bakery every day, as he is trying to cut back on his work commitments and plans to retire from the business in the next couple of years. To ensure that the business still runs productively, he needs to be able to communicate with his staff on matters such as their days and hours of work. He also needs to be advised at the end of trade each day of the bakery's daily sales and stock levels so that stock can be replenished. David is aware that he must ensure that his staff are trained and understand health and safety requirements, as the business is regularly visited by the local council health inspectors.

Scenario 2

The finance and lending department of a major bank has drafted a policy that sets out the overall guidelines and procedures relating to handling and processing of home loan applications from prospective customers purchasing real estate. The finance and lending department needs to gain feedback from affected stakeholders, such as retail lending and legal departments, before formulating the final version of the policy that will be presented to senior management of the bank for approval.

Scenario 3

The general manager of a food home delivery business that has supplied fresh dairy, meat, bread, vegetables and fruit to homes on a weekly basis needs to advise staff that, due to increased competition from the online ordering and delivery facility provided by the major food retailers, they will need to close down the business. This will result in all the valued staff of the food home delivery business being made redundant.

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Delegation

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

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

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

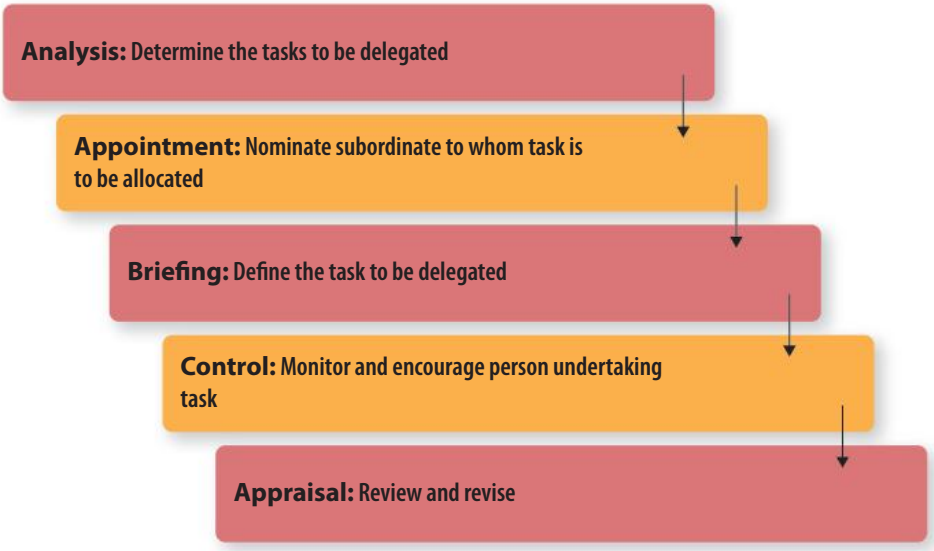


Figure 3.12 Five steps of the delegation process

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

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

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

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

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

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

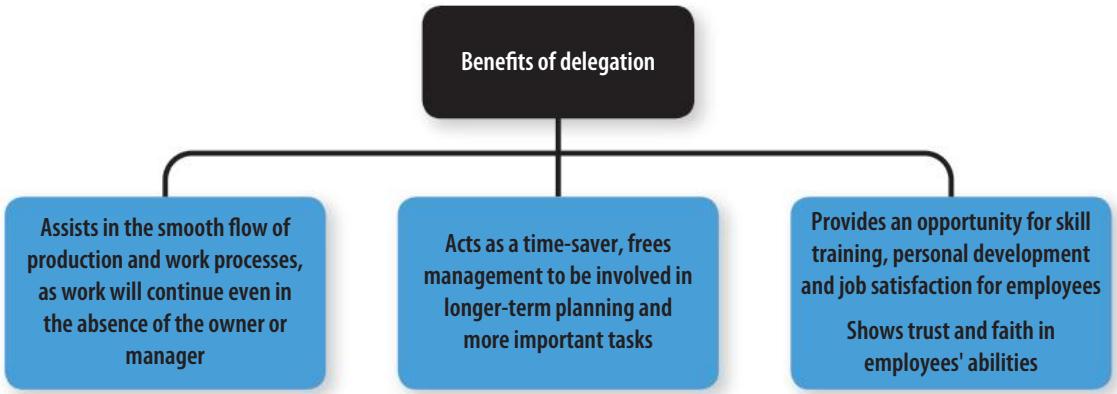


Figure 3.13 Benefits of delegation

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

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

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

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

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

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

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

Planning

planning a formalised decision-making process that is future-oriented

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

1 Set the goal(s) – important to consider the values held by management and approach of the business to its social responsibilities when establishing the goals.

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2 Gather information – analyse the internal and external environment of the business. A SWOT analysis (see Figure 3.15) is a common tool used to undertake this information-gathering.
3 Establish promoting and restraining factors – determine the possible opportunities and threats or problems that currently or in the future face the business.
4 Develop the action plan to reach the goal(s) – create the strategies (courses of action) to take advantage of the opportunities. Contingency plans may be needed to deal with the identified threats.
5 Evaluate and review – after a set period of time, the results need to be evaluated and reviewed to see if the plan was useful and accurate.



Figure 3.14 Five steps of planning

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

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

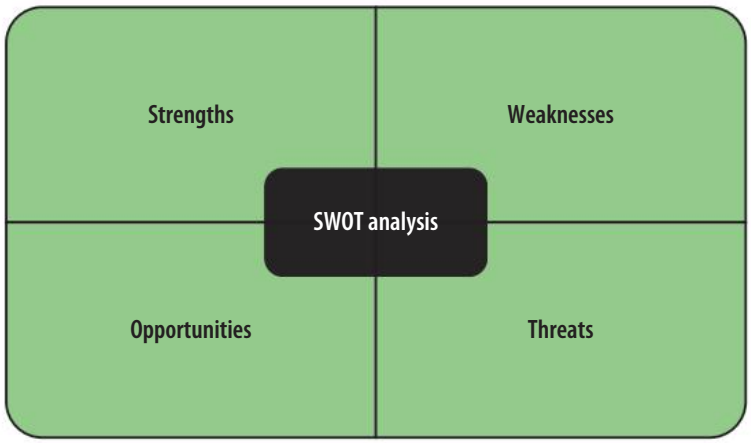


Figure 3.15 SWOT analysis – a vital planning tool

ACTIVITY 3.5

The principal and school council are looking at the strategic direction of the school. As important stakeholders of the school, they would like you to apply your knowledge to undertake a SWOT analysis of the school. The results of this analysis will assist school council to formulate the strategic plans for the school. This activity can be undertaken as an individual or class task.



Figure 3.16 Planning is essential for reducing uncertainty in business.

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

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

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

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

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

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

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



Figure 3.17 Levels of planning and management

ACTIVITY 3.6

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

Planning activity	Level of planning	Reason for choosing
A major retail food chain wants to expand its current operations from two states to operate in all states of Australia.		
A soft drink manufacturer, in response to consumer pressure, is changing its product range to concentrate on water and low-sugar fruit juices.		

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A fruit shop operating in a local strip shopping centre has decided to reduce its days of operation to six days per week.		
An Australian clothing designer wants to manufacture its clothes in Indonesia. This will mean establishing production facilities in that country.		
A team leader in the IT department of a major insurance company decides to monitor their team's progress over a three-month period.		
The manager of ladies' fashion in a major department store requires the department's sales team to increase sales by 10% over the next six months.		
The research and development department is to relocate to a new state-of-the-art facility, separate from the head office of the business.		
A front-line manager (supervisor) at a dairy processing plant wants to arrange weekly production meetings.		

Leading

Businesses, regardless of size, need managers to be able to lead and control the business's activities. A good leader knows when to step in and when to step away and allow talented people they have hired to achieve the business's future potential. Business people, whether they are entrepreneurs who founded a business or operators of small and medium-sized businesses, need to understand that if they cannot relinquish some control of their business, its growth will be stunted and its full potential never realised.

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

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

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

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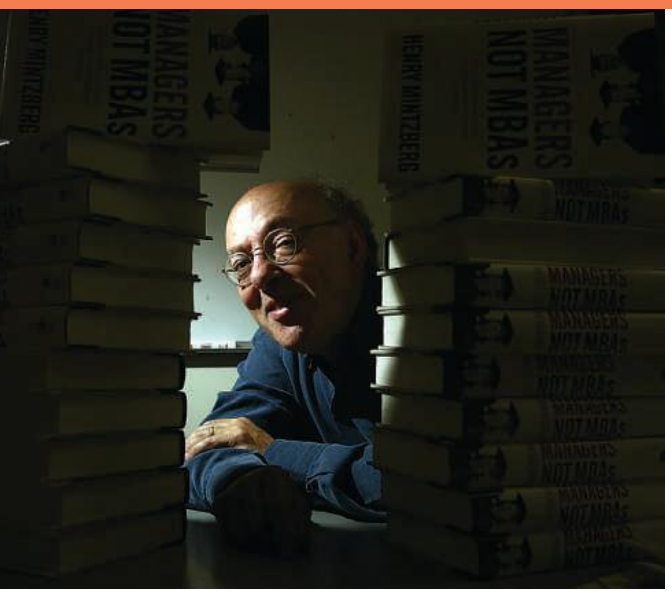


Figure 3.18 Leading management theorist Henry Mintzberg

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

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

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

Table 3.7 Goleman's emotional intelligence model

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

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

Table 3.8 Five competencies linked to excellent leadership skills

Essential competencies	Explanation
Emotional self-awareness	Knowing what one is feeling at any given time and understanding the impact those moods have on others
Self-regulation	Controlling or redirecting one's emotions, anticipating consequences before acting on impulse
Motivation	Utilising emotional factors to achieve goals, enjoying the learning process and persevering in the face of obstacles
Empathy	Sensing the emotions of others
Social skills	Managing relationships, inspiring others and inducing desired responses from them

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

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

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

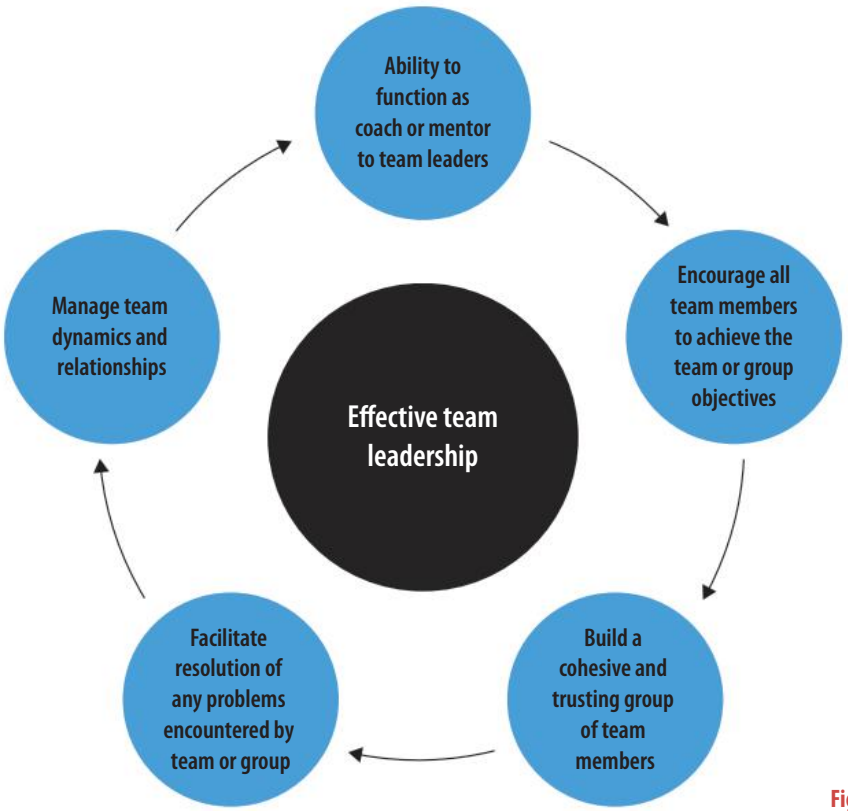


Figure 3.19 Team leadership skills

Teamwork is best understood as a set of behaviours that two or more people demonstrate when working on some common task or pursuing a common objective. Employees are more likely to share the vision and objectives of a business if they participate as a team, particularly in the problem-solving and the decision-making processes. When people listen carefully to each other, seek and take seriously each other's opinions, and make use of each other's competencies and expertise, they are involved in teamwork. Teamwork encourages open communication, improves morale, workplace cooperation and productivity, and develops a positive corporate culture. Team leadership skills are therefore important for a manager to be able to guide and direct this powerful business tool, namely, teams.



Figure 3.20 TEAM – together everyone achieves more

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ACTIVITY 3.7

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

Decision-making

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

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

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

Using a systematic process when trying to reach a decision reduces the likelihood of overlooking important factors that should be considered. Set out in Table 3.9 is a six-step process for effective decision-making. The decision-making skill requires managers to recognise problems and then become resourceful in seeking help from others to think critically, creatively and reflectively, and to adapt to alternative solutions. Managers who undertake this process understand that a quick solution will not work to resolve a complex issue. They spend time analysing the problem from all angles and are open and honest in communicating with those involved.

Figure 3.21 In some cases, decision-making may be difficult and require more time to be put into the process.



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Table 3.9 Systematic approach to decision-making

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

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

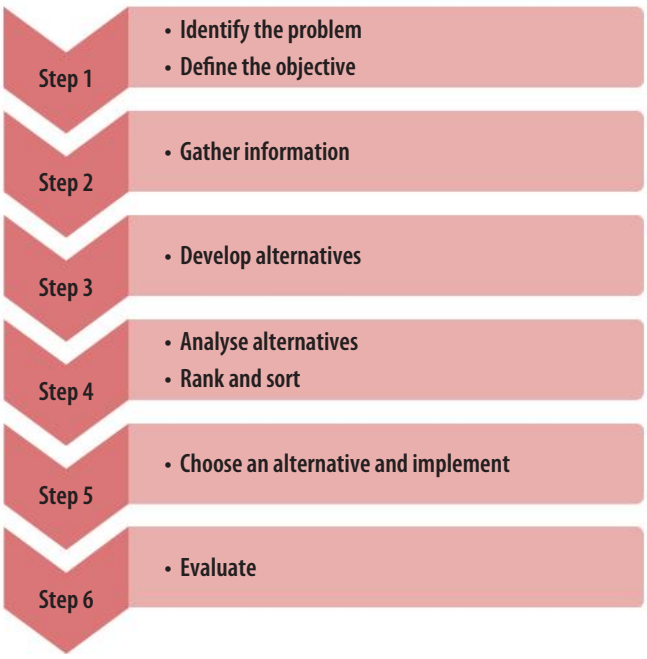


Figure 3.22 Decision-making steps

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ACTIVITY 3.8

Scenario

Oaktree is a nursery operating in regional Victoria. The business has been run by horticulturalist Andrew and his wife Jacqueline for 15 years. Over the years, they have built up the business and are well known in the area for the quality of their plants and also for the advice they give to gardeners. They now need to decide whether to keep the business as a nursery or broaden its operation to include a cafe where people can come and enjoy meals throughout the day. Jacqueline is happy to be responsible for running that side of the business. She believes that by opening the cafe they will attract not only locals but also 'day-trippers' as their town is only 90 minutes from Melbourne. Operating as both a garden centre and a cafe will provide Oaktree with dual income streams; however, consideration needs to be given to the cost involved in setting up this new venture.

Task

The owners of Oaktree, Andrew and Jacqueline, have asked you to assist them to decide whether they should undertake this new venture. Demonstrate your understanding of decision-making by including the theoretical steps of the decision-making process as well as linking each step to the scenario.

Interpersonal

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

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

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

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

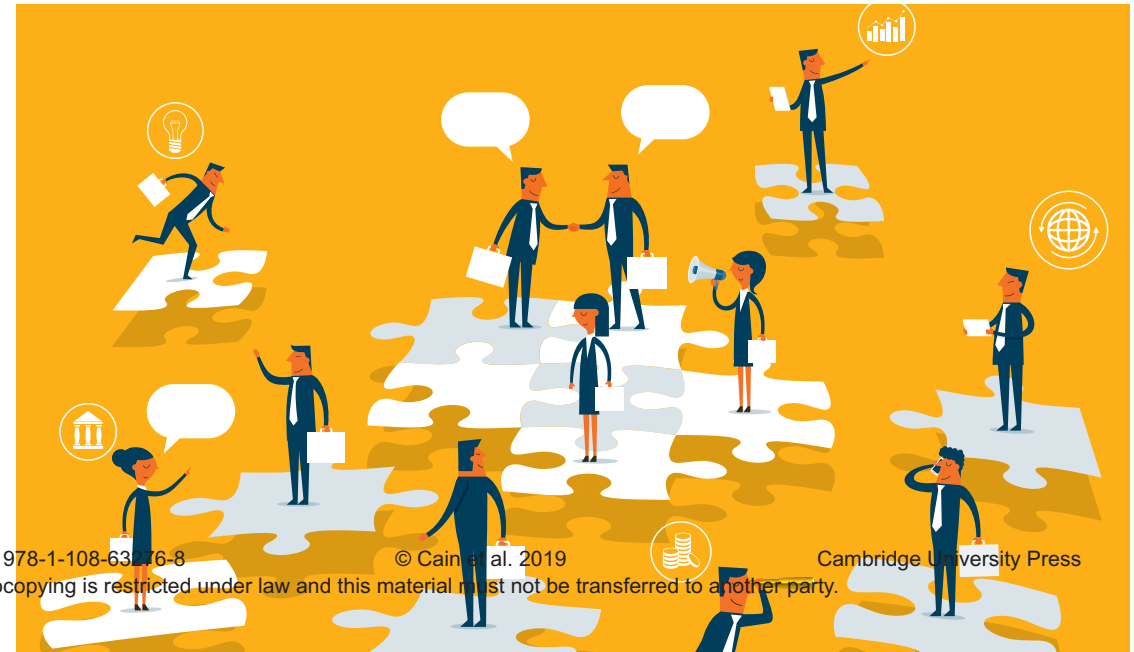


Figure 3.23 Interpersonal skills require communication and understanding on all levels.

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

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

Time management

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

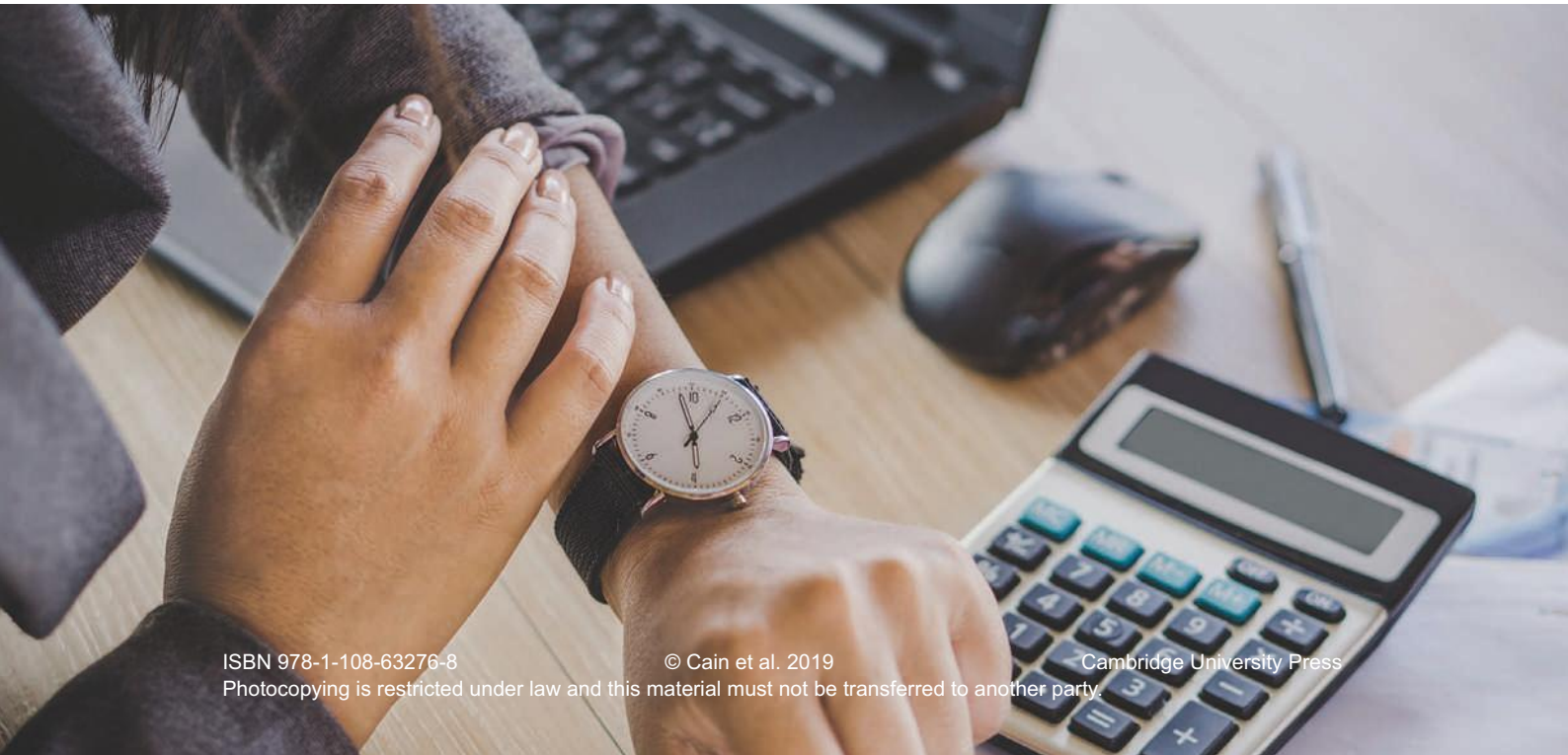
time management the efficient utilisation of work time, which involves setting and prioritising tasks, allocating time and avoiding time-wasting activities

There are three types of work time:

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

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

Figure 3.24 Time management involves efficient utilisation of work time.



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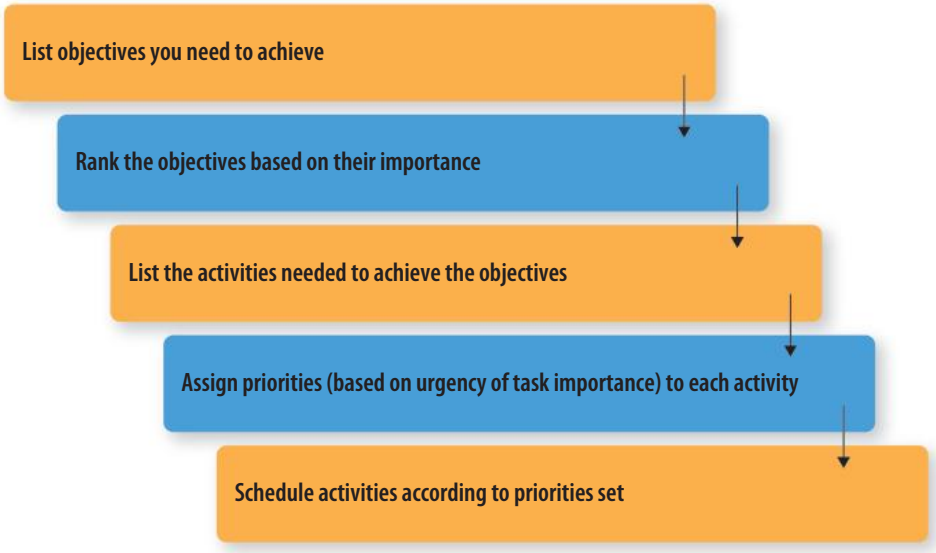


Figure 3.25 A systematic approach to time management

To be skilled in time management requires a combination of a systematic approach and one of self-discipline. This systematic approach involves five steps, as set out in Figure 3.25.

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

Stress management

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

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

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

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

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

Stress can have a major effect on work performance. Some of the consequences include absenteeism, diminished performance, negative attitude and cynicism, decline in commitment

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Figure 3.26 Workers can experience stress when they feel they have no control over their workload.

and creativity, and a decreased ability to concentrate, learn and interact with other employees. It will also have a direct impact on the bottom line of a business (i.e. profit), as stressed employees will cost the business due to lost productivity, poor motivation and staff absenteeism. PricewaterhouseCoopers, in a report published in 2017, estimated that staff absenteeism was costing Australian workplaces $4.7 billion per annum, while presenteeism (turning up to work but not really being effective) cost workplaces $6.1 billion per annum.

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

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

Analytical skills

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

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

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

Technical skills

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

Technical skills include the knowledge of and proficiency in a certain specialised field; for example, accounting, legal, marketing, information technology. Front-line and middle managers are heavily involved in the technical aspects of the operations of a business. The higher a manager progresses up the management hierarchy, the less important the technical

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skills become on a daily basis. Senior management will, however, draw upon their technical expertise when coming to grips with concepts and analysing key business plans and decisions. In addition to their original area of technical expertise, many senior managers complete higher qualifications in business administration from major business schools, such as a master's degree from Harvard University, the University of Melbourne or Monash University.

ACTIVITY 3.9

1 Construct a list of the key elements in your life that take up most of your time. Draw up a table with two columns and sort these elements into essential and non-essential activities. Use this table to identify places where you could avoid time-wasting, and propose ways to improve your productivity.
2 Recall a moment in which you felt particularly stressed at school or at work. Identify how this stress impacted on your ability to complete specific tasks and fulfil your responsibilities.

3.3 The relationship between management styles and management skills

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

Set out in Table 3.10 are a range of situations where managers would need to determine which management style, and related skills, was appropriate for the given situation. It is also important to assess the effectiveness of a manager in their role in terms of managing both the tasks to be completed and the staff for whom they are responsible.

Table 3.10 Areas of assessment of a manager's effectiveness

Area	Style	Skill
Outcomes/results based on objectives	Did the manager adopt an appropriate style to ensure that the outcomes were reached in an ethical manner? Was the style chosen focused on task achievement?	Communication – was it open? Decision-making – centralised or decentralised? Delegating tasks – did it occur, were they for the appropriate tasks? Planning – appropriate levels Leading – did any conflict arise? Interpersonal – were good relationships established and managed?
Relationship with external/ internal environment	Was the correct (appropriate) management style adopted to manage the given situation?	Were the appropriate skills adopted (e.g. communication, interpersonal, decision-making)?
Communication	Did the style chosen permit appropriate communication flow?	Communication flow – was it downward, upward, lateral, open?

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Motivation and job satisfaction of staff	Was the management style chosen appropriate to ensure that workers (subordinates) were motivated to achieve? Were the correct motivational strategies implemented?	Were the manager's subordinates satisfied with their jobs and motivated to work? Were the tasks delegated by the manager appropriate? Did the manager lead the subordinates adequately, so creating a good relationship between the manager and the subordinates?
Level of teamwork within the business	Did the style chosen encourage this approach?	Did the manager show team leadership? What level of decentralised decision-making occurred?
Staff absenteeism and staff turnover (i.e. level of staff satisfaction)	How did the level of staff absenteeism compare with other business units within the business and industry (in general)?	What skills were implemented to create a harmonious and productive workplace?
Training and development opportunities for staff	Did the style chosen encourage staff training and development?	Did the manager make available and oversee these areas for staff development?
Performance appraisal	Was the management style appropriate for ensuring that employees could demonstrate their strengths and assist them to overcome any weaknesses?	Communication – was it open and did it encourage honesty by all parties? Time management – did the manager allow sufficient time to work with employees to set goals and then provide feedback?



CASE STUDY **3.2**

Joanne Brown – Store Operations Director of ALDI Australia

Joanne Brown, Store Operations Director, strives to develop emotional intelligence in her team at ALDI Australia by fostering trust and providing feedback while also celebrating her team's wins and achievements. In her role she is responsible for coaching, supporting and leading her team of 10 area managers in Queensland and New South Wales, who in turn are responsible for multiple ALDI stores (usually four to five) and approximately 500 employees.

CONTINUED ITEM

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Figure 3.27 Joanne Brown, Store Operations Director at ALDI Australia

A large part of Joanne's job revolves around supporting her team of area managers. This involves coaching and addressing issues as they arise. She also proactively works to drive career development for employees, as ALDI has a strong commitment to investing in this important area. ALDI's team working environment also means that she works closely with its logistics, property and buying departments.

Joanne adopts a very open and solutions-oriented approach to her leadership style by empowering her team of area managers to ask the right questions and wherever possible encourage them to find the answers themselves rather than telling them how to solve a problem. She believes this approach creates stronger and more independent leaders while also generating trust between the team and herself.

Joanne believes that leadership roles will change according to the needs of a business and at different times. However, the key is to build a strong team – one where everyone feels proud to be a member. Good leaders are results-oriented, possess high levels of emotional intelligence and want to see their people (team) grow and succeed. It is important to have a clear vision and idea of how the team is going to work together to achieve that goal. Clear expectations and boundaries need to be established, your people motivated and achievement of milestones celebrated. It is also important to acknowledge that mistakes are part of our learning experience. The key is to communicate, find solutions and work out how to avoid the mistake happening again.

ANALYSIS

1 Identify and describe the management style that you believe best fits Joanne Brown's approach to her role as Store Operations Director.
2 Identify and describe the management skills that Joanne believes are important to being judged as a successful leader.
3 Describe the characteristics that Joanne Brown believes are important for 'good' leaders.

SAC AND EXAM TIPS – linked to key skills

Analyse and discuss different management styles and management skills necessary for successful business management – requires you to examine the characteristics of the different management styles and skills, their similarities/weaknesses related to success in business.
Evaluate management styles and management skills and their appropriateness for a range of business situations – requires you to use weighted criteria related to specific styles and skills to determine and make judgement of their appropriateness for particular business situations.
Analyse the relationship between corporate culture and management styles and management skills – requires you to examine the relationship that exists between the three areas of key knowledge.

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Chapter summary

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

Chapter summary tasks

1 Define the following terms and use each in a sentence to demonstrate your understanding of the term:
   - **a** management
   - **b** management style
   - **c** autocratic management style
   - **d** persuasive management style
   - **e** consultative management style
   - **f** participative management style
   - **g** laissez-faire management style
   - **h** situational/contingency management approach.



2 Identify ways in which the autocratic management style is similar to the persuasive management style. Identify ways in which the two styles are different.

3 Identify ways in which the consultative management style is similar to the participative management style. Identify ways in which the two styles are different.

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

5 Construct a separate table showing the advantages and disadvantages of each of the five styles.

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6 Identify and describe the management skills that an autocratic manager is likely to use.
7 Identify and describe the management skills that a participative manager is likely to use.
8 Explain what is involved in choosing an appropriate management style for managing a given situation.
9 Evaluate whether adopting an appropriate management style is important if an organisation wants to be effective in achieving its goals and objectives.

Examination preparation

Luigi Bocca is the owner and Chief Executive Officer of an independent boutique supermarket called 'Bocca' located in one of Melbourne's trendy inner suburbs. His shop is designed to cater to the needs of the growing number of people living in inner-city apartments as well as people still living in homes that they have owned for the last 20 or 30 years. To meet the changing requirements of his customers, Luigi is now stocking a vast range of organic products alongside the traditional offerings of fresh meat, fish, delicatessen products, bread, fruit and vegetables. He also offers a wide range of 'grab and go' foods such as sandwiches, salads, sushi and ready-to-eat meals such as lasagne, ravioli, beef and lamb casseroles and curries with rice. The trading hours of Bocca are 8 a.m. until 9 p.m. Monday to Saturday and 10 a.m. until 7 p.m. on Sunday.

Luigi opened Bocca in the early 1990s and since then the sales revenue of the business has been steadily increasing. He also expanded the size of the store to now have a large retail footprint. Luigi is now starting to think about reducing his working hours and ultimately his retirement. He would like to spend more time travelling within Australia and back to Italy with his wife Louisa. To make this transition happen, he knows that he needs to start sharing his management role with other staff members, thus expanding the current management team, which is made up of his daughter Annabel in the role of Finance Manager and Accountant, his eldest son Joseph in charge of the store's IT systems, and his youngest son Alberto, who is the Operations Manager.

The store employs 20 full-time staff who have worked at Bocca since its opening. These employees have a very good understanding of how the business operates and act as supervisors for the casual staff. Many of the full-time staff are advancing in age and are also thinking of transitioning to retirement and will need to be replaced. The remaining members of staff work on a casual basis. Some are students whose work rosters are arranged around their study commitments at university or TAFE. Others are local people (male and female) who want to work hours that fit around their family commitments.

1 **Define** the terms 'management style' and 'management skill'. **(2 marks)**
2 **Recommend** a management style for Luigi to adopt to manage the expansion of his management team. **Identify** two characteristics of this management style. **(3 marks)**
3 **Explain** one advantage and one disadvantage of using this style. **(2 marks)**
4 **Describe** two management skills that Luigi would need to use when organising the expansion of his management team. **Justify** their use in this situation. **(4 marks)**
5 **Identify** two criteria that could be used to evaluate whether the management style and skills proposed to be used by Luigi have been successful. **(4 marks)**

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Part 2
Area of Study 2
MANAGING EMPLOYEES

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 2

On completion of this unit the student 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.

To achieve this outcome the student will draw on key knowledge (listed at the start of each chapter) and key skills outlined in Area of Study 2.

Key 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: VCAA, *VCE Business Management Study Design 2017–2021*, p. 17.)

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Chapter 4
Employees: business objectives and motivation

Overview

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

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Key terms

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

Key knowledge

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

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

What's ahead

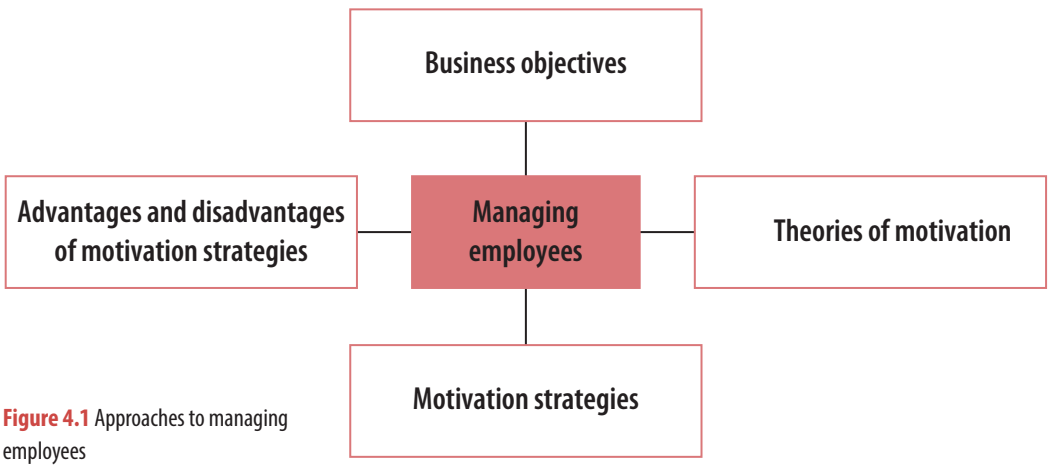


Figure 4.1 Approaches to managing employees

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4.1 The relationship between managing employees and achieving business objectives

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

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

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

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

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

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

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

Figure 4.2 The right employees are central to business success.



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

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

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

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

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

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

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

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



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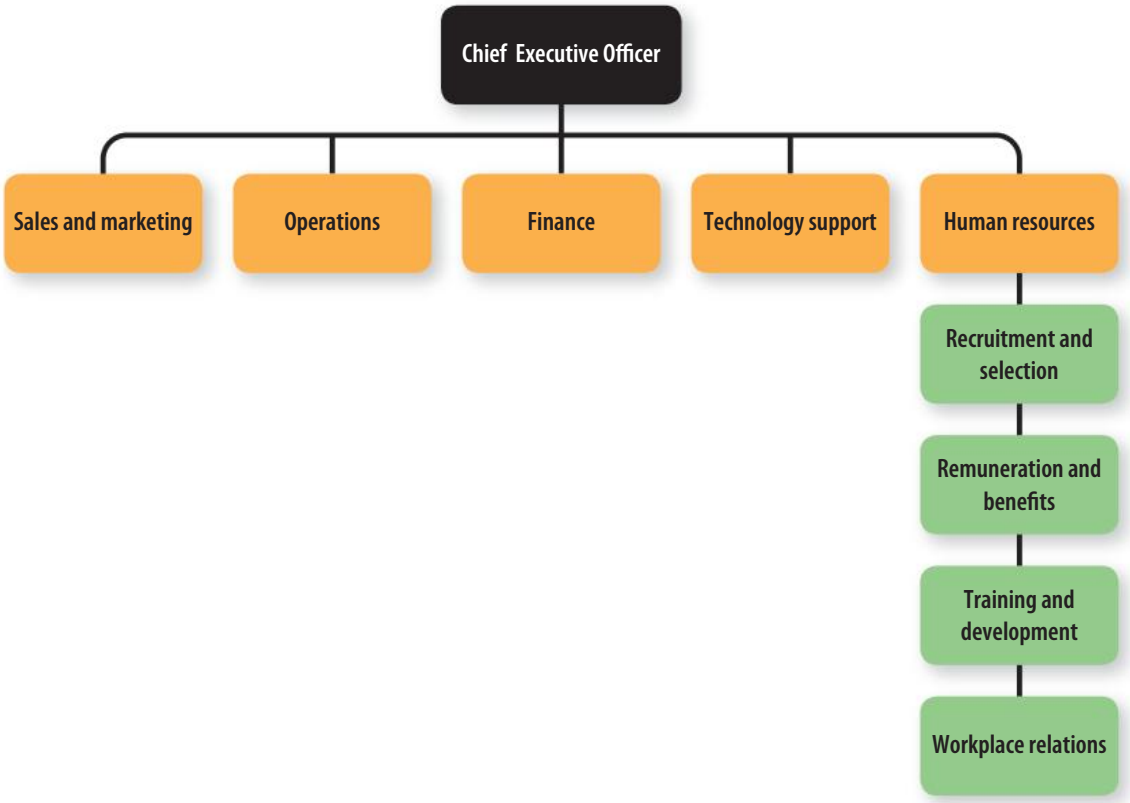


Figure 4.4 Organisational chart showing HRM as a divisional unit, part of a functional structure layout

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

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

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



Figure 4.5 SMART goals allow employees to operate to their full potential.

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

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

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

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

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

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

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

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



Figure 4.6 A motivated and engaged employee's impact on a business – performance and productivity up, staff absenteeism down

ACTIVITY 4.1

1 Identify potential problems that small businesses may run into if they do not have a designated human resources department.
2 Outline the four key roles within a human resources department and explain their significance to the smooth running of a business.
3 In pairs, brainstorm and identify some of the positive flow-on effects when employees are tasked with clear objectives and goals.

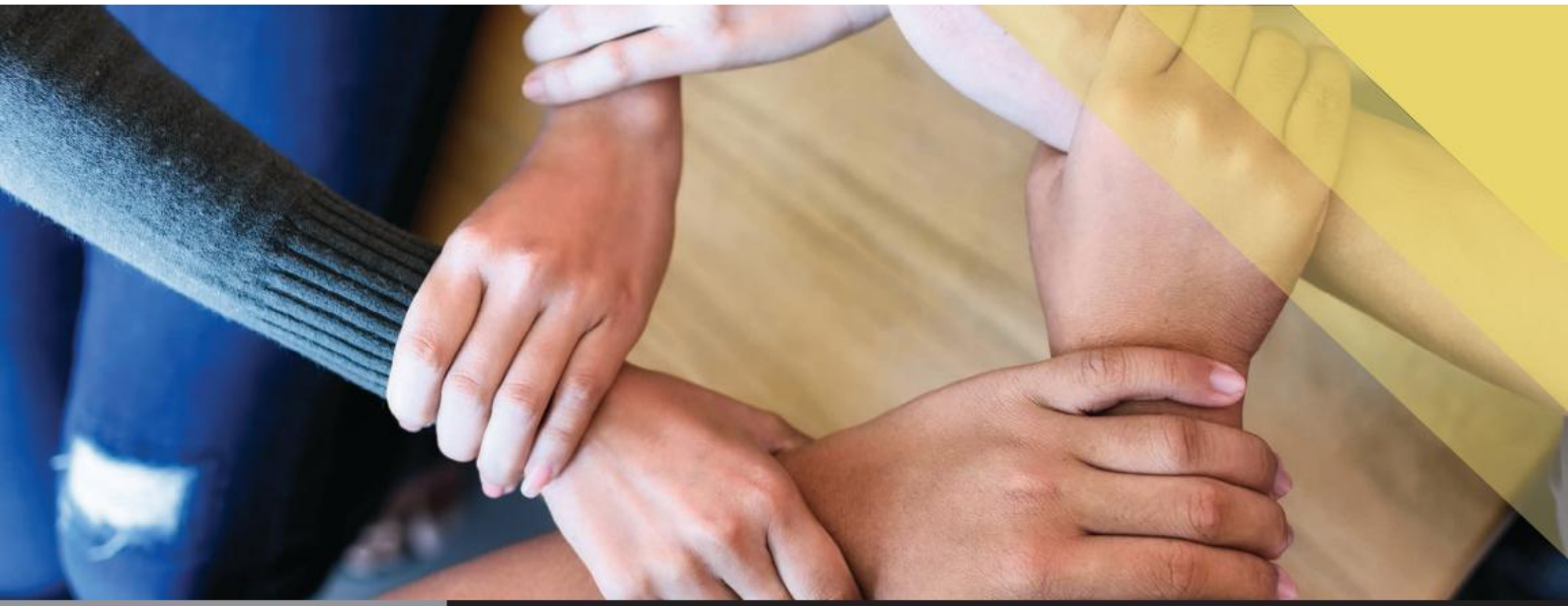
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4.2 Motivation

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

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

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



CASE STUDY 4.1

Teamwork as a motivator: ALDI Australia

Bronwyn Post joined ALDI at the end of 2002 as an Area Manager. The following year, she was promoted to Buying Director, managing a range of products that included homeware, chocolates and confectionery. Six years later, she was promoted to Group Buying Director responsible for managing a team of up to seven people. She has been involved in additional projects, such as ALDI's 'Special Buys' strategy and the redesign of store format of the ALDI stores that is currently being rolled out nationally.

In her current role, she is responsible for 50 ALDI stores across Queensland and has seven directors who work in the areas of logistics, store operations, property and purchasing reporting to her. She believes in creating a strong team of people around her and adopts a collaborative leadership and management style to achieve this. She works hard to create a cohesive team because she believes that if one part of the business is facing challenges, all parts of the business will be impacted.

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Encouraging collaboration and teamwork across all her areas of responsibility and then celebrating success, no matter how small, is the way she keeps her team motivated. This will result in achievement of both personal and business key performance indicators.

ANALYSIS

1 Identify and describe the management style Bronwyn Post adopts to manage and lead her team of 1000 employees.
2 Describe the strategies Bronwyn uses to motivate her team to ensure personal and business success.

Key principles of three theories of motivation

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

Hierarchy of Needs (Maslow)

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

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

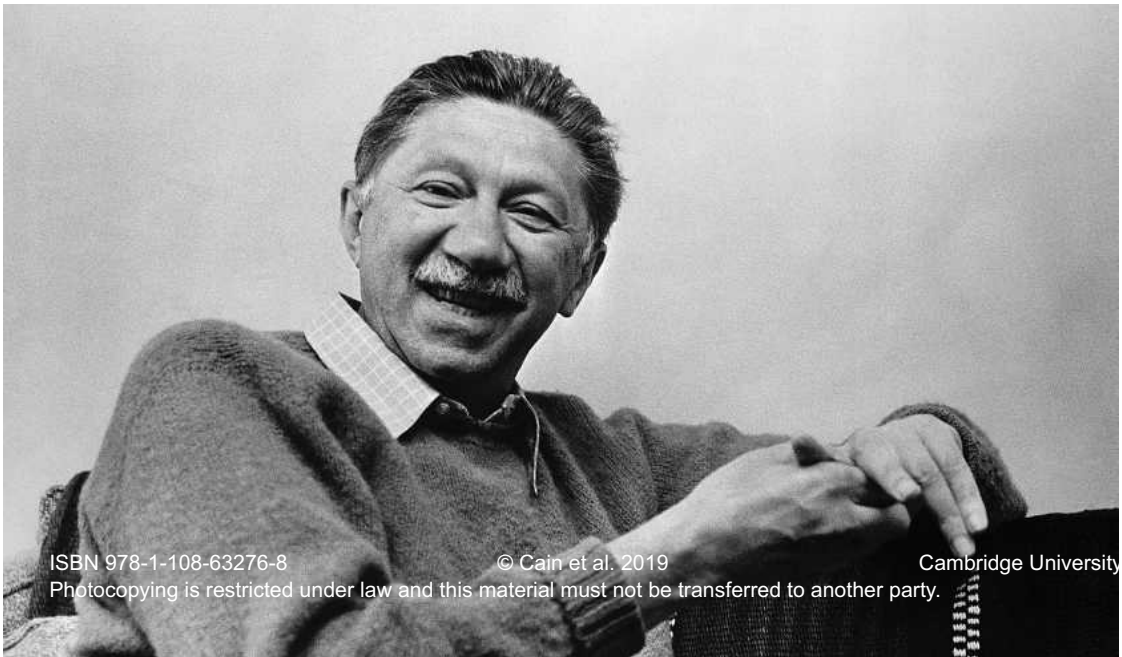


Figure 4.7
Psychologist Abraham Maslow

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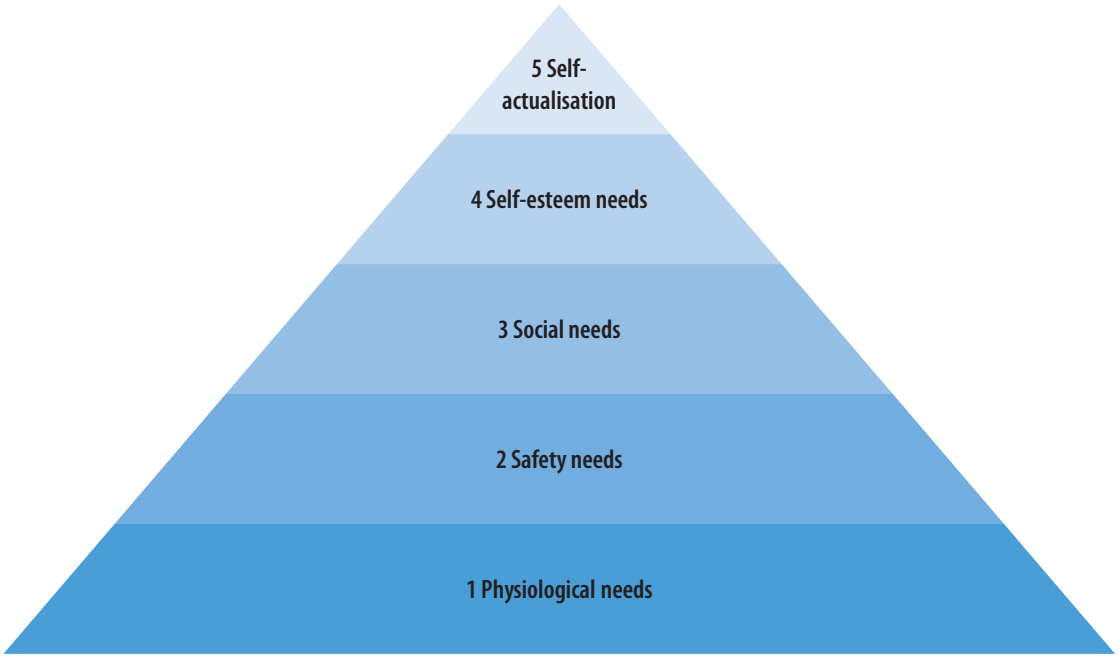


Figure 4.8 Maslow's five-step Hierarchy of Needs

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

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

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

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

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Goal Setting Theory (Locke and Latham)

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

In the late 1960s, Edwin Locke and Gary Latham developed the **Goal Setting Theory** when they began looking at the importance of goal setting in motivation. It was noted that the setting of goals leads to increased effort, task focus and persistence of individuals. This 'open theory' relating to motivation has been adopted by businesses as an approach that can be used to motivate an individual employee or a team. According to Locke and Latham, there are five goal setting principles that should be applied to an individual's personal and team goals.

1 **Setting clear goals:** When establishing the goals for an employee, the SMART principle can be used. Adopting this principle ensures clarity of the goals being set and will allow for accurate measuring of their achievement and for rewards to be determined. For example, an unclear objective would be: To reduce the number of days lost to downtime of machinery. In contrast, a clear objective would be: To reduce the number of production days lost to machinery downtime in 2020 by 15%.

2 **Setting challenging (but achievable) goals:** The correct balance needs to be achieved when setting goals, as it has been found that goals that are either too easy or too difficult can have a negative impact on both motivation and performance. The goals also need to be realistic.

3 **Secure commitment to goals:** To ensure that an employee is committed to achieving a personal goal, they need to be involved, fully understand and agree to the goal being set. This will involve the employee and their manager meeting to discuss the goal and potentially formulating it together. This strategy is also relevant for setting goals for a team, as team members are more likely to work harder to achieve a goal if they have had some involvement in setting it. A manager who adopts a participative or consultative management style will find their approach to managing their employees will best suit this situation.

4 **Provide feedback:** Listening to feedback not only acts to determine how well the employee or team is progressing in achieving their goal, it also helps to determine whether the correct goal was set or needs adjustment. Regular feedback provides opportunities for expectation clarification, adjusting the level of difficulty of the goal and gaining recognition.

5 **Complexity of task:** A goal that is too complex and overwhelming can have a negative impact on employee and team morale and decrease productivity and motivation levels. To overcome this problem, break the goals into smaller (sub-goals) and make them less difficult. Lack of accomplishment of goals can lead to job dissatisfaction and a lowering of employee engagement.

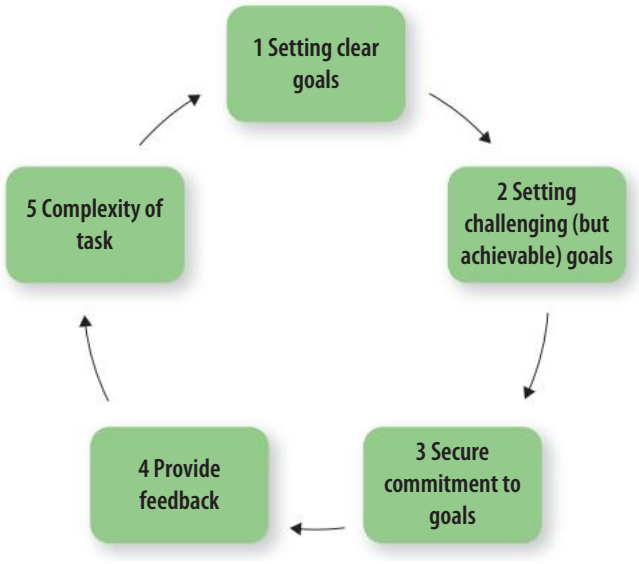


Figure 4.9 Locke and Latham's five principles of goal setting

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

- management by objectives (MBO)
- management information systems (MIS), a computer-based system that provides managers in a business with the tools to organise, manage and evaluate their department
- benchmarking, the process where the practices and performance of a business are compared to the best practice of other companies or an industry standard
- stretch targets, goals that are high and difficult for an employee to achieve. Achieving these targets confirms the employee has gone beyond satisfactory completion of their work tasks.
- strategic planning, the process undertaken by a business to define its strategy or direction. It involves making decisions about what resources need to be allocated to pursue this strategy.

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

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

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

Four Drive Theory (Lawrence and Nohria)

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

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

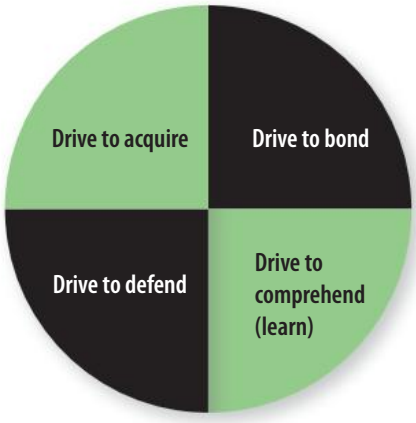


Figure 4.11 The Four Drive Theory

The four drives (needs) are:

1. **The drive to acquire:** This can be regarded as both a basic and complex need. For instance, basic as it relates to an individual gathering the necessities for survival (e.g. clothing, housing, money); complex when it relates to the acquiring of status, accomplishments and power (e.g. promotion and a private office).
2. **The drive to bond:** We all need to find, connect and seek others, whether it is family, peer groups or being part of a business, association and our nation. Motivation receives an enormous boost when employees feel proud to belong to a business, but this plummets if the business does something to betray this feeling of pride.

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3 **The drive to comprehend (learn):** People need to make sense of the world around them and contribute to it. This directly links to why learning and work both engage and energise employees.
4 **The drive to defend:** This stems from our natural instinct to defend ourselves, family and friends, property and our accomplishments, beliefs and ideas against external threats (i.e. fight–flight response). This drive directly links to people's fear and resistance to change.

This theory is based on an understanding of human psychology, and the relative strength of each drive therefore differs between individuals over time. Should one drive dominate, an imbalance can occur between the personal and business outcomes. For instance, should an employee's drive to acquire become too strong, this may lead to a situation of being over-competitive and then negatively impacting on their work team. In addition, the four drives act independently of each other, unlike the Hierarchy of Needs, where you must satisfy one level to move to the next one in the hierarchy. You cannot, however, substitute one drive for another. For instance, paying employees a large wage or salary will satisfy their drive to acquire, while it will ignore their drive to bond.

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

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

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

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

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ACTIVITY 4.2

1 Chris owns and operates a newsagency in country Victoria employing four full-time and six part-time staff. He knows that Robyn, one of his long-serving full-time employees, earns sufficient money to satisfy her basic survival needs and that she has made friends and socialises with her fellow workers. Chris is wondering what factor (from the list below derived from Maslow's theory) he should now consider to motivate Robyn to enhance her job performance and commitment to his business.
   - a Promote her to week-day supervisor of staff.
   - b Involve her in decisions relating to stock to be ordered for the newsagency.
   - c Make her responsible for organising employee activities.
   - d Increase the rate of employer contribution to her superannuation scheme.

2 Identify which of the following is *not* a category of needs identified by Maslow:
   - a self-actualisation
   - b safety
   - c learning
   - d self-esteem
   - e social.

3 Identify which of the following is *not* a category of needs identified by the Four Drive Theory:
   - a drive to bond
   - b drive to exist
   - c drive to acquire
   - d drive to learn
   - e drive to defend.

4 Identify which of the following is *not* a characteristic of effective goals:
   - a specific
   - b relevant
   - c challenging
   - d complexity
   - e feedback.

5 Effective goals:
   - a can be set for both individuals and teams
   - b are specific rather than general
   - c are challenging rather than easy
   - d are all of the above
   - e are only 'a' and 'c'.

6 Determine whether these statements are true or false:
   - a A satisfied need does not motivate.
   - b The need for self-esteem appears at the top of Maslow's Hierarchy of Needs.
   - c Goal setting is more effective when only the manager participates in the setting of goals.

SAC AND EXAM TIPS – linked to key skills

Explain theories of motivation and apply them to a range of contexts – requires you to make the meaning of the theory or theories clear, detailed and understandable, and then to use the theory or theories to assist in a practical example or situation.

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4.3 Motivation strategies

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

Performance-related pay

Performance-related pay is a financial reward to employees whose work is considered to have reached a required standard or is even above standard. This financial reward could also be given to the work group to which the employee belongs. The increased performance could be recognised and rewarded in the monetary form of:

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

- sales commission – an amount paid to a salesperson for a particular sale, calculated as a percentage of the sale price
- payment of a bonus – a one-off payment to an employee or team as a reward for meeting or exceeding preset targets
- profit sharing – employees receive a percentage of the profit made by the business
- share allocation (in a company) – employees are given the opportunity to purchase shares at a discounted price or may be granted shares in recognition of increased productivity and profits.

There are several common features of performance-related schemes:

appraisal any method of evaluating the performance of an employee against preset targets

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

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

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Figure 4.12 Bonuses reward employees for reaching or exceeding targets.

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

Table 4.3 Advantages and disadvantages of performance-related pay

Advantages	Disadvantages
Provides a direct financial reward to an employee	Reduces equality in employees' pay
Tangible way of recognising achievement	Generates a 'performer' culture, which can lead to jealousy and lower morale levels
Encourages goal setting to be not too hard	Acts to demotivate if goals set are too challenging
Can improve productivity levels	Difficult to measure productivity levels in some types of jobs Danger of sacrificing safety and quality in order to increase quantity
Rewards best performance and does not need to be paid to those underperforming	Short-term focus – quantifiable goals
Financial rewards only need to be paid when business is profitable	

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

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

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

Career advancement

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

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

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

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

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

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

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

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

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

Table 4.4 Advantages and disadvantages of promotion as a motivator

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

Investment in training

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

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

Table 4.5 Advantages and disadvantages of training

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

Support

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

Table 4.6 Advantages and disadvantages of support

Advantages	Disadvantages
Employees who feel supported by their manager or a mentor within the business are likely to work more diligently	Support needs a positive corporate culture at the business
Providing support can act as both a short-term and a long-term motivator	Support relies on manager exercising good communication skills
Support in the form of Employee Assistance Programs (EAP) can provide confidential assistance to employees who are experiencing problems that may be affecting their level of performance	Confidential nature of an EAP can mean that a manager may not be aware of the problems being experienced by the employee
Support does not have to cost the business money	

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Sanctions

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

Table 4.7 Advantages and disadvantages of sanctions

Advantages	Disadvantages
Sanctions can act as a short-term motivator for some employees	Imposing sanctions acts only as a potential short-term motivator
The fear created by sanctions may bring some other under-performing employees into line	Can cause resentment among employees; possibility of dispute or legal action following imposition of sanctions



CASE STUDY **4.2**

Motivation strategies of employers: Qantas

QANTAS NAMED MOST ATTRACTIVE EMPLOYER IN AUSTRALIA IN 2017

Qantas employs approximately 30 000 people around Australia and ranks number 19 of the top 2000 companies in Australia. Qantas is known for its strong workplace culture and was voted most attractive employer nationwide at the 2017 Randstad Awards. Alan Joyce, CEO of Qantas, has led the company to now become a financially viable international and domestic air transportation business.

CONTINUED ITEM

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

Qantas offers its employees:

- competitive pay – linked to continuous reviews of market labour rates
- performance-based rewards – remuneration reviews linked to performance
- team member development – conducting in-house learning and development programs
- diverse career paths across all the Qantas group
- travel – travel benefits for employees and their families (domestic and international)
- engagement surveys – to provide feedback and identify any areas where action needs to be taken
- Employee Assistance Program – 24-hour support for team members and their families
- paid parental and adoption leave (14 weeks) and domestic violence leave (10 days)
- study programs and assistance linked to all job areas
- salary sacrifice options – options such as novated leases for vehicles
- global brand – tap into the diverse offerings of the Qantas group.

Qantas has undergone severe financial problems in the past decade, which required management to communicate and work closely with staff members to ensure they remain loyal and motivated. Staff were asked to undergo an 18-month pay freeze to assist the business to improve its financial performance. This was successful, with staff receiving a pay increase of 1.5% in January 2018, a further 3% in July 2018 and an additional 3% in July 2019.

Qantas is a business with a social conscience, an example of this being that it was one of the first businesses to grant staff members leave for coping with domestic violence situations, a move that recognises problems and helps staff to feel valued and supported.

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

To better train and provide development and progression for its staff, Qantas offers numerous training programs across different skills from technical and safety skills development to customer service. Taking this approach and investing in training and development for staff members improves quality standards both in the air and on the ground while also giving purpose to its employees.



Figure 4.13 Qantas plane with Indigenous livery

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Qantas CEO Alan Joyce feels very strongly about staff motivation and believes Qantas encourages its staff to always look ahead and think about what is next for them within the company. He also believes in engaging staff in community causes and corporate events so that they become more engaged within the workplace as a whole.

ANALYSIS

1 Outline the motivation strategies used by Qantas.
2 Identify the factors that make Qantas a most attractive employer.
3 Outline Alan Joyce's approach to staff motivation.
4 Identify how Qantas collects feedback from staff.
5 With reference to Qantas, describe the relationship between employee motivation and increased performance.

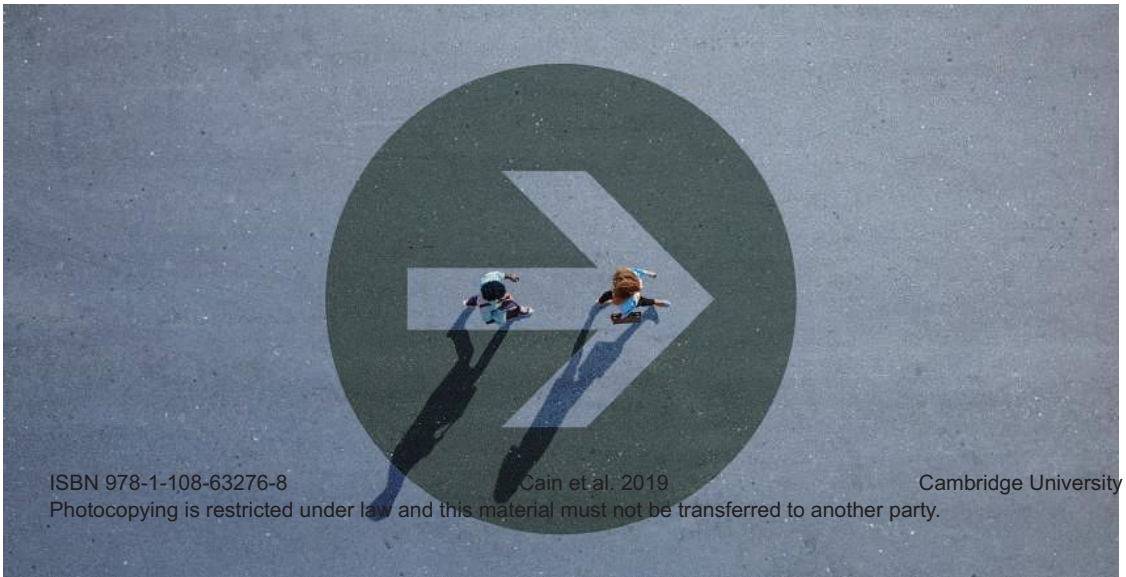
ACTIVITY 4.3

Form groups of four to six students.

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

SAC AND EXAM TIPS – linked to key skills

Compare and evaluate strategies used for motivation when managing a business – requires you to note points of likeness and difference with strategies that can be used to motivate employees and then to make a judgement as to their relative strengths and weaknesses.



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Chapter summary

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

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- Investment in training can create a greater sense of attachment, loyalty and commitment by an employee. If subsequently the business is not able to provide the employee with a suitable job or equipment, this will not act as a motivator.
- Employees who feel supported, encouraged and acknowledged for their work performance will be more motivated to work diligently.
- Sanctions in the form of penalties or discipline can act to motivate some employees in the short term. Once the sanction has been received, the employee should be encouraged to respond to positive motivators to improve their performance.

Chapter summary tasks

1 Define the following terms and use each in a sentence to demonstrate your understanding of the term:
   a motivation
   b career advancement
   c the drive to bond
   d the SMART principle.
2 Identify the correct order of Maslow's Hierarchy of Needs:
   a safety, physiological, social, self-esteem, self-actualisation
   b physiological, safety, social, self-actualisation, self-esteem
   c physiological, safety, social, self-esteem, self-actualisation
   d physiological, social, safety, self-esteem, self-actualisation.
3 Lawrence and Nohria are responsible for:
   a Hierarchy of Needs theory.
   b Four Drive Theory.
   c Goal Setting Theory.
   d management by objectives.
4 Career advancement is regarded as a motivational strategy. Identify and explain two actions a business can take directly related to work tasks (job) that would act to motivate an employee.
5 Explain how an employer can use pay increases, bonuses and commissions to improve the motivation of its employees.

Examination preparation

1 **Compare** the ideas of the following motivational theories: Hierarchy of Needs (Maslow), Goal Setting Theory (Locke and Latham) and the Four Drive Theory (Lawrence and Nohria). **(6 marks)**
2 Using one of these motivational theories, **identify** and **explain** two strategies based on that theory that a human resource manager could implement to motivate staff, resulting in job satisfaction and increased work performance. **(4 marks)**



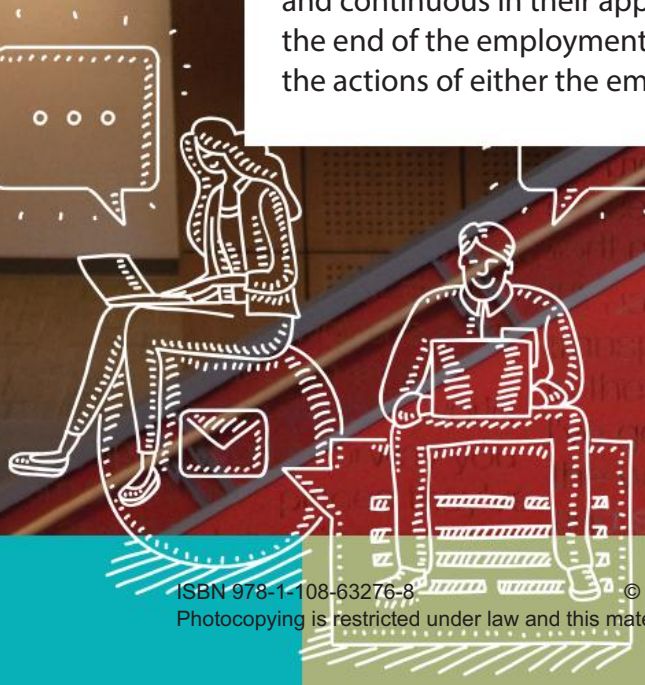
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Chapter 5

Training, performance management and termination management

Overview

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



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Key terms

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

Key knowledge

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

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

What's ahead



Figure 5.1 Approaches to managing employees

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5.1 Training

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

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

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

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

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

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

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

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

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

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



Figure 5.2 Employers see training as a valuable investment in their human resource assets.

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

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



Figure 5.3 Training should be tailored to meet the needs of the individual.

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

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

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

competency the ability to be able to perform a task

On-the-job training methods include:

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



Figure 5.4 Mentoring is a common form of on-the-job training.

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

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

Off-the-job training methods include:

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

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

Advantages	Disadvantages
A wider range of skills can be taught/learned	More expensive if paying course fees, transport and possibly accommodation
Learning from specialists and experts	Lost working time and potential output from employees while on training course
Less opportunity to be interrupted by workplace issues – therefore able to focus on the course/training program	Employees with these new skills/qualifications may leave the business to gain a job elsewhere, possibly for higher pay
Provides opportunity for networking and information-sharing with employees from other businesses or peer groups with similar requirements	Skills acquired may not directly relate to that workplace

ACTIVITY 5.1

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

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CASE STUDY
5.1

Training resilience in a workforce: Bendigo and Adelaide Bank

In March 2017, Bendigo and Adelaide Bank, the fifth biggest retail bank in Australia, launched the Equip program for all its more than 7000 employees. Described as a resilience toolkit, Equip is one of the most significant investments in staff training, boosting skills in resilience and well-being when faced with change or adversity. One of the main focus areas for the bank is 'developing their people', as the bank believes its employees are its greatest asset. In 2017, staff at Bendigo and Adelaide Bank were engaged in almost 97 000 hours of training. The bank recognises that resilient people are happier, healthier and better able to cope in trying times, at work and at home.

Equip comprises four training modules delivered over a 12-month period, with a training module being undertaken each quarter. Fifty accredited in-house trainers facilitate the program, with more than 200 coaches supporting the program's delivery to the bank's employees.

Feedback about the training has been positive, with comments such as: 'My ability to focus, prioritisation skills and personal interactions have improved, not only at work but also at home' and 'The program allows you to take back control of how you react to any situation. It allows you to make better decisions, have a healthier, happier life, ultimately producing more engaged and productive staff – and this all leads to happy customers, partners, and community'.

(Source: Based on 'Interim Review 2018', Bendigo and Adelaide Bank website.)

ANALYSIS

Evaluate whether you believe the commitment that the Bendigo and Adelaide Bank is demonstrating to training staff with the Equip resilience toolkit will result in an increase in employee performance for the bank.

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5.2 Performance management

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

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

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

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

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

Management by objectives

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



Figure 5.5 Performance management can be a difficult thing to monitor but is an important process for businesses and employees.

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

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

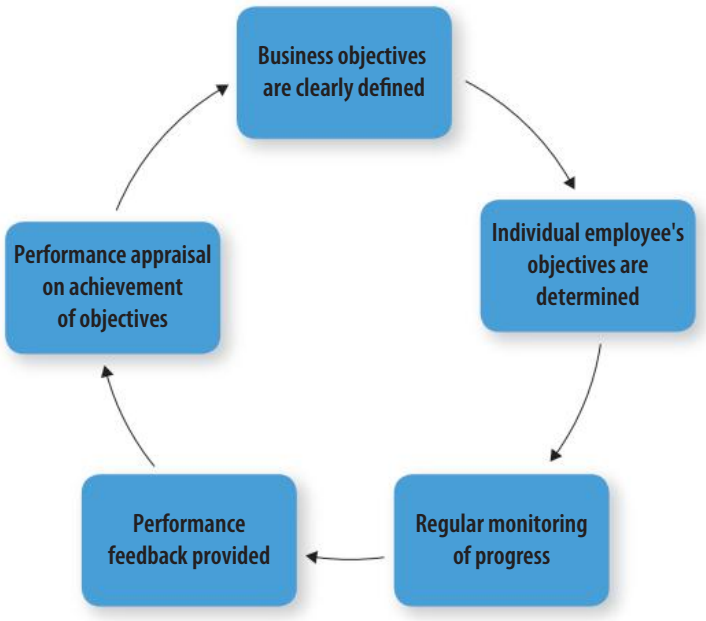


Figure 5.6 Management by objectives process

Appraisals

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

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

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

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

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

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Figure 5.7 Appraisals allow employees and employers to check in on performance levels and objectives.

Self-evaluation

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

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

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

Employee observation

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

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

Table 5.3 Example of an annual performance management cycle

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

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5.3 Termination management

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

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

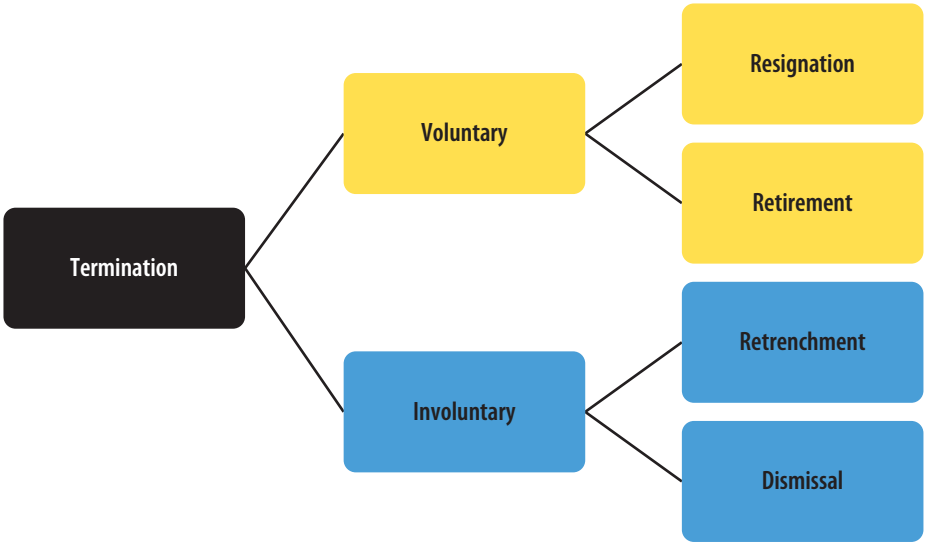


Figure 5.8 Termination types

Voluntary termination methods

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

Another form of voluntary termination is **retirement**, which occurs when an employee decides to leave the paid workforce. It is not only associated with 'older' employees; it can also be younger employees who have decided they no longer wish or need to work. The employee

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

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

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

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must advise their employer in writing of their intention to retire. While a period of notice must be given by the employee, it often happens that the end date is negotiated between the parties, such as at the end of a calendar year or financial year. For long-serving employees, this allows the business to make arrangements for a farewell function to be held to recognise the employee's contribution to the business.

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

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

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

Involuntary termination methods

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

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

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

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

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

Table 5.4 Minimum notice periods according to the *Fair Work Act 2009*

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

'To be retrenched' is the expression used to describe what occurs to an employee when their job becomes redundant. In these circumstances, employees are also entitled to severance or redundancy payments as their dismissal is based on commercial and economic conditions. The

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National Employment Standards (NES) set out the scale of redundancy payments. Employees may also be entitled to additional payments if these have been negotiated as part of their enterprise agreement.

Table 5.5 NES scale of redundancy payments

Length of service	Number of weeks redundancy pay
Less than 1 year of continuous service	Nil
At least 1 year but less than 2 years continuous service	4 weeks
At least 2 years but less than 3 years continuous service	6 weeks
At least 3 years but less than 4 years continuous service	7 weeks
At least 4 years but less than 5 years continuous service	8 weeks
At least 5 years but less than 6 years continuous service	10 weeks
At least 6 years but less than 7 years continuous service	11 weeks
At least 7 years but less than 8 years continuous service	13 weeks
At least 8 years but less than 9 years continuous service	14 weeks
At least 9 years but less than 10 years continuous service	16 weeks
At least 10 years continuous service	12 weeks

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



Figure 5.9 When an employee becomes redundant, they are usually entitled to severance pay.

ACTIVITY 5.2

Is this fair and equitable?

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

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

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dismissal termination of an employment contract due to incompetence or indiscipline

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

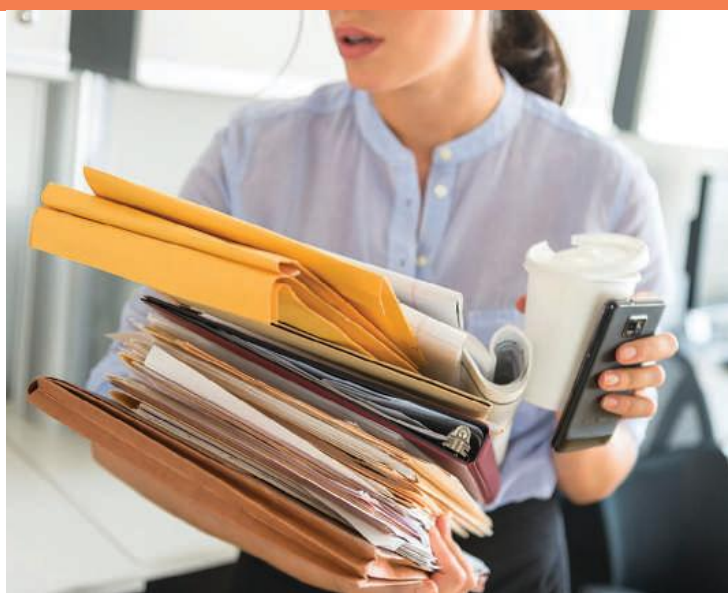


Figure 5.10 Increased workload for remaining staff is a negative effect of involuntary employee departure.

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

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

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

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

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

An employee is eligible to make an application to the **Fair Work Commission (FWC)** for **unfair dismissal** if they have completed the minimum employment period of one year if the business is small (i.e. fewer than 15 employees) or six months for other employers. In addition, they need to either be covered by an award or collective (enterprise) agreement and earn less than the high-income threshold of $142 000 per annum (2017/2018). The employee must believe that their employment was terminated for harsh, unjust or unreasonable reasons. The employee needs to apply to the FWC within 21 days after their dismissal takes effect. When considering the case, the FWC must take into account:

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

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The FWC first tries to conciliate the matter by helping both sides to resolve the matter by mutual agreement. If a resolution cannot be reached, an arbitration hearing will be held. Should it be found that the dismissal was unfair, the FWC can order the employer to reinstate the employee (i.e. give them back their job) or compensate them for up to 26 weeks' pay. In the period 1 July 2016 to 30 June 2017, 41% of applications for arbitration to the FWC were dismissed on the grounds that the dismissal was not found to be unfair.

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



CASE STUDY **5.2**

Termination management: confrontational behaviour justified dismissal

BACKGROUND

Mr K was employed by St John of God Health Care Inc. as a registered nurse from October 2014 until he was dismissed in April 2017. He had been provided with feedback concerning his behaviour, which included him raising his voice and asking questions without affording an opportunity for another person to give their perspective. He also received a warning in July 2016 after he provided co-workers with confidential and sensitive file notes written by a supervisor about their performance. There had been a long-standing personal relationship between Mr K and a supervisor, Mr J, which over time had soured to the point that Mr K had decided not to speak to Mr J for a period of time. One incident occurred between the parties that involved swearing and a confrontational challenge regarding work allocation. The employer required Mr K to work in accordance with its values of respect and justice. The value of respect required all caregivers to use language that did not offend or demean a person's dignity and the value of justice required all caregivers to address issues in a respectful manner. There was no evidence on the part of Mr J to provoke Mr K to respond in the manner he did. Other staff were upset by the tension created by Mr K's attitude and behaviour.

CONTINUED ITEM

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CONCLUSION

The FWC found that the employer was entitled to set standards of behaviour and insist on adherence to them. Despite counselling being provided, a warning issued and clear behavioural expectations communicated, the behaviour of Mr K continued to be unacceptable. This was found to be of such seriousness as to constitute a valid reason to dismiss Mr K.

ANALYSIS

1 Discuss whether you believe that, if the disruptive behaviour of Mr K was a 'one-off event' and not demonstrated as a 'pattern of behaviour' amounting to misconduct, it would be fair that he received a warning and not be dismissed.
2 Evaluate whether you believe the decision given by the FWC was correct.

Entitlements

When an employment relationship ends, employees are entitled to receive the following:
- remuneration (wages or salary) still owing
- accrued annual leave
- their long service leave entitlements.

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

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

ACTIVITY 5.3

Visit the website of the Fair Work Ombudsman and identify the most recent cases of underpayment of entitlements.

1 Individual class members are to choose a case, summarise the background information and the Fair Work Ombudsman's ruling.
2 Conduct a class discussion about your case with other members of your class to determine whether there are any similarities as to the types of entitlement issues being investigated by the Ombudsman.

Transition issues

Employees who are retiring from the paid workforce often need assistance to organise their finances (superannuation, pension entitlements and investments). Guidance can also be provided to ease them into their change in lifestyle or to connect them with opportunities to give back to the community through volunteering. Having devoted a great part of their life

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to paid employment, employees often find it hard to completely cut themselves off from the business world. Some businesses establish ex-employees (generally retired) groups to keep the network going.

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

Another transition issue arises when employees are being retrenched. **Outplacement** services can be provided by a business to assist these employees to gain new work and to cope with one of the top five most stressful events that can occur in a person's life. (Find the HealthStatus article 'Top 5 Stressful Situations' online for more detail.) Initially, the work involves counselling to counteract the negative feelings associated with retrenchment. It then progresses to skill development in how to look for employment opportunities. The individual employee is assessed on what assistance they require; some may need direction with resume writing and interview techniques, while others may only need office space and a telephone to assist them in setting up interviews. The costs associated with this service are borne by the (former) employer and in some ways can be seen as rewarding the employee for loyal service. Providing this support also sends a strong message to remaining staff that the business does care about its people.

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

The Australian Government, in recognition of the need to support workers to manage the change that occurs when they have been made redundant due to structural unemployment issues, has introduced a Stronger Transitions package. It is aimed at putting retrenched workers on the pathway to finding new jobs and taking advantage of labour market opportunities in other parts of Australia. The package includes skills and training support, employment support for workers in specifically identified affected areas and relocation support for workers who need to move to other locations to find work. In addition, the package also provides support for retrenched workers who would like to pursue small business opportunities.

Figure 5.11 Employees often phase into retirement gradually.



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SAC AND EXAM TIPS – linked to key skills

Compare and evaluate strategies used for training when managing a business – requires you to note points of likeness and difference with strategies that can be used to train employees and then to make a judgement as to their relative strengths and weaknesses.
Analyse and evaluate strategies related to the management of employees – requires you to examine the essential components of the strategies and then to make a judgement as to their relative strengths and weaknesses for managing employees.

Chapter summary

- Training is the process of providing an employee with the knowledge or skills needed to do a job.
- Training needs analysis is used to diagnose present problems and future challenges facing a business. Three levels of analysis can be used: organisational, task and person.
- Training can be provided on the job with the following methods: coaching, tutoring, mentoring, role modelling, apprenticeship, participation in work activities, job rotation. There are advantages and disadvantages attached to this approach to training.
- Training can be provided off the job with the following methods: information presentation, information processing, simulations, role plays. There are advantages and disadvantages attached to this approach to training.
- Performance management is a practice undertaken to drive decisions about employee performance, remuneration, promotion, transfers, disciplinary procedures, training and development needs and, ultimately, terminations within any business.
- Strategies that can be used with performance management are: management by objectives, appraisals, self-evaluation and employee observation.
- Termination management involves making decisions to terminate (end) an employment contract and relationship with an employee. Alternatively, it can also mean managing the decisions that need to be made when the employee terminates the relationship with the employer.
- Voluntary termination occurs when an employee ends the employment relationship either by resigning or retiring from a business. Involuntary termination occurs when the employer ends the employment relationship due to making the employee's position redundant or dismissing them due to unsatisfactory work performance and/or illegal behaviour.
- Termination, whether voluntary or involuntary, results in impacting a business in both positive and negative ways.
- Legal procedures exist to ensure that workers receive their due notice of termination, entitlements and severance pay if made redundant. Employees have the right to have their termination reviewed by the Fair Work Commission if they believe their employment was terminated for harsh, unjust or unreasonable reasons.

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- When an employment relationship ends, employees are entitled to receive any remuneration (wages and salary) owing and accrued annual leave. If they have worked at the business for a long period of time, they may also receive their long service leave entitlements.
- Transitioning for some employees may raise issues on how to manage their finances or lack of social interaction they have experienced while working.
- Outplacement services are often offered by businesses that retrench employees. This assists to counteract the negative feelings associated with the retrenchment while also preparing them for new employment opportunities.

Chapter summary tasks

1 Define the following terms and use each in a sentence to demonstrate your understanding of the term:
   - **a** employee observation
   - **b** outplacement services
   - **c** transition to retirement
   - **d** training needs analysis
   - **e** remuneration
   - **f** involuntary termination.

2 Describe four benefits a business would gain by training their employees off the job.

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

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

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

Examination preparation

1 **Distinguish** between on-the-job training and off-the-job training. Choose two of the following businesses and **recommend** a variety of training methods that would be suitable for the employees at that business.
   - **a** Team members of a large supermarket chain
   - **b** Graduate secondary teachers starting at a school
   - **c** Casual employees at a fruit shop
   - **d** Real estate agency salespeople
   - **e** Customer service officers at a local bank **(6 marks)**

2 **Explain** the main purpose behind a business using a 360-degree multisource feedback process as part of its observation of an employee's performance. **(2 marks)**

3 **Describe** the procedure a business should undertake prior to dismissing an employee for unsatisfactory work performance. **(3 marks)**

4 **Analyse** the impact of voluntary and involuntary termination on a business. **(5 marks)**

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Chapter 6
Workplace relations

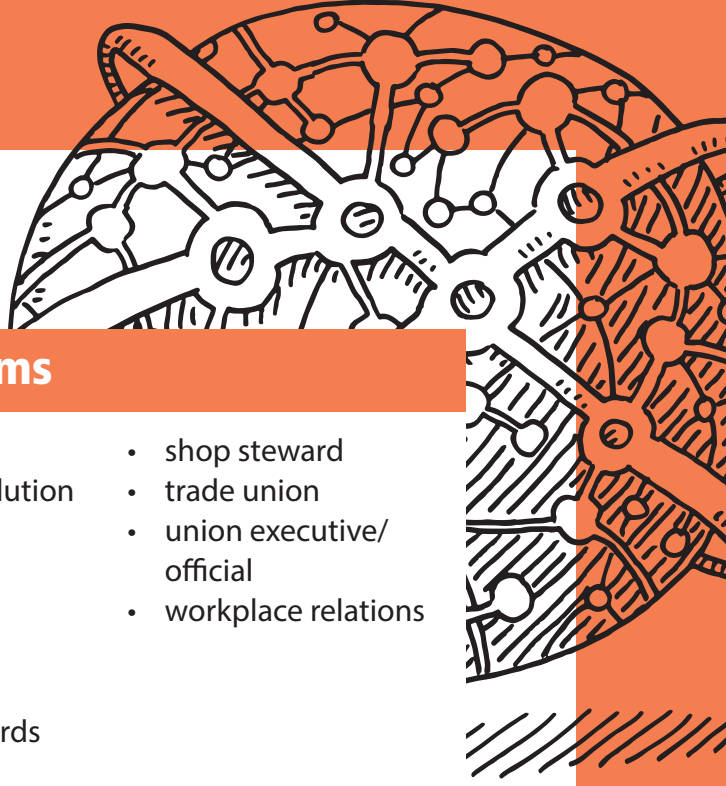
Overview

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

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Key terms

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

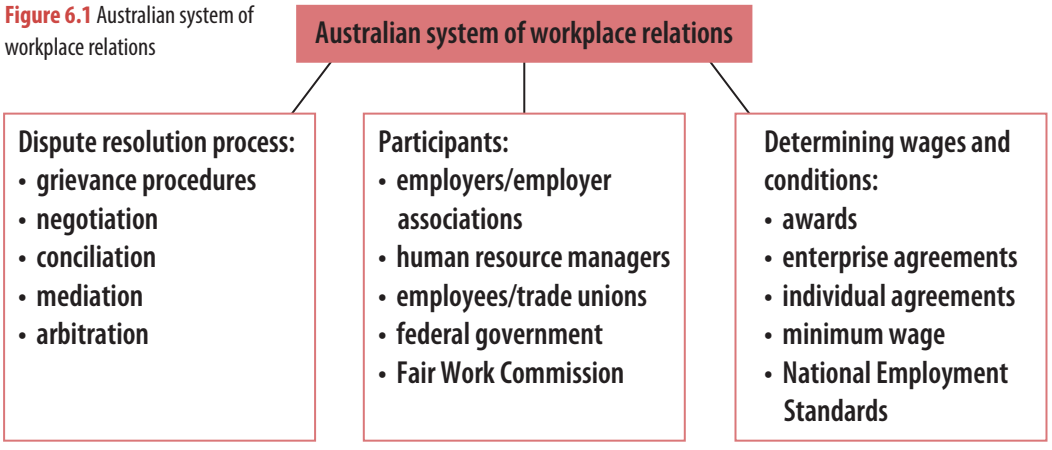
Key knowledge

You will be introduced to workplace relations. The Australian system of determining wages and conditions and resolving workplace disputes will be a focus. You will learn about:

- the roles of participants in the workplace, including human resource managers, employees, employer associations, unions and the Fair Work Commission
- awards and agreements as methods of determining wages and conditions of work
- an overview of the dispute resolution process, including grievance procedures, mediation and arbitration.

What's ahead

Figure 6.1 Australian system of workplace relations



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6.1 Workplace relations

workplace relations historically referred to as industrial relations, workplace relations is concerned with the contractual, emotional, physical and practical relationship between employer and employee

The establishment of positive **workplace relations** is crucial to the achievement of maximum productivity and therefore competitiveness. Workplace relations aims to achieve optimal working relationships between employees of a business and its management/owners. This will in turn maximise productivity and reduce waste, leading to greater business competitiveness. Overseeing workplace relations is a key responsibility of the human resources department, with HR specialists responsible for development and implementation of a workplace relations policy. In Australia, state and federal governments regulate the system of workplace relations.

What is workplace relations? Why is it important?

The terms 'employee relations', 'workplace relations' and 'industrial relations' are often used interchangeably. Each refers to the relationship and communications shared between employees (and/or their representatives) and their employers (and/or their representatives). Significant aspects of workplace relations include the establishment of wages and conditions of employment as well as settling workplace grievances.

The aim in workplace relations is to achieve an optimum working relationship between the employees and management. This in turn will create optimum worker and business productivity levels, leading to greater business competitiveness. The state of workplace relations within a business is therefore crucial to its chances of survival in an increasingly competitive world economy.

Figure 6.2 Good workplace relations is a crucial element of good business practice.



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Since the 1980s, the Australian system of workplace relations has undergone significant change as governments sought to inject greater flexibility into the system of determining and regulating wages and conditions for Australian employees. This occurred in an effort to increase the competitiveness of Australian industry. The consequence of significant reform over the past 25 years is that Australian workplaces now rely far less on legalistic, third-party intervention both when establishing wages and conditions for employees and during the resolution of industrial **disputes**. Legislative changes have created a more **deregulated labour market** where employers and employees determine wages and conditions at each workplace via **collective bargaining**. Dispute resolution now usually occurs via direct negotiation between employers and their employees.

Workplace relations involves the total relationship and interplay occurring between employers and employees regarding all aspects of their working relationship, either through direct dealings and negotiation or via the use of an intermediary, such as a trade union or employer association.

Good workplace relations enhances workplace productivity through development of motivated, effective and highly skilled employees.

dispute industrial disagreement between employees and employers

deregulated labour market where aspects of the employee–employer relationship are not subject to government control and regulation

collective bargaining the process by which wages, hours, rules and working conditions are negotiated and agreed upon by a union with an employer for all the employees collectively whom the union represents

Basic cause of disputes between employers and their employees

Employers and their employees usually have different viewpoints as to how profits generated through their productive efforts should be shared or distributed. Employers wishing to promote business growth seek capital reinvestment in the business and payment of dividends to shareholders, while employees tend to seek better pay and working conditions. Disputes are often about how the 'profit pie' is to be distributed. Government taxes on wages and profits further influence the distribution of wealth.



Figure 6.3 Traditionally, employees and employers have tended to argue over the division of the spoils of profits. Each saw the other as an adversary. The current workplace relations model aims to see employees and employers working together as a team to make the organisation more competitive and profitable.

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6.2 Participants in Australian workplace relations

To gain an understanding of workplace relations, it is important to be aware of the current key participants (stakeholders) and the role each plays.

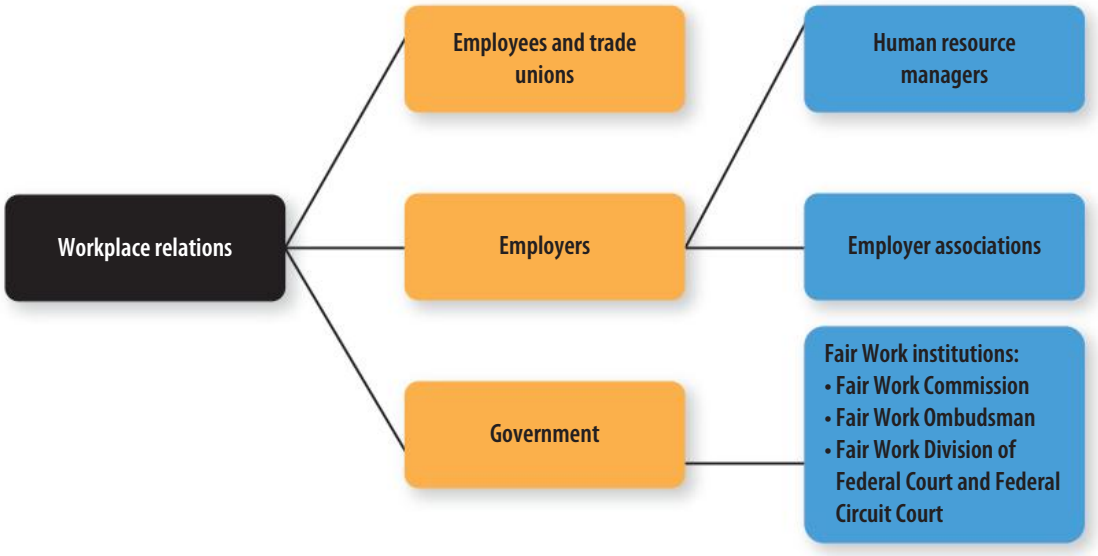


Figure 6.4 Participants (stakeholders) in Australian workplace relations

Role of employees and trade unions

trade union an organisation formed to represent and protect the rights of workers in a particular industry

shop steward locally elected union representative; an employee at a workplace is elected by local union members to represent them; they act as the first point of contact for an employee with their trade union

A **trade union** is a group of employees, usually from the same or a similar industry, combining to protect common interests in all matters relating to their employment. The Australian trade union movement originated in the late nineteenth century, arising as a consequence of the poor working conditions experienced by many employees at the time. By mobilising and uniting groups of employees, trade unions have since achieved significant improvements in wages and working conditions for Australian workers, such as annual leave, pensions, superannuation, maternity leave and parental leave.

Employees who choose to join a union pay an annual subscription fee. The union then:

- negotiates and bargains on their behalf during the collective bargaining process
- argues employees' cases during hearings that determine awards
- provides support and advice to local union **shop stewards** and workers at the workplace level
- provides assistance and support to individual workers
- offers services and facilities to members, such as credit unions and health insurance
- provides information to members on matters relevant to their workplace situation
- acts as official spokesperson to the media on behalf of union members.

Members of a union at a worksite elect, from among themselves, a shop steward/union representative whose role it is to liaise with management and the union executive regarding workplace relations issues. An individual employee with a question or point to make approaches the local union representative first, who may choose to take the matter up directly with management, work through the HR department or go straight to the union executive, which may opt to take the issue further on the employee's behalf.

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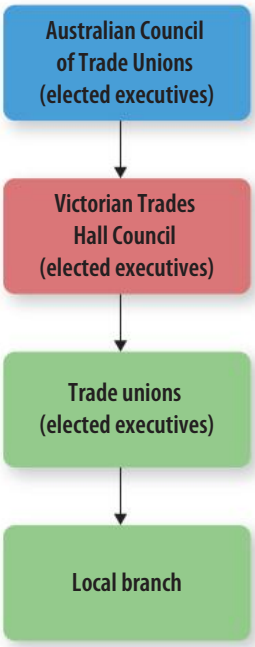
Figure 6.5 Trade unions consist of workers within an industry uniting to work towards improving their wages and conditions. Many of the benefits employees enjoy today have come about through trade union action.

Unions are run day to day by a **union executive**, which comprises full-time elected union officials. The entire membership of the union elects the executive to represent them at either a national or state level.

For workers in Victoria, there are two key union organisations:

- The Australian Council of Trade Unions (ACTU) is the national peak body of the Australian union movement. It was formed in 1927 and operates much like a national parliament of trade unions. The ACTU elects an executive, which represents the trade union movement in the media and during negotiations at a national level. The ACTU also represents the union movement in dealings with governments and at Fair Work Commission hearings.
- The Victorian Trades Hall Council (VTHC) is responsible for implementing ACTU policy within Victoria. The Victorian branch of each union elects representatives to attend monthly VTHC meetings. The elected administrative body of VTHC is known as the Executive Council.

Since the 1980s there has been a significant decline in Australian trade union membership. With the rise of enterprise agreements and individual employment contracts, employees today have a greater opportunity to take an active role in the negotiation of wages and conditions with employers.



union executive/official officials elected by union members to run the organisation (union) on a day-to-day basis; they act to represent members in negotiations with employers

Figure 6.6 Structure of the Australian union movement



Figure 6.7 Union members during a rally through the streets of Melbourne in October, 2018. Protests were held in capital cities across Australia as part of the Australian Council of Trade Unions' 'Change the Rules' campaign.

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ACTIVITY 6.1

Using the internet, investigate a particular Australian trade union. Construct a report covering the following elements:

- brief history
- number of members and occupations covered
- current campaigns being undertaken
- names of some of the officials of this union
- cost of membership and who is eligible to join
- benefits of membership.

(*Hint:* Start with the ACTU and VTHC websites. Both offer links to the sites of particular unions. Possible unions to investigate are: Australian Workers' Union, Electrical Trades Union, Australian Services Union, Australian Education Union, Australian Manufacturing Workers' Union, Maritime Union of Australia and Miscellaneous Workers' Union.)

ACTIVITY 6.2

Interview someone who is a local union representative in his or her workplace.

1. Find out what the role entails.
2. Find out the types of issues they might deal with on a day-to-day basis.
3. Find out about how workplace issues are managed.
4. Enquire as to whether the outcome of disputes applies to all employees or union members only.



CASE STUDY 6.1

The changing face of union members

What comes to mind when I say union member? Perhaps it conjures up a blue-collar construction or factory worker. Well, data on unions shows it's more likely to be a lawyer or teacher.

Data from the Australian Bureau of Statistics indicate an increase in the number of professionals who hold a union ticket in today's Australia. The number of union members

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who listed their occupation as 'manager' (89 900) or 'professional' (543 300) easily exceeded the combined number of those who recorded their calling as a trade or technical worker (195 200), a sales worker (89 800), a machinery operator or driver (138 600) or a labourer (146 800).

The image that many of us have of a union member – a militant building worker who belongs to the Construction, Forestry, Mining & Energy Union – is a misnomer. In fact, despite the CFMEU's prominence in the media, union density in the construction industry stands at only 9.4%.

In the private sector, union density now stands at 10.1%. In the public sector, the percentage of workers in this domain holding a union ticket fell by 4.9 percentage points to 38.5% between 2013 and 2016.

A HISTORY OF CHANGE

Many reasons have been put forward to explain the decline in Australian unionism – enterprise bargaining, laws unfriendly to unions, managerial hostility and youth indifference. However, it's clear that union decline has broadly tracked the declining share of jobs held by blue-collar workers.

Union decline can be broken into three broad periods. Between 1954 and 1976, declining union density moved in lock-step with the blue-collar working class's declining workforce share. Between 1971 and 1996, union decline occurred at a slower pace, with success in recruiting white-collar workers and professionals. From 1996 onwards, unions became increasingly dominated by professionals as blue-collar membership collapsed.

Today, union members can be categorised into three groups: 1) managers and professionals; 2) blue-collar workers engaged in trade work, labouring, machinery operation and driving; 3) unskilled and semi-skilled workers engaged in sales, clerical work and community and personal service.

As blue-collar unionists became increasingly rare figures within the ranks of the trade unions, so it was that union membership became increasingly dominated by managers and professionals.

In many ways the increasing domination of union membership by professionals should not surprise us. Since 1986, the industries largely staffed by professionals and semi-professionals (such as media and information systems, finance, health, education and education) have provided more jobs than traditional blue-collar industries.

Since 1996, union density has clearly fallen more sharply than the blue-collar share of the workforce. However, unions have not been able to win over enough professionals to offset the loss of blue-collar unionists.

MISSING THE MARK

Part of the problem in securing new members for unions is that professional recruitment is largely confined to one cohort: those employed in publicly funded or regulated industries, such as education and health. In these areas, unions still represent around a third of the workforce.

CONTINUED ITEM

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Figure 6.8 Different industries have different levels of union membership.

By contrast, in areas of professional employment characterised by private ownership and market competition (i.e. media, finance, professional services) unions perform poorly. In finance and insurance, union density stands at 9.7%. In professional and scientific services – an area that employed more than a million in 2016 – only 2% of the workforce has a union ticket.

These data reveal union membership is increasingly confined to one area of the economy – professional and semi-professional employment in publicly funded and regulated areas. Leaving the rest of the workforce behind.

(Source: Based on Bradley Bowden, 'Three charts on: the changing face of Australian union members', The Conversation website, 5 July 2017)

ANALYSIS

1 Identify and describe how union membership has changed since 1954.
2 What percentage of public and private sector employees belong to a trade union?
3 Suggest possible reasons for the disparity between professional and blue-collar worker trade union membership rates.
4 Outline why trade union membership continues to decline in Australia.
5 Will trade unions continue to have a role in Australian workplace relations? Discuss.

Role of employers and employer associations

employer associations provide a range of advice to employers and represent their interests on employee relations issues

Employer associations are groups of employers who unite to promote a common interest in workplace relations issues. They share information and provide mutual support much in the way that trade unions do for employees. There are three types of employer association:

1 **Industry associations** are made up of employers from the same industry, such as Master Builders Australia and the Mining Council of Australia.
2 **Professional associations** are made up of members of a profession, such as the Australian Medical Association (AMA).
3 **Broad-based or peak bodies** are comprised of large numbers of employers from varied industry types. Examples are the Australian Industry Group and the Victorian Chamber of Commerce and Industry. These often act as a spokesperson for employer members as a bloc.

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The role of employer associations is to:

- represent employers in Industrial Relations Commission cases
- represent employers during collective bargaining over wages and conditions
- advise employers of their rights and obligations
- act as spokesperson for members of their organisation as a bloc.



Figure 6.9 Victorian Chamber of Commerce and Industry



Figure 6.10 Master Builders Australia



Figure 6.11 Australian Medical Association



Figure 6.12 Australian Industry Group

ACTIVITY 6.3

Go to the Fair Work Commission website and complete the following.

1 Identify at least one employers' group representing employers in each of the following industry sectors:
   a building and construction
   b cleaning services
   c entertainment
   d food manufacturing
   e retail.
2 Identify one union representing employees from each of the industry sectors in question 1.
3 Go to the Australian Industry Group website. Outline five services AIG offers to its members.

Role of human resource managers in workplace relations

Human resource managers play a crucial role in workplace relations. Employee relations specialists within HR liaise closely with other departments to create a harmonious and productive workplace staffed by motivated, skilled and fulfilled employees.

The human resource manager has a significant role in workplace relations. The role of the HR manager includes:

- administration of day-to-day procedures, ensuring employees receive correct wages and entitlements
- negotiation with employees and/or representatives (unions) regarding workplace relations issues, such as establishment of collective agreements through enterprise bargaining
- participation in the dispute resolution process
- responding to workplace relations queries from employees and management
- acting as an intermediary between employees/unions and senior management.

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ACTIVITY 6.4

Read the advertisement and answer the questions that follow.

National Employee Relations Manager

- Unique opportunity to influence strategy and execution
- Broad business and commercial exposure

The company

Buntings is one of Australia's largest retailers, with over 25 000 team members and in excess of 250 stores. We support our retail and trade customers through an extensive warehouse, store and distribution centre network and are continuing to grow in both metropolitan and regional locations in Australia and New Zealand.

Our working environment and culture are very important to us. As a result, Buntings' approach to employee relations can be best described as being focused on culturally aligned and commercially pragmatic outcomes, that lead to engaged team members working in an environment that enables them to deliver great customer service. Reporting to the General Manager – HR, a unique opportunity now exists for an energetic and experienced ER practitioner to join the senior HR team.

The successful applicant will be able to demonstrate a solid understanding of current IR legislation nationally and a track record in dealing with industrial matters such as the negotiation and implementation of agreements, dispute resolution, representation in the Industrial Courts, management of union relationships as well as in the development of employee relations strategies. This experience should ideally include an influential ER role within a large, geographically diverse organisation in a service industry environment, where you have taken a lead role in coaching managers around effective employee relations behaviours.

Tertiary qualified in an HR discipline, your personal skills and attributes include strong negotiation skills, good commercial understanding, excellent communication and coaching skills, a pragmatic and hands-on leadership style as well as the ability to work in a flexible structure where teamwork is paramount.

A competitive salary and benefits package, including short- and long-term incentives reflective of the seniority of this role, will be negotiated.

Information about Buntings is available by visiting www.buntings.com.au.

Applications can be emailed by clicking on the apply button below or posted to General Manager HR, 12 Snubbins Street, Melbourne VIC 3000.

1 Name the organisation advertising this job. Identify how many employees it has.
2 Distinguish the main features of the job being advertised, including the job title, the department in which the successful applicant will be employed, and who they will be reporting to.
3 Define each of the following terms used in the article:
   a employee relations
   b engaged team members
   c negotiation skills
   d communication skills
   e teamwork.
4 Explain why the successful applicant will require negotiation, communication and teamwork skills.
5 List and explain the skills and experience that are being sought in the successful applicant.
6 Describe the types of tasks that the successful applicant will be expected to undertake.
7 Locate another advertisement for a similar position. Identify and explain the differences and similarities between the two jobs.

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What does good workplace relations require of management?

Good management aims to facilitate positive, productive relationships with employees. Generally, the adoption of a participative style of management is most effective in the modern workplace. A participative style allows for employee input, ownership of decisions and easier negotiations. This will in turn create improved productivity and employee commitment to the business, as employees feel more valued. The skills of the HR manager are vital to achieving this.

Employees inevitably have complaints about their workplace. Management should attend to these in such a way that they do not escalate. Small problems will become large if not dealt with quickly and effectively.

Generally, the following factors allow for optimal workplace relations:

- Commitment of both management and employees to the achievement of organisational objectives, creating a common purpose and teamwork.
- Allowing employees to feel their contribution is valued and part of the decision-making process conveys a sense of ownership of decisions. The adoption of a participative management style facilitates this. A team approach to planning and decision-making develops employee trust, and employees who are consulted feel valued and in turn develop loyalty to the business.
- Treating employees and their complaints seriously will usually prevent more serious problems developing.
- Promotion of the concept that change is both inevitable and essential for organisational survival helps create a flexible mindset in relation to both workplace reform and workplace relations issues in general.
- Effective communication skills and methods will alleviate and avert workplace relations disputes. Management taking time to explain the reasoning behind decisions will give employees the opportunity to see things from management's viewpoint (empathise) and vice versa. Employees who interact openly with management, and feel valued, are less inclined to resort to industrial action when faced with workplace conflict.
- Provision of fair pay and working conditions and recognition of employee achievement and effort create a positive workplace atmosphere.
- Maintenance of good working relationships between management and union officials. Personal hostilities often fuel workplace disputes. Teamwork builds a sense of shared purpose, making industrial action and workplace disputes far less likely.
- Establishment of fair and accessible grievance procedures. The more effective the grievance procedures are at a workplace, the less chance there is of a dispute escalating.



Figure 6.13 The relationship between management and employees is crucial to business competitiveness.

Role of government

The federal government has an enormous influence on Australian workplace relations through the enactment of legislation. Australian governments have felt it necessary to actively intervene in the conduct of employee relations as interaction between employers and employees can have significant repercussions for both the Australian economy and the general public.

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Figure 6.14 House of Representatives, Parliament House, Canberra

A wide range of laws have been passed that directly affect the employer–employee relationship. Areas such as employee contracts, taxation, occupational health and safety, equal opportunity and guidelines relating to pay and working conditions for employees all significantly affect Australian workplace relations. Government responsibility for economic management also has an impact on employee relations, as wage levels affect inflation and economic activity rates.

A series of federal workplace relations laws set out how workplace disputes are to be dealt with, as well as how wages and conditions of employees are to be established and protected.

Fair Work institutions

The *Fair Work Act 2009* established three independent government bodies to oversee and operate the Australian system of workplace relations:

1 **Fair Work Commission:** Australia's national workplace relations tribunal or industrial court. The Fair Work Commission has the power to make legally binding decisions and orders relating to workplace relations. The Fair Work Commission is responsible for:
   - creating and maintaining a safety net of minimum wages and working conditions for Australian employees. These are set out in 122 industry and occupations awards. An award covers all employees in an industry and sets out minimum wages and conditions all employers are legally obliged to provide.
   - providing assistance with resolution of workplace disputes
   - providing support for enterprise bargaining, ensuring the process is fair.

   The Fair Work Commission can vary awards, make minimum wage orders, approve (ratify) workplace agreements, determine unfair dismissal claims, make orders on industrial action (such as whether it is legal or not) and resolve workplace disputes.
2 **Fair Work Ombudsman:** The role of the office of the Fair Work Ombudsman is to promote harmonious, productive and cooperative workplace relations and to ensure that all workplaces are in compliance with Australian workplace laws. The Fair Work Ombudsman enforces the *Fair Work Act 2009*, related legislation, awards and registered agreements. It also assists both employees and employers through providing advice and education on the pay rates and workplace conditions that employees are entitled to. The Fair Work Ombudsman is a point of contact for information, as well as for assessing and investigating complaints and suspected breaches of workplace laws, awards and registered agreements. Fair Work Inspectors are employed by the Ombudsman to investigate, resolve complaints and conduct workplace audits. They also bring court proceedings to enforce employee rights and obligations.
3 **Fair Work Division of the Federal Circuit Court of Australia** is located in all major cities and regional centres in Australia, empowered to hear matters involving breaches of the 2009 Fair Work Act including unfair dismissal. This division of the Federal Court aims to resolve workplace issues in a less formal environment and deals with matters promptly and efficiently. Appeals from decisions of single judges of the Fair Work Division of the Federal Circuit Court of Australia can be heard before the Federal Court, which is the final avenue of appeal in industrial matters.

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CASE STUDY
6.2

Workplace relations: failure to comply with National Employment Standards

In the … matter of *Cerin v ACI Operations Pty Ltd & Ors* [2015] FCCA 2762, the Federal Circuit Court ordered the employer and its HR manager to pay a penalty to the employee for failing to give him adequate notice of termination, therefore breaching s 44 and s 117 of the *Fair Work Act 2009*.

The employee, who was on workers' compensation, was given 28 days' notice of termination of employment and the employer argued that this complied with s 58B of the *Workers Rehabilitation and Compensation Act 1986* (SA).

However, the Court found that this was in breach of s 44 of the *Fair Work Act*, which required the employer to comply with the National Employment Standards (NES) and give the employee five weeks' notice. The employee was therefore entitled to a further two days' notice and suffered a loss of $181.66 as a result of the breach.

The Court found that the employer's conduct in terminating the employee's employment without proper notice or payment in lieu was bizarre since no satisfactory excuse was given for not complying with the *Fair Work Act*. Further, the HR manager admitted that she was aware of the NES under the *Fair Work Act* and its requirements as to the amount of notice to be given on termination depending upon length of service of the employee.

…

In an attempt to reflect the seriousness of such breaches, the Court imposed substantial penalties on the employer and the HR manager. The maximum penalty for a corporation at the relevant time was $51 000 and $10 200 for an individual. The Court ordered the employer to pay $20 400 and the HR manager $1020 to the employee.

(Source: Cooper Grace Ward Lawyers, 'Failure to comply with National Employment Standards – Employer and HR manager fined', *Workplace Relations & Safety Risk Management Adviser*, December 2015.)

CONTINUED ITEM

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ANALYSIS

1 Identify the following:
   - **a** the name of the employer
   - **b** the court the hearing was held in
   - **c** the law that was found to have been breached.
2 Describe what the court found had occurred and how this was in breach of the National Employment Standards.
3 Identify the penalty imposed by the court.
4 Undertake internet research to examine whether any businesses have recently been found in breach of the National Employment Standards.

Awards and agreements for determining wages and conditions of work

The system of establishing wages and conditions for Australian employees is set out in the *Fair Work Act 2009*. An employee's wages and conditions may be determined via an *award*, an *enterprise agreement* or through an *individual employment contract* with their employer. The Fair Work Ombudsman and Fair Work Commission are responsible for monitoring and enforcement of minimum entitlement requirements.

National Employment Standards

The *Fair Work Act 2009* sets out 10 minimum employment entitlements known as the National Employment Standards (NES). According to the standards, employers are expected to provide a copy to each employee.

enterprise agreement a written collective agreement made between an employer and the employees at a workplace, setting out the terms and conditions of employment

An award, employment contract or **enterprise agreement** cannot provide for conditions that are less than the national minimum wage or the NES. All employees are legally entitled to the NES.

What are the National Employment Standards?

The *Fair Work Act 2009* contains the National Employment Standards or 'NES'. The NES are the minimum standards of employment and cover:

1 **Maximum weekly hours** – 38 hours per week, plus reasonable additional hours
2 **Requests for flexible working arrangements** – certain employees can request a change in their working arrangements
3 **Parental leave and related entitlements** – up to 12 months' unpaid leave per employee, as well as the right to request an additional 12 months' leave
4 **Annual leave** – four weeks' paid leave per year, plus an additional week for some shift workers
5 **Personal/carers leave and compassionate leave** – up to 10 days per year paid personal/carer's leave
6 **Community service leave** – unpaid leave for voluntary emergency management activities and up to 10 days of paid leave for jury service (after 10 days is unpaid)
7 **Long service leave** – paid leave for employees who have been with the same employer for a long time
8 **Public holidays** – an entitlement to a day off on a public holiday, unless reasonably requested to work
9 **Notice of termination and redundancy pay** – up to four weeks' notice of termination (workers over 45 years of age have an additional week) and up to 16 weeks' redundancy pay
10 **Fair Work Information Statement** – a document that must be provided to all new employees.

(Source: Based on 'National Employment Standards', Fair Work Ombudsman website.)

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Awards

Awards are legally binding minimum requirements for wages and conditions applying to specific industries. Awards are reviewed by the Fair Work Commission every four years and are legally enforceable. They establish terms of employment for various occupations and levels in a particular industry. There are 122 industry and occupation awards that cover most Australian employees. Each award specifies:

- minimum wages
- working conditions and overtime
- meal breaks
- holidays and leave
- penalty rates and allowances
- procedures for resolution of grievances and termination of employment
- superannuation
- annual leave and leave loadings.

An award does not apply when a business has an enterprise agreement or other registered agreement with its employees. Awards serve as a safety net guaranteeing minimum wages and conditions.

Enterprise agreements

Enterprise agreements are made between one or more employers and two or more employees with their chosen representative(s), usually a trade union. Enterprise agreements are reached via a process of *enterprise bargaining* (negotiation). Enterprise agreements can therefore be tailored to meet individual needs of one or a number of employers and/or a group of employees.

An enterprise agreement must be ratified/approved by a majority vote of employees affected. It must also be registered and approved by the Fair Work Commission. In order to gain approval of the FWC, an agreement must meet the following criteria:

1. Employees to be covered must be better off overall than under the relevant modern award (called the Better Off Overall Test).
2. No unlawful terms included.
3. The agreement runs for a specified time of up to four years.
4. A dispute settlement procedure (also referred to as grievance procedures) is included.

Once an enterprise agreement is in place, both employer and employees are legally bound to adhere to it. Awards apply to employees depending on the industry they work in or the job that they do. Enterprise awards apply to specific businesses (employers).



Figure 6.15 An enterprise agreement is a legally binding contract between an employer and a group of employees regarding wages and conditions for a specified period.

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ACTIVITY 6.5

FAIR WORK COMMISSION DECISION

Building, metal and civil construction industries

COMMISSIONER WILSON

MELBOURNE, 6 APRIL 2018

Application for approval of the Adcon Resources Vic Pty Ltd and the CFMEU (Victorian Construction and General Division) Enterprise Agreement 2016–2018

[1] An application has been made for approval of an enterprise agreement known as the *Adcon Resources Vic Pty Ltd and the CFMEU (Victorian Construction and General Division) Enterprise Agreement 2016–2018* (the Agreement). The application was made pursuant to s. 185 of the *Fair Work Act 2009* (the Act). It has been made by Construction, Forestry, Maritime, Mining and Energy Union. The Agreement is a single enterprise agreement.

[2] I am satisfied that each of the requirements of ss. 186, 187 and 188 as are relevant to this application for approval have been met.

[3] The Construction, Forestry, Maritime, Mining and Energy Union being a bargaining representative for the Agreement, has given notice under s. 183 of the Act that it wants the Agreement to cover it. In accordance with s. 201(2) I note that the Agreement covers the organisation.

[4] The Agreement is approved and, in accordance with s. 54 of the Act, will operate from 13 April 2018. The nominal expiry date of the Agreement is 30 June 2018.

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(Source: Fair Work Commission, Decision, Adcon Resources Vic Pty Ltd and the CFMEU (Victorian Construction and General Division) Enterprise Agreement 2016–2018.)

© Commonwealth of Australia (Fair Work Commission) 2018

Above is a decision from the website of the Fair Work Commission detailing ratification/approval of an enterprise agreement.

1. Clarify the enterprise agreement that has been approved by the FWC.
2. Identify the trade union that had negotiated this agreement on behalf of its members.
3. Identify the employer who had negotiated this agreement.
4. Explain the conditions that had to be met in order for this enterprise agreement to have been approved by the FWC.
5. Clarify the date the enterprise agreement was set to expire.

Individual employment contracts

An individual employee may sign a legal agreement with their employer regarding wages and conditions. For an individual employment contract to be legally valid, it must not provide wages and conditions less than the minimum set out in either the National Employment Standards or any relevant awards or enterprise agreements that may apply. Recent figures indicate that 40% of Australian employees enter individual employment contracts. An employee may also sign an *individual flexibility agreement* (IFA). All awards and enterprise agreements may be varied or tailored to suit individual circumstances or need by the inclusion of an IFA clause.

National minimum wage orders

The Fair Work Commission sets the national minimum wage, which is reviewed annually. The minimum wage applies to all Australian employees not covered by an award or enterprise agreement.

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ACTIVITY 6.6

Go to the Fair Work Commission website and find the page on national minimum wage orders.

1 Determine the current national minimum wage for an adult employee:
   a for a 38-hour week
   b hourly rate
   c minimum loading that must be paid to a casual employee.
2 What percentage of the national minimum wage must be paid to:
   a a junior employee?
   b an apprentice?
   c an employee with a disability that limits the range of duties to be performed?

Table 6.1 Characteristics of modern award, enterprise agreement and individual employment contract

Characteristics	Modern award (FWC)	Enterprise agreement (FWC)	Individual employment contract
Who makes them?	• Fair Work Commission	• Employer/employees (collective group) or employer/trade union/employees	• Employer and individual employee
How do they arise?	• Submissions to FWC by employer, unions and other peak bodies • FWC determined	• Negotiated after enterprise bargaining between employee representatives and the employer • Submitted to FWC for approval	• Negotiated between the parties
Content	• Pay and working conditions (for employees in an industry or occupation) • 10 minimum standards (NES)	• Pay and working conditions (for employees at a workplace) • 10 minimum standards (NES) and additional conditions as negotiated • National minimum wage order and modern awards make up a safety net	• Pay and working conditions for individual employee • 10 minimum standards (NES) • National minimum wage order and modern awards make up a safety net for employees
Duration	• Ongoing, to be revised every four years	• Up to four years	• Determined through negotiation (e.g. one year)
Annual leave	• Four weeks of paid leave for each year of service paid at base rate of pay • Shift worker is entitled to five weeks of paid leave paid at their base rate of pay	• Four weeks of paid leave for each year of service, paid at base rate of pay • Shift worker is entitled to five weeks of paid leave paid at their base rate of pay • Cash out of leave is available, but illegal for employer to force employee to take it	• Period determined by employer or through negotiation

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Applies to	• Australian workers in an industry or occupation	• Australian workers at a workplace/enterprise	• Individual employee
Industrial action and dispute resolution	• Allowable only during protected period or after an order from the FWC for a protected action ballot authorises the industrial action • Unprotected industrial action results in mandatory minimum deduction of four hours' pay	• Allowable only during protected period or after an order from the FWC for a protected action ballot authorises the industrial action • Unprotected industrial action results in mandatory minimum deduction of four hours' pay	• Both parties would have terms in contract relating to dispute resolution and contract cancellation
Role of union	• Must apply for entry permit to workplace – 24 hours' notice • Union representation as bargaining agent	• Must apply for entry permit to workplace – 24 hours' notice • Union representation as bargaining agent	• None
Protection provided to employees	• NES act as minimum legal employment standards • Protection bodies: Fair Work Commission (tribunal) and Fair Work Ombudsman, Fair Work Inspectors and Federal Court Specialist Division and Federal Magistrates Court • Unfair dismissal protection against harsh, unjust or unreasonable treatment by employer	• NES and national minimum wage and modern awards act as minimum legal employment standards • The Better Off Overall Test (BOOT) checks the agreement against the award • Protection bodies: Fair Work Commission (tribunal) and the Fair Work Ombudsman, Fair Work Inspectors, Federal Court Specialist Division and Federal Magistrates Court • Unfair dismissal protection is provided to protect against harsh, unjust or unreasonable treatment by employer	• Cannot provide for less than legal minimum as set out in the NES, awards and other agreements that may apply • Contracts enforceable through courts

dispute resolution procedure a formal, systematic process that permits employees to complain about matters that affect them and their work

modern awards set out minimum conditions of employment for employees doing a particular job

6.3 Workplace conflict and dispute resolution

Disputes, or conflict, arise in all workplaces. Complaints may relate to calculation of wages, working hours, personality conflicts, or in some cases the need for disciplinary action due to workplace bullying. A business must have in place a **dispute resolution procedure** that parties follow to resolve disputes.

If a dispute cannot be resolved at the workplace level, it may be necessary to involve a third party to conciliate on the matter. **Modern awards** and enterprise agreements must contain a dispute resolution clause.

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Effective dispute resolution helps employers maintain good relationships with employees through dealing with disputes at an early stage. Disputes may be resolved through:

1. a negotiated outcome where a settlement is reached within the business
2. a mediated outcome where an independent mediator helps the parties talk about the issues and arrive at their own agreement
3. **conciliation** may occur if mediation fails to produce agreement; this is a similar process to mediation, but is conducted by a member of the FWC or one of its conciliators
4. an arbitrated outcome (**arbitration**) where an independent arbitrator or court determines how the dispute is to be resolved and makes a binding decision.

conciliation a third-party (conciliator) facilitates agreement between management and employees in relation to a dispute

arbitration a method of industrial dispute resolution where an independent third party listens to both sides of the agreement, then makes a decision based on these arguments, which is legally binding on both parties

collective agreement enterprise bargaining agreements that result from negotiations between an employer and union (employees) and are registered (ratified) by the Fair Work Commission

The FWC will only deal with a dispute if one of the parties to the dispute applies for it to do so. The conciliation process may be undertaken by a commissioner or conciliator appointed by the FWC. The conciliator will convene a conference where the parties will meet and attempt to resolve the issue.

In the event that the conciliation process fails to reach an agreement, the matter may then be referred to arbitration. The Fair Work Commission, in its role as an independent tribunal, will arrange an arbitration hearing, which is conducted along similar lines to a court case. The Commissioner presiding will listen to each party make their case, and will make a legally binding order as to how it must be resolved.

Employees have restricted rights as to when and how they can take industrial action. The right to take 'legal' industrial action is restricted to a 'protected period' during which a new **collective agreement** is in the process of being negotiated (enterprise bargaining period). Industrial action such as a strike is usually illegal and subject to prosecution. (This is referred to as *unprotected industrial action*.) Several steps are to be followed when seeking *protected industrial action* during this negotiation period, including an application to the Fair Work Commission, followed by a ballot that is conducted by the Australian Electoral Commission to determine if there is sufficient employee support to take protected industrial action.

Employees may flex their industrial muscle using a range of actions, with employers having the ultimate action of being able to conduct a 'lock out' of employees. Table 6.2 sets out examples of the forms of industrial action available to employees, ranking them from the least disruptive to most disruptive.

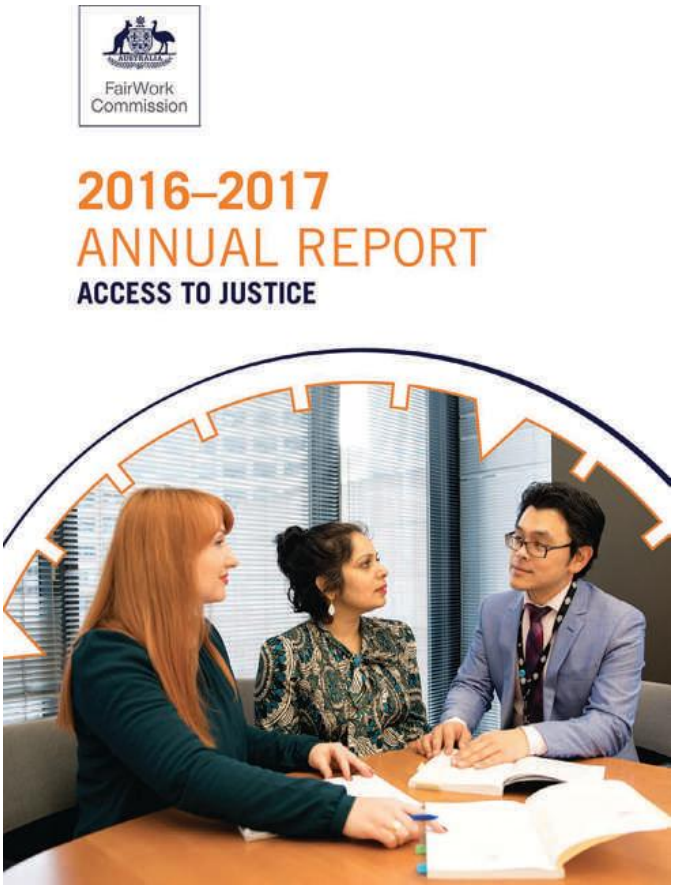


Figure 6.16 The Fair Work Commission annually publishes a report to outline any recent changes, successes and general performance information. (Source: *Fair Work Commission Annual Report 2016–2017*, (C) Commonwealth of Australia (Fair Work Commission) 2017.

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Table 6.2 Forms of industrial action

Form of action	Explanation	Initiated by
Passive resistance	General lack of cooperation by employees to complete tasks, taking days off (absenteeism)	Employees
Work to rule	Workers refuse to do anything more than the bare minimum required and follow every rule to the letter	Employees
Boycott	Employees refuse to do something or deal specifically with someone (e.g. refusal to deal with a specific supplier)	Employees
Stop-work meeting	Employees hold a meeting during normal working hours to discuss an issue. Production ceases during the period of the meeting	Employees
Picket line	Employees physically demonstrate outside the premises of their employer. It is aimed at stopping production by deterring other employees and suppliers from crossing the picket line	Employees
Strike	Employees withdraw their labour and production ceases	Employees
Lock out	Employer/management does not allow workers to enter a plant or building to perform their work	Employer

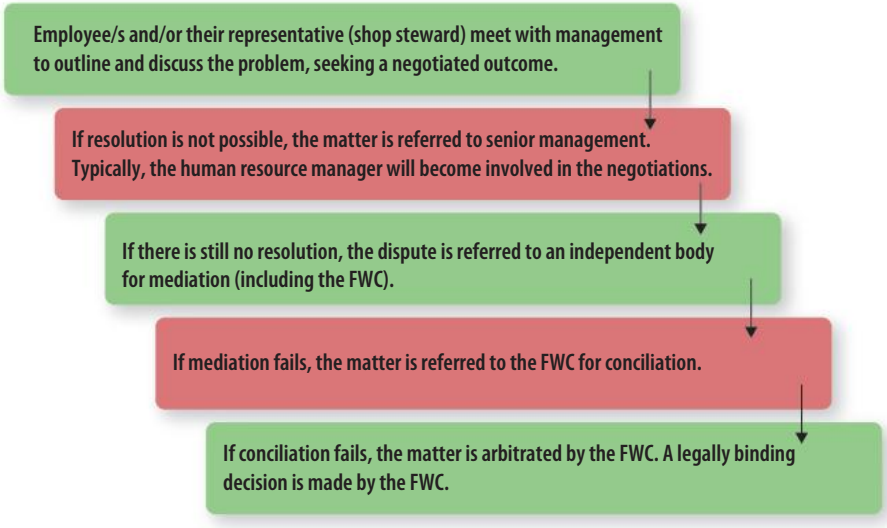


Figure 6.17 Typical process of dispute resolution. The *Fair Work Act 2009* requires a dispute resolution clause (grievance procedure) to be included in an enterprise agreement.

ACTIVITY 6.7

1 Working in groups of two or more, your task is to devise a role play demonstrating how a manager might work towards resolving the following workplace issues.
   - a A shop steward and manager, who do not like each other, must come to an agreement about new starting times in a factory.
   - b It is time to negotiate a new enterprise agreement.
   - c Employees are unhappy with a new uniform they are required to wear.
   - d Management intends to make 100 employees redundant.
   - e The CEO's son is accused of sexually harassing female employees.

2 Demonstrate the knowledge and skills required in order to manage negotiation, mediation and conciliation.

3 As a class, discuss which scenario may require greater arbitration. Explain why the earlier processes may not have been successful in resolution and predict a likely outcome.

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CASE STUDY
6.3

Workplace relations: swim school chain admits to underpaying 1300 mostly teenage staff

A popular swim school caught ripping off 1300 mostly teenage instructors a total of $1.4 million has agreed to be supervised by the wage regulator for the next two years.

Paul Sadler Swimland, a franchise network of 12 swimming schools in Victoria that hosts more than 30 000 swimming lessons a week, has signed an enforceable undertaking with the Fair Work Ombudsman after admitting to the underpayments.

In December 2016, Fairfax Media revealed that Paul Sadler Swimland had underpaid many of its instructors. Parents were paying up to $25 for a half-hour group session that included six students. However, some instructors were paid less than $10 for each session taught.

The company underpaid staff by breaching conditions and entitlements as outlined in the company's enterprise agreement as well as the Fitness Industry Award. The breaches occurred between 2010 and 2016, impacting 1300 instructors. Staff were working under individual contracts that provided no weekend penalty rates. In addition, the company failed to increase wages as their age went up.

The Australian Workers Union filed an application to the Fair Work Commission to determine if the individual flexibility arrangements that employees were asked to agree to complied with the Fair Work Act. A spokesman for the AWU claims that the agreement offered by Swimland did not pass the 'better off overall test.'

Some workers formed a Swimland Instructors Association (SIA) in conjunction with the Australian Workers Union, to give workers greater opportunity as they negotiate a new enterprise agreement which will reintroduce penalty rates for weekend work. Swimland has been ordered to back pay $1.4 million to 1300 instructors.

Acting Fair Work Ombudsman Kristen Hannah said the group had fully cooperated with the regulator and had been conducting repayments before the FWO's involvement.

'Breaching the terms of an EU is grounds for litigation and the community can be assured that we will be monitoring Swimland closely to ensure it complies with the terms of the undertakings.'

(Source: Based on Sarah Danckert, 'Swim school chain admits to underpaying 1300 mostly teenage staff', *Sydney Morning Herald*, 15 April 2018.)

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ANALYSIS

1 Outline the breaches that Paul Sadler Swimland is accused of in relation to this issue.
2 The article refers to both an award and an enterprise agreement. Outline two differences between the two.
3 Explain what the 'Better Off Overall Test' means and why this should be upheld in a collective agreement.
4 Describe the process that employees and franchise owners need to undertake in developing a new enterprise agreement.
5 Distinguish between the process of mediation and arbitration for dispute settlement.

SAC AND EXAM TIPS – linked to key skills

Distinguish between awards and agreements in determining wages and conditions of work in the workplace – requires you to write about the main characteristics of awards and then compare these to the main characteristics related to agreements. You distinguish by using the term 'whereas' as you begin to write about the main characteristics associated with agreements.

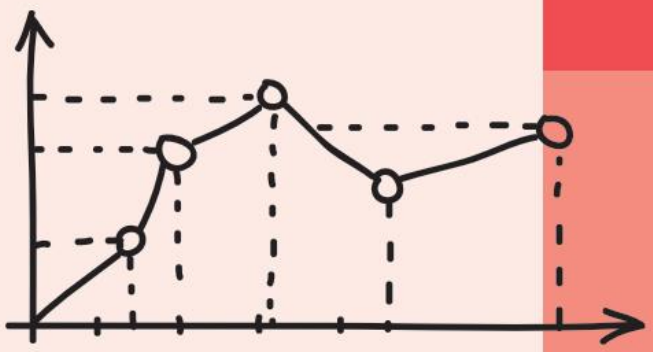
Chapter summary

- Workplace relations is the relationship and interplay that occurs between an employer and their employees.
- Workplace relations is a key responsibility of the human resources department.
- The aim of workplace relations is to optimise the working relationship so that it results in an increase in productivity and business competitiveness.
- The Australian system of workplace relations has undergone significant change over the past 20 years. The reforms made aim to improve flexibility and competitiveness in the Australian workplace.
- The main participants in Australian workplace relations include: employees/unions, employers/human resource management/employer associations, government and Fair Work institutions.
- The *Fair Work Act 2009* sets out the framework of the Australian workplace relations system.
- Australian employees' wages and conditions may be determined via an award, enterprise agreement or individual workplace contract.
- An award is a basic safety net of wages and conditions established by the Fair Work Commission. Workplace agreements are negotiated by employees and employers at the individual enterprise level.
- Enterprise agreements and individual contracts must be registered with the Fair Work Commission.

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- In order to be approved by the Fair Work Commission a registered agreement must guarantee employees the 10 National Employment Standards set out in the *Fair Work Act 2009*. It must also meet what is specified in the appropriate award.
- Industrial action is only permitted during the renegotiation or bargaining period of a collective agreement.
- A workplace agreement includes a grievance procedure (dispute resolution procedure) to resolve conflicts within the workplace.
- Managers need to adopt a participative management style and employ a range of skills, especially in times of workplace conflict.

Chapter summary tasks



1 Define the following terms:
- **a** workplace relations
- **b** enterprise bargaining
- **c** shop steward
- **d** trade union
- **e** employer association
- **f** ACTU.

2 Identify the aim of workplace relations.

3 Explain why industrial disputes are inevitable.

4 Distinguish between the following terms:
- **a** enterprise bargaining and an enterprise agreement
- **b** employee and a union member
- **c** a trade union and an employers' association
- **d** an award and an enterprise agreement.

5 Explain why it is important for a business to establish and maintain positive workplace relations in order to maintain competitiveness.

6 Explain what this statement means: 'An award is a safety net rather than the main determinant of an employee's wages and conditions'.

7 List and describe the three means by which employee wages and conditions can be established.

8 Identify when industrial action such as striking is permitted.

9 Explain what a minimum wage order is, including details such as how frequently they occur, who makes them and to whom they apply.

10 In the context of the *Fair Work Act 2009*:
- **a** List the roles of the Fair Work Ombudsman.
- **b** Outline the role of the Fair Work Commission.
- **c** Describe the role of unions in the establishment of wages and conditions.

11 Using the media (TV, radio and print), your task is to follow an industrial dispute over a period of two weeks. At the end of the dispute, account for the following information:
- **a** Name the industry involved and the employer/s.
- **b** Identify the union in this dispute.
- **c** List the key players in the dispute; that is, spokespersons for both sides and names of management and union officials.
- **d** Briefly describe why this dispute started.
- **e** Summarise the arguments of both sides to the dispute.
- **f** How do you believe the dispute should have been resolved? Give reasons for your answer.
- **g** Is this dispute linked in any way to globalisation? In other words, has it been caused by reforms aimed at making the workplace more competitive?
- **h** Discuss how this dispute might have been handled differently if it had occurred 20 years ago.

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12 Explain what is wrong with each of the following statements:
- **a** Joe and Dot have signed individual collective agreements.
- **b** The Australian Government has no role in our workplace relations system.
- **c** Workplace relations is only about dispute resolution.
- **d** The Master Builders Association is an example of a trade union.
- **e** Strikes are now always illegal.

13 Assess whether the following statements are true or false:
- **a** Trade union membership is optional in a closed shop.
- **b** Australia's new workplace relations system has made for greater workplace flexibility.
- **c** A shop steward is not elected.

Examination preparation

Richard is human resource manager at a large retailer. The business is currently in a period of enterprise bargaining with the retail workers' union in an effort to establish a new enterprise agreement. During this period, there have been several strikes and a picket line has formed at the store's entrance.

Several employees have approached Richard to ask if they could sign an individual agreement. In the meantime, Richard has decided to contact the Fair Work Ombudsman in order to ascertain the wages and conditions employees are entitled to under the Shop Workers' Award.

1 **Define** workplace relations. **Explain** why workplace relations is important in terms of business productivity and competitiveness. **(2 marks)**

2 **Define** enterprise bargaining. **Describe** what a period of enterprise bargaining entails. **(2 marks)**

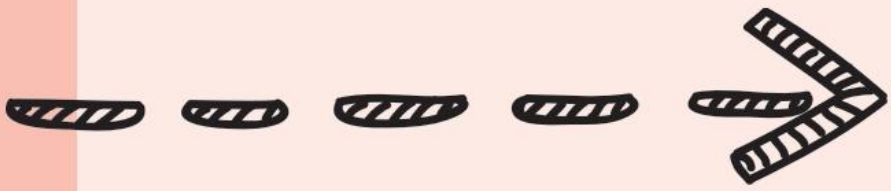
3 **Outline** the role of a human resource manager in terms of workplace relations in Australia. **(2 marks)**

4 Is the industrial action described above likely to be legal? **Explain** by giving reasons for your answer. **(2 marks)**

5 **Outline** the process that must be taken in order to create a new workplace agreement regarding wages and conditions. **(2 marks)**

6 **Explain** the role of each of the following groups in Australian workplace relations:
- **a** trade unions
- **b** employer associations
- **c** Fair Work Commission. **(6 marks)**

7 **Discuss** the advantages and disadvantages of setting wages and conditions through each of the following for both employees and employers:
- **a** enterprise agreement
- **b** individual agreement
- **c** modern award. **(12 marks)**



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Part 3

Area of Study 3

OPERATIONS MANAGEMENT

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 3

On completion of this unit the student 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.

To achieve this outcome the student will draw on key knowledge (listed at the start of each chapter) and key skills outlined in Area of Study 3.

Key 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.

(Source: VCAA, *VCE Business Management Study Design 2017–2021*, p. 18.)

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Chapter 7
An introduction to operations management

Overview

In this chapter you will be introduced to operations management and its importance in the optimisation of business performance. The role of an operations manager is examined. The key elements of the operations system are introduced and analysed. The operations systems of service and manufacturing businesses are compared.



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Key terms

- capacity planning
- capital intensive
- competitive advantage
- customise
- downtime
- equipment
- facilities
- gross domestic product (GDP)
- inputs
- labour intensive
- operations
- operations management
- operations system
- outputs
- plant
- production process
- standardised
- transformation

Key knowledge

You will become acquainted with operations management and the importance of this area for business success. The three elements of the operations system will be introduced. You will also compare the characteristics of the operations systems of service and manufacturing industries. You will learn about:

- the relationship between operations management and business objectives
- key elements of an operations system: inputs, processes and outputs
- characteristics of operations management within both manufacturing and service businesses.

What's ahead



Figure 7.1 Operations management: an introduction

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7.1 Operations management

operations a series of procedures and processes undertaken in order to create outputs

operations management management of resources and functions within a business to achieve efficient output of finished goods or services in a way that adds value to customers and creates a profit margin for the business

gross domestic product (GDP) total market value of production in a country over a period of time minus the costs of production

'Business operations' refers to the process of transforming inputs into finished outputs, thereby preparing and delivering goods and services for customers/clients to purchase. The **operations** of a business are its core function, or purpose. **Operations management** involves overseeing/managing an aspect of an operations system.

Operations management was previously referred to as production management and revolved around manufacturing industries. As manufacturing has decreased in importance to the Australian economy, however, service industries have increased their relative contribution to **gross domestic product (GDP)**. Production management has therefore evolved to become operations management. Operations management is essential to all industries (primary, secondary, tertiary and quaternary). Effective and efficient operations management is vital for organisations in meeting their corporate objectives.

Figure 7.2 Operations is the actual work done by a business in preparing goods and services for sale.



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7.2 The relationship of operations management to achievement of business objectives

Businesses strive to achieve corporate objectives through the operations system. Decisions made by operations managers have a direct impact on the levels of business competitiveness and attainment of corporate objectives. To maximise opportunities to create profit and maintain competitiveness, businesses are required to manage the operations system efficiently. The operations system determines the costs of production and quality of finished products. It directly impacts on revenue, costs, quality of output and ultimately profits. The same applies to businesses that produce services, which are judged on how well they satisfy their customers with prompt and effective service delivery.

Improving business competitiveness requires operations management to establish and achieve objectives such as increasing productivity, improving quality in processes and output as well as adopting a sustainable approach to operations. Any business, regardless of whether it is a manufacturer of goods or a service provider, must aim to improve competitiveness.

Aspects of the operations system that affect competitiveness include the following:

- Levels of operational efficiency affect productivity and therefore competitiveness. Optimising efficiency/productivity levels involves establishing reliable supply chains, minimisation of wastage and defects, application of technology where it can offer advantages, as well as an appropriate facilities design and layout.
- High standards of quality built into operations processes, both at input and transformation stages, will improve quality of output and therefore competitiveness.
- An operations system with ethically and socially responsible priorities during planning and operational phases will attract investors, high-quality staff and customers. The community increasingly places expectations of socially responsible behaviour on businesses. As a result, many consumers base their purchasing decisions on the level of social responsibility that is demonstrated by a business. Investors increasingly use the same criteria.



Figure 7.3 Optimising an operations system is vital for maintaining business competitiveness.

Operations management aims to maximise productivity (efficiency) and quality (effectiveness) through the operations system. The transformation of inputs into finished products while minimising costs of production (efficiency) while maximising the quality of output produced (effectiveness) is the goal.

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An operations manager's responsibilities are broad and require regular consultation and decision-making with other areas of management to ensure that business planning is consistent, and that each area of management is working towards the achievement of business objectives. The human resources department must support operations management through ensuring sufficient trained, motivated, skilled workers are available to meet operational needs. Similarly, the information technology department provides support and advice relating to the technology issues that arise within the operations department. Marketing and sales departments are responsible for the promotion and sales of finished products.

The optimal system will create maximum quality and quantity of output at the lowest possible cost, and so maximises competitiveness. The ability of an operations system to offer customer value is determined by:

- **productivity levels** – producing maximum quantity at minimum cost
- **quality** – degree of excellence in final products
- **speed** of production in response to customer demands
- **reliability** in meeting customer demands
- **flexibility** – the ability to change the quantity, timing and types of production as the need arises. It includes how quickly the operations system can change to meet changing customer demands and the adoption of new technologies (This is covered in Unit 4.)

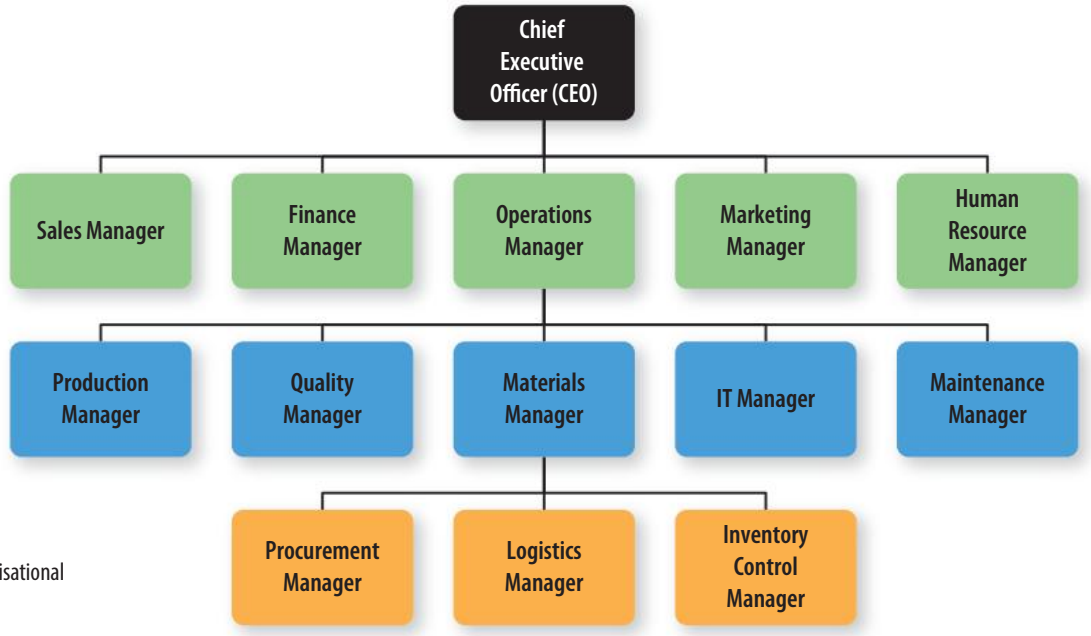


Figure 7.4 Functional organisational structure chart

An operations manager's role involves making sure the operations system of the business serves to meet the business's objectives. This will include tasks such as:

- **strategic decision-making** – in relation to planning and design of the operations system; for example, design and layout, product design and development, process planning, **capacity planning**, location, human resources, quality management
- **overseeing operations as they occur** – involving the establishment of plans, processes and methods of production control, making decisions on day-to-day management of the operations system; for example, stock levels, work rosters, production schedules, maintenance, quality control (i.e. tactical and operational planning).

capacity planning operations decision concerned with the quantity of goods or services to be produced within a specific period of time

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Specific aspects of operations management

- **Inventory management** – determining the quantities of inputs required in order for customer service requirements to be met. Requirements to be kept in storage/inventory are then calculated. From this, the frequency and size of deliveries are determined.
- **Manufacturing** – determining production rates required to meet budget forecasts, managing direct labour costs, controlling cost of wastage, defects and rework when required.
- **Quality** – determining required standards, documentation of quality procedures, standards and codes of practice.
- **Maintenance/engineering** – ensuring that equipment is reliable, in working order and regularly maintained, controlling maintenance costs and keeping up-to-date and accurate maintenance records.



Figure 7.5 An operations manager oversees all aspects of the operations system in order to achieve the objectives of the business.

Measuring operations efficiency

The primary aim or objective of an operations manager is to enhance operational efficiency and productivity. Productivity refers to the ratio of output obtained from a level of input. Put simply, it is what you get out for what you put in. Productivity improvements will in effect reduce costs of production and allow the organisation to produce the same level or a greater level of output for lower input costs.

$$\textbf{Productivity} = \frac{\text{Value of outputs (O) obtained (per unit of production)}}{\text{Cost of inputs (I)}}$$

Figure 7.6 Productivity equation

If a worker produces 10 units of work per hour at the same cost as another worker who is only able to produce eight units per hour, the first worker has 20% better productivity. Similarly, imagine a shoe factory is able to produce 5000 pairs of shoes at a cost of $10 000 in one month. If the factory changes its work practices by bringing in computerised equipment, this halves its workforce and results in the factory producing 10 000 pairs in the next month for the same cost. The productivity of the factory has increased by 100%.

Examples of productivity measures (key performance indicators) include:

- units of production produced per employee
- crop tonnage per hectare planted
- number of clients attended to per hour or per unit of wage cost
- units of production per unit of money.

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Productivity (efficiency) and quality (effectiveness) improvements are key to achieving international competitiveness. A business will attempt to establish a **competitive advantage** based on one or both of these.

competitive advantage point of difference or superiority over one's competitors

ACTIVITY 7.1

Apply the productivity formula to calculate the changes in productivity.

1. Oliver is a VCE student. During Term 1, he completes an English essay at home in two hours. During Term 3, he writes an English essay, for the same grade, in one hour.
2. Sophie has a business cleaning houses. On average, it takes her three hours to clean a house. After purchasing new equipment, she is able to clean a house on average in two hours.
3. Zippo's Bakery is able to produce chocolate cakes at an average cost of $2 per cake. After changing the layout of the kitchen and deciding to purchase flour in bulk, it is now able to produce each cake at an average cost of $1.80.
4. After a restructure of its workforce, a business has reduced its wages bill from $150 000 per week to $110 000 per week, while still maintaining the same level of production.
5. A wheat farmer harvests on average 1.5 tonnes per hectare each year. One year, the weather conditions were favourable and the output increased to 1.9 tonnes per hectare.

Factors determining productivity

- **Technology** – implementation of new technology, such as robotics, scanning, wireless communications, teleconferencing.
- **Research and development** – offer scope for the development of innovative work practices, as well as new, more efficient technologies.
- **Equipment and facilities** – the quality of the working equipment and facilities and their regular maintenance will affect reliability and reduce the likelihood of breakdowns and downtime.
- **Tasks and processes** – the types of tasks and the methods used will affect how much is produced at what cost. Simple task analysis and the resulting sequencing and reordering of tasks will produce significant productivity improvements.
- **Layout of facilities** – often simply redesigning a workstation, moving equipment or fittings, or relocating stock storage areas can generate efficiency savings.
- **Communications processes** – when information flow is restricted, so too is productivity. Enhanced communications processes will improve accuracy in the processing of orders.
- **Workplace safety** – Australian occupational health and safety legislation has decreed that all Australian employees have the right to a safe workplace and employers are obliged to provide this. Failure to take account of occupational health and safety requirements could see a worksite closed down until breaches are rectified. Machinery **downtime** or industrial accidents can have significant effects on productivity.

equipment machinery and other tools

facilities the buildings, equipment and services provided for a particular purpose

downtime period during which production is not occurring



Figure 7.7 All Australian employees have the right to a safe work environment.

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7.3 Characteristics of operations management

The **operations system** has three stages, involving a series of procedures and processes undertaken during the creation of **outputs** of finished goods and services through the **transformation** of **inputs**.

An operations system facilitates transformation of resource inputs into finished goods and services through a series of processes. While both goods and services are potential end products of an operations system, there are distinct differences between these product categories, and therefore also between manufacturing and service industries.

Manufactured goods are tangible. They physically exist and can be seen and touched. Goods may be stored before distribution to customers. Once created, goods cannot be altered or customised to suit individual customer needs. Manufactured goods may be either a finished product, such as a motor vehicle, or a component part to be used as an input in other manufacturing systems. For example, a windscreen is an output from one manufacturer, but then becomes a component part for another manufacturer. The manufacture of goods is usually **capital intensive**, meaning it involves greater use of machinery and equipment than labour.

A service business produces an intangible or non-physical product, such as financial, educational, recreational or legal services. Services are performed rather than produced and usually involve provision of labour or expertise in return for payment. Service provision is usually much more **labour intensive** and requires significant interaction with clients, who generally consume the service as it is being performed. Consequently, services are easily **customised** for individual client requirements.

operations system the three stages of production: inputs, transformation, outputs

outputs transformed inputs that are returned to the external environment as products or services

transformation the processes involved in converting inputs into outputs

inputs resources such as raw materials, labour, plant, equipment, capital, information and time used in any organisational production system

capital intensive makes greater use of capital (machinery and equipment) than labour

labour intensive makes greater use of labour than capital during production process

customise to alter the features of a product to suit specific and precise client/customer preferences

production process the process of transforming resource inputs into finished goods and services

Table 7.1 Industry sectors: primary and secondary sector industries generally create goods, whereas tertiary and quaternary sector industries create services.

	**Primary sector industries** extract or harvest products or raw materials from the natural environment. • Agriculture (farming and grazing) • Mining • Fishing and hunting Primary products are known as commodities.
	**Secondary/manufacturing sector industries** create finished goods (tangible products) through the **production process**. • Construction • Engineering • Factories • Craft Manufactured products are known as goods.
	**Tertiary/services sectors** produce intangible products known as services. People sell their labour and expertise. 85% of Australians work in service industries. • Retail • Professional services • Media • Tourism • Banking • Health

CONTINUED ITEM

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The **quaternary sector** is the branch of the tertiary sector that provides intellectual activities. Parts of this sector include government, education, scientific research and IT.

Table 7.2 Differences between goods and services

Goods	Services
	
Tangible: Can be seen and touched; quality and productivity are easier to measure	**Intangible:** Quality levels are more difficult to measure; productivity can also be difficult to measure, with services being customised for varying customers' needs
Production and consumption occur separately; for example, manufactures soft drink, then distributes to retailer, customer purchases from retailer and then consumes the soft drink	**Production and consumption often occur simultaneously**; for example, patient sees a doctor, who performs a service (i.e. provides medical treatment at the time of consultation)
Can be **stored as inventory**	**Difficult to store**; however, record of service is maintained (e.g. medical history, legal advice on file)
Can be easily **standardised** and mass-produced, ensuring consistent quality (e.g. food items, cars, clothing)	Often specifically **customised** to meet individual client/customer requirements (e.g. tax advice)
Minimal customer contact; for example, manufacturer will deal with wholesaler/distributor, not the consumer	**High degree of customer contact** established
Produced: Capital-intensive production process	**Performed:** Labour-intensive production process

standardised where one finished good is generally the same as the next produced

Similarities between goods and services

While significant differences exist between manufacturing and service providers, they also share similarities. Both:

- utilise technology
- deal with customers and suppliers
- plan and develop organisational objectives
- require decision-making about how to optimise the productivity and quality levels through the operations system
- aim to produce high-quality products or services at the lowest cost.

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7.4 Key elements of the operations system

Operations systems vary in complexity according to the types of goods and services produced. For example, a modern car has more than 10 000 parts and components, and its production process involves more than 8000 tasks. The transformation of millions of parts into a large passenger aircraft must be planned, managed and carefully coordinated by the operations management team.

All operations systems can be broken down into three stages or elements. This applies to primary, secondary and service industries:

1 Inputs (resources) required to produce the required goods/services are gathered.
2 Those inputs are put through a series of procedures/processes to become finished goods/services (transformation).
3 The final output is generated.



Figure 7.8 Every operations system can be broken down into three distinct stages.

Table 7.3 The key elements of an operations system

Resource inputs	Production process	Outputs
• Materials (raw and components) • Human resources (labour) • Technology • Capital (**plant**, equipment, etc.) • Utilities • Information and knowledge/ entrepreneurial skills • Time (non-renewable)	Transformation process that adds value	Products/results of process in the form of goods and services

plant capital items that are large and/or difficult to relocate once in place or installed

Figure 7.9 Operations management occurs in both manufacturing and service industries.



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Inputs

Goods and services are created (produced) for consumption by consumers by combining inputs or economic resources (*factors of production*) in a production process. Inputs are classified as follows:

- **Raw materials** – unprocessed resources taken directly from the environment, such as unprocessed minerals or farm produce.
- **Component parts** – processed materials usually purchased from another producer or manufacturer. For example, car manufacturers use components such as ready-made windscreens, engine parts, tyres and processed steel.
- **Utilities** – basic services such as gas, electricity and water supply used in the production process.
- **Labour** – work, efforts and skills of people utilised during production. Labour (human resources) is employed by businesses to oversee and enact the operations processes that create the output.
- **Capital resources** – human-made objects that contribute to the production of finished products, such as machinery, buildings and vehicles. Also includes technology such as robotics. Money/cash is often classified as capital, as it can be readily converted into capital items.
- **Entrepreneurial resources** – people known as entrepreneurs, who possess the skills and resources required to successfully start and manage a business. An entrepreneur is willing to risk personal resources such as money and time in the expectation of making a profit at a later date.
- **Information and knowledge** – specialised knowledge and skills required in order to enact the operations system and produce the final products; for example, knowledge of computer programs. This input category is intangible and may be easily overlooked by management. Often it is not until an experienced employee leaves an organisation that their experience and specialised knowledge are actually appreciated. Employee specialist knowledge is a major contributor to an operations system's efficiency and effectiveness. Knowledge, in the form of data or information, may also be obtained from a source external to the organisation; for example, statistics sourced from the Australian Bureau of Statistics.
- **Time** – a non-renewable resource, which, if wasted, will add to production costs and cause productivity to fall.



Figure 7.10 Raw materials and components



Figure 7.11 Human resources are integral to an operations system.

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Figure 7.12 Robotic technology is a capital resource.



Figure 7.13 Pieces of machinery and equipment are examples of capital items.



Figure 7.14 Time is a non-renewable resource, which, if wasted, will add to production costs.

The transformation process

At this stage, inputs are transformed into finished outputs. While going through this process, they are referred to as 'work in progress'. The operations manager plans the transformation process, organises its implementation, and also controls its execution.

While manufacturing organisations have clearly identifiable production/transformation systems, service providers also have distinct transformation processes that create a service product output from a group of inputs. The transformation stage for services is, however, often not as easily identifiable.

The transformation stage is the point where value may be added to inputs and where productivity gains can be made through efficiencies in processes and procedures undertaken.

Decisions made by operations managers should be geared towards optimising operational efficiency and effectiveness, which, in turn, will increase organisational competitiveness in increasingly competitive world markets.

Outputs

Outputs are final products, or results, of the operations process. These outputs can be divided into two categories: tangible goods and intangible services.

In order to maximise competitiveness, management must ensure that the type of output is responsive to market needs. In other words, it must be what the market wants to buy or requires. This is called a 'pulled system' as it is responding to the pull of the consumer of the product, rather than a 'push system' where the manufacturer produces goods that are not responding to a demand from the marketplace, and for which the manufacturer will try to create a demand. A business must measure the efficiency of its operations and effectiveness in achieving its objectives. As an organisation does not operate in isolation, the external environmental factors must be taken into consideration.

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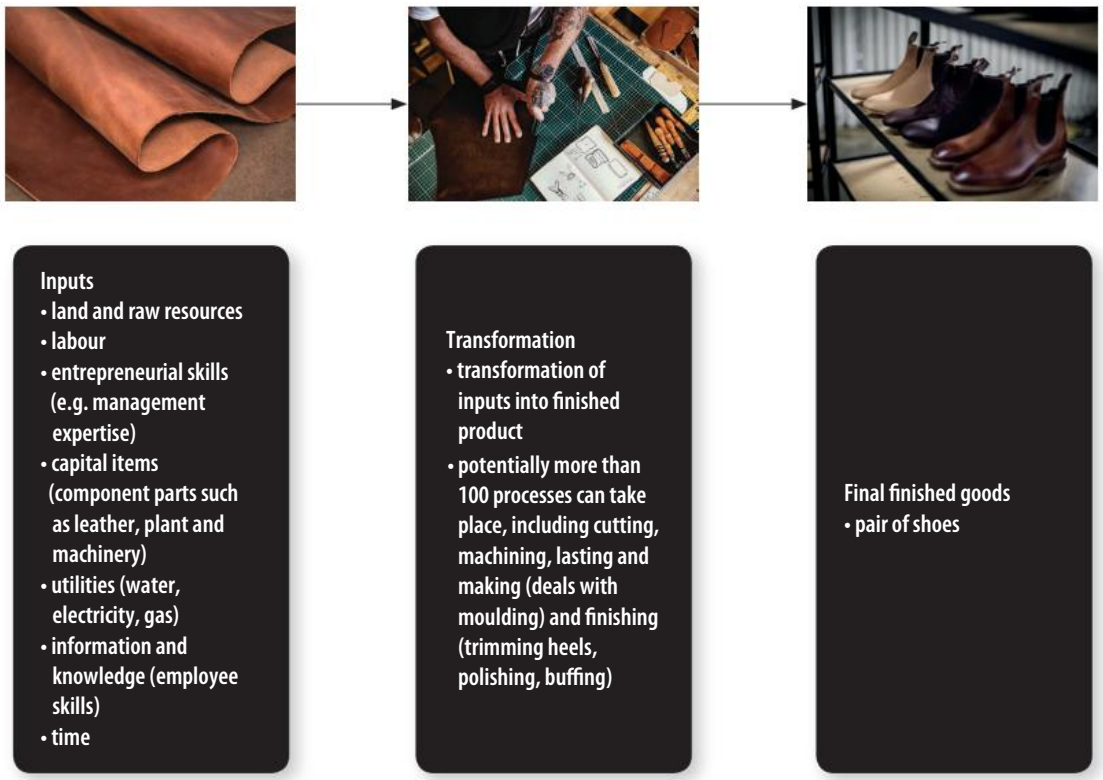


Figure 7.15 Manufacturing operations system: an Australian footwear factory

The following example depicting the operations system of a hospital illustrates the range of inputs involved, and the likely processes in the transformation process, resulting in a treated patient as the output. It is important that a business receives feedback on the efficiency and effectiveness of its operations system. In a hospital, this could be in the form of patient feedback, occupancy rates and the number of days taken to treat a patient. Such feedback is vital in assisting the hospital to determine ways to maximise productivity/efficiency as well as the quality of its services. External factors also impact on an operations system. With a hospital, this could be factors such as levels of government funding, availability of qualified staff or unforeseen circumstances such as a disaster or major accident.

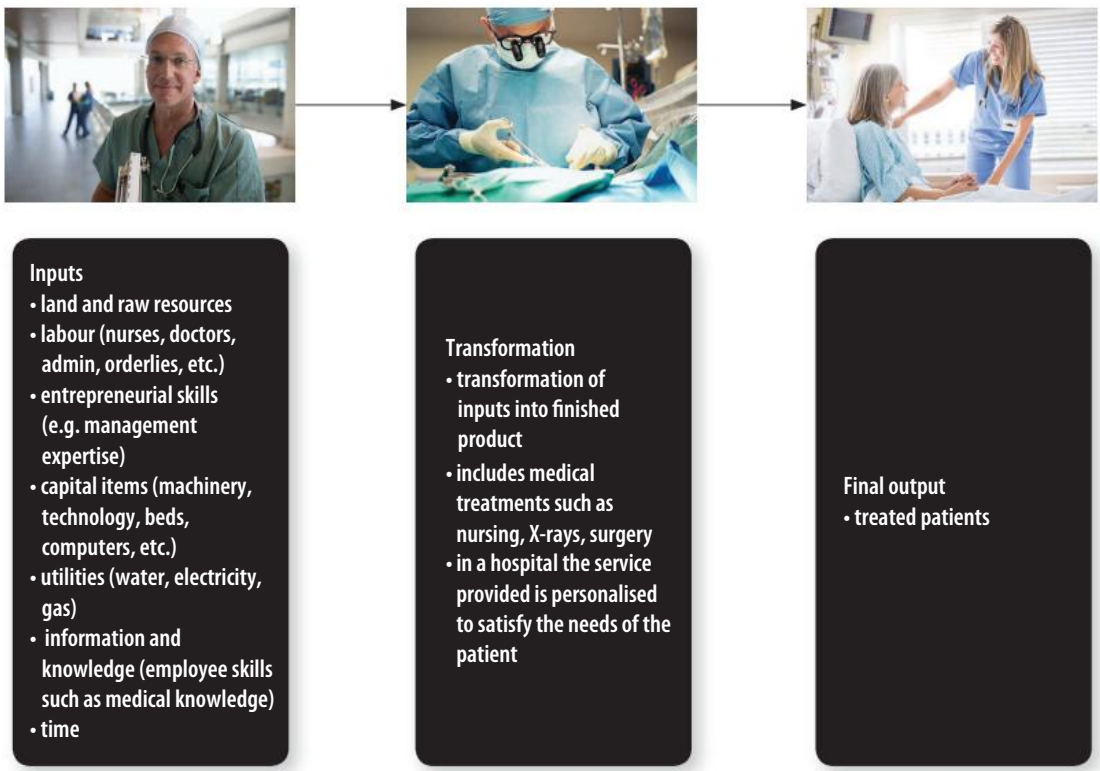


Figure 7.16 Operations system for a service industry: hospital

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ACTIVITY 7.2

1 Using the same format as outlined in the diagrams in Figures 7.15 and 7.16, describe the inputs, transformation and final outputs for two of the following types of businesses:
   a car dealership
   b butcher shop
   c accountancy firm
   d supermarket.
2 Explain how each of the businesses mentioned in question 1 could measure:
   a productivity levels (efficiency)
   b levels of quality in goods or services produced.
3 Describe three external environmental influences that may affect the performance of:
   a the inputs of an operations system
   b the transformation phase of an operations system
   c the outputs of an operations system and their delivery to customers.



CASE STUDY 7.1

Operations evolution: Ford Motor Company

At the beginning of the twentieth century, the automobile was an item affordable only for the super wealthy. Henry Ford, through the development of the modern assembly line and his determination to build a simple, reliable and affordable car, changed all of that. In short, the development of the Model T Ford and the assembly line revolutionised the United States and, in turn, the rest of the Western world.

Prior to 1908, cars were individually crafted by teams of skilled workers who built them as stationary objects. A fixed position layout was used. This was both slow and expensive.

In 1908, the Ford Motor Car Company began production of the Model T Ford, which had a purchase price of $950. During the following few years, work was done on perfecting the production, or assembly, line. Instead of workers going to each car, each vehicle was

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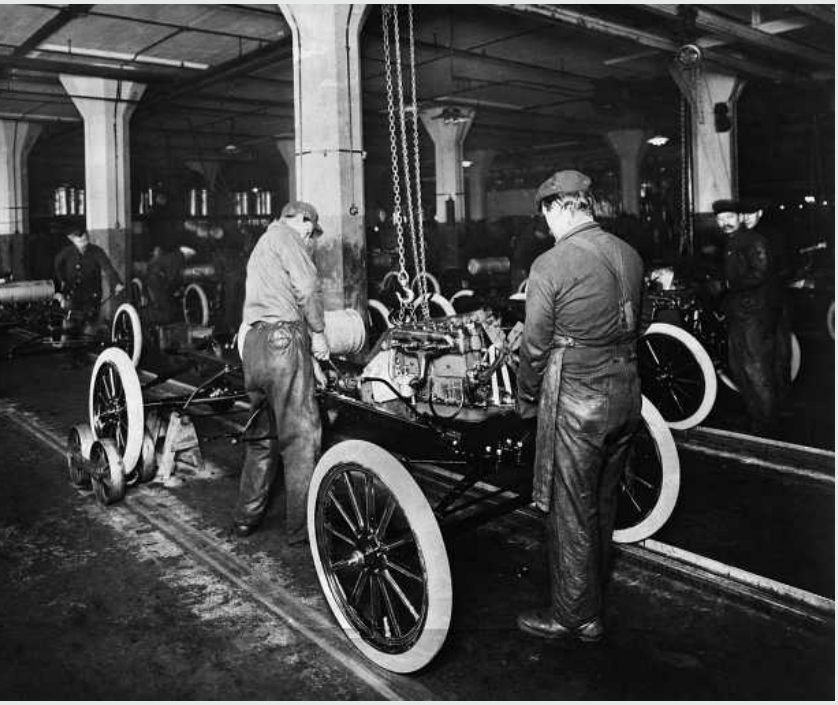


Figure 7.17 The old-fashioned way – a Model T being assembled in Highland Park Ford Plant, Michigan

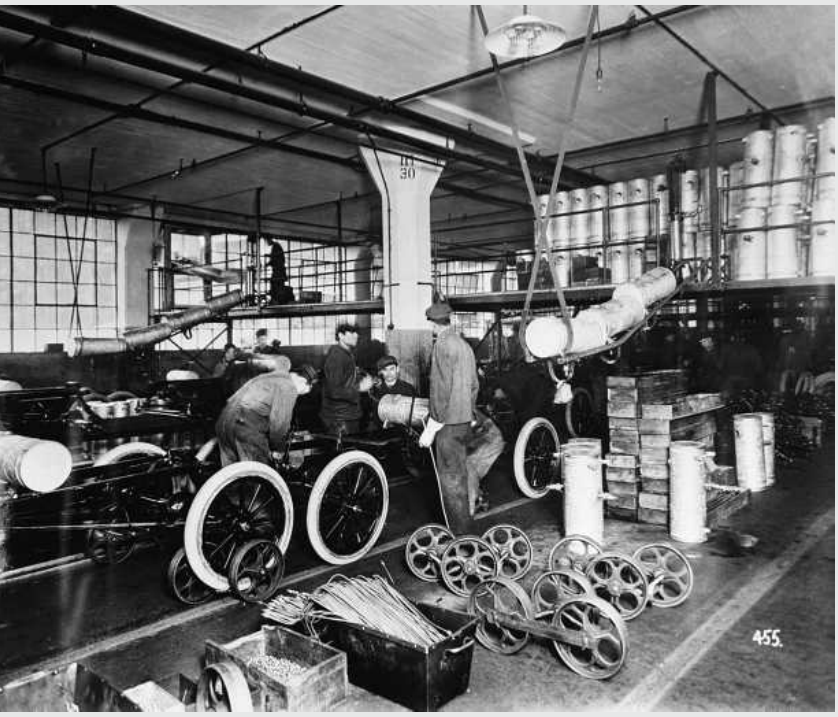


Figure 7.18 Early assembly line

transported on an assembly line to workers who remained stationary. Each employee was only required to perform one or two tasks repetitively. This reduced wage costs, as they only needed to be paid as unskilled employees. Workers were no longer craftsmen.

The new Highland Park plant in Detroit was purpose-built to incorporate the new assembly line. The production process began at the top floor of the four-storey building, where engines were assembled. These then progressed level by level to the ground floor, where the car's body was attached to the chassis.

By 1912, the price of a Model T Ford had fallen to $575; by 1925, it was less than $300. The time taken to assemble a car had reduced from more than 12 and a half hours in 1908 to less than six by 1925.

In 1925, Ford began production of the Model T in Geelong. The first assembly line was a crude affair with vehicles being pushed by hand from one area to the next as they were being assembled.

The only model available was the Model T.

Huge crates from Canada were offloaded at the nearby wharf. Chassis components, engines, transmissions and rear axles were unpacked and stacked. Workers used hand tools to bolt the components together and a block and tackle to lift the assembled body onto the chassis. Upholstery was hand stitched. Body frames were made of wood.

As each car was built, it was pushed out the door and across the street to be collected by a dealer or placed on a train.

In 1936, the wooden body was replaced with an all-steel frame. In 1937, a massive stamping press was installed, marking the development of the complete steel body.

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Over the years, improvements enabling productivity growth occurred. In 1925, around 30 vehicles were assembled per day. By 2005, Ford was producing approximately 500 per day. By this stage, the whole process was controlled by a master computer and up to 20 different models were being built on the one production line. A Just In Time supply system was also in use. Other innovations included robotics. High-tech robots had replaced hand tools. Painting of the vehicles was also fully automatic.

ANALYSIS

1 Identify when the production of the Model T Ford began.
2 Describe how the production methods used by Ford to produce the Model T differed significantly from previous car manufacturing methods.
3 Explain how Ford was able to significantly reduce the cost of car manufacturing through its use of the assembly line.
4 Identify when Ford began production of the Model T in Australia.
5 Outline the evidence that demonstrates that considerable productivity and quality improvements have been made at Ford since 1925.
6 Describe how the first Australian Ford assembly line operated.
7 Propose what is likely to have occurred if Ford had not adopted innovations that improved its productivity since 1925.

ACTIVITY 7.3

1 On YouTube, find and watch the virtual tour of the Jaguar XJ production line and complete the following table.

Inputs	Transformation steps	Product (output)

2 Using Google or your favourite search engine, find the virtual tour of the Stihl Chainsaw factory on the Stihl website. Watch the virtual tour and complete the above table once again.
3 Construct a table showing differences and similarities between the two operations systems.

SAC AND EXAM TIPS – linked to key skills

Explain the relationship between operations management and the achievement of business objectives – requires you to clearly describe how effective and efficient operations management positions a business to become successful in achieving its business objectives. Your answer should also include an outline of the key concepts – operations management and business objectives. The relationship is what occurs between them.
Compare the characteristics of a service and manufacturing operations management system – requires you to note points of similarity and differences between a service operations management system and a manufacturing operations system.

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Chapter summary

- Operations covers the actual work done transforming inputs into finished products (outputs). Businesses must manage their operations system in the most efficient and effective manner possible in order to become and remain competitive in an increasingly competitive global business environment.
- There are two categories of finished outputs:
  - Goods are tangible objects that are produced in manufacturing facilities, are easily stored in inventory, produced and consumed separately and involve minimal customer contact.
  - Services are performed intangibles, are not storable, and are often produced and consumed simultaneously.
- The operations system has three key elements:
  - Inputs: raw materials, component parts, human resources, information and knowledge, capital, plant and equipment, technology, time.
  - Transformation: The operations manager plans the transformation process, organises and leads its implementation, and controls the production process.
  - Outputs: The final product of the system can be either goods (tangible) or services (intangible).
- Successful operations management and competitiveness: Operations management affects competitiveness through costs of production, quality of finished products and the delivery of services associated with products (warranties, for example). An efficient and effective operations system maximises efficiency, produces high-quality standards, includes ethical and social considerations and assists in the achievement of organisational objectives.
- Productivity is a measure of the ratio of inputs to final outputs and is an important objective of operations management.

Chapter summary tasks

1 Define the following terms and explain the relevance of each term to operations management:
   a operations manager
   b competitiveness
   c goods
   d services
   e productivity.
2 Compare the features of manufacturing and service industries in terms of:
   a the features of their products and/or service
   b their operations systems
   c their objectives.
3 Discuss and explain the importance of maximising productivity and quality levels for business competitiveness.
4 Explain how each of the following factors within an operations system can impact on the level of business competitiveness:
   a speed of production
   b maintenance of equipment
   c quality of inputs.

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5 Propose and justify an appropriate measure of productivity for each of the following:
   a a hospital
   b a brewery
   c a secondary school
   d a police station
   e a market gardener growing tomatoes.
6 Differentiate between each of the following:
   a production and productivity
   b inputs and outputs
   c human resources and capital resources
   d service industry and manufacturing industry
   e raw materials and component parts.
7 List and explain the three key elements of an operations system of:
   a a web development services agency
   b a bakery
   c a wheat farmer
   d an airline.

Examination preparation

Solar Supplies Ltd is a manufacturer of solar panels designed for domestic electricity generation. Sunsavers Pty Ltd is a business that installs solar panels on the roofs of its customers. Solar Supplies Ltd is a supplier to Sunsavers Pty Ltd. Both businesses aim to improve competitiveness through improved productivity.

1 **Classify** each of the businesses (Solar Supplies and Sunsavers) according to industry sector and types of products produced. **(2 marks)**
2 **Compare** the features of one good and one service mentioned in the scenario. **(4 marks)**
3 **Identify** and **explain** the three key elements of the operations system of:
   a Solar Supplies Ltd
   b Sunsavers Pty Ltd.
   In your answer, provide one example of each key element of the operations system of each business. **(6 marks)**



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Chapter 8
Optimising operations

Overview

The primary goal of the operations manager of a business is to extract maximum productivity and standards of quality from the operations system, while at the same time achieving ethical and social responsibility objectives. They are responsible for optimising, or getting the best out of, the operations system.

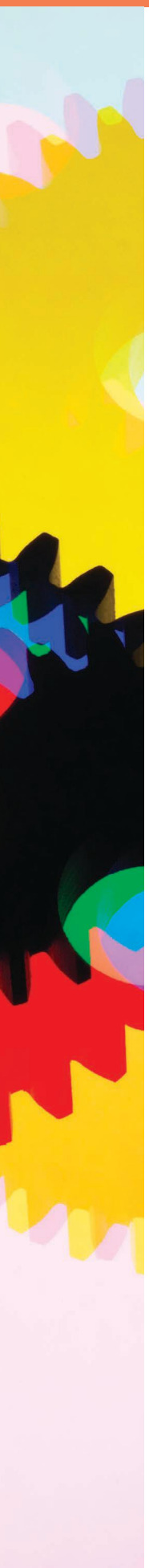
In this chapter, we examine some of the strategies used by organisations to optimise the operations system. This aims to improve levels of competitiveness in the global market.

More specifically, we look at strategies used to optimise operational performance in terms of both productivity and quality improvement. Strategies involving the following will be examined: technology, materials management, quality management and waste minimisation.

The production system known as 'lean management' will also be studied as a means of minimising waste, increasing productivity and improving levels of quality.



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Key terms

- automated production line
- automation
- computer-aided design (CAD)
- computer-aided manufacturing (CAM)
- computer-integrated manufacturing (CIM)
- ecommerce
- inventory
- inventory control
- Just In Time (JIT)
- lean management
- master production schedule (MPS)
- materials requirement planning (MRP)
- proactive
- product recall
- quality
- quality assurance
- quality circle
- quality control
- robotics
- scanner
- technology
- Total Quality Management (TQM)

Key knowledge

You will examine strategies used by business in order to optimise an operations system with a view to maximising productivity, quality and levels of social responsibility, and thus competitiveness. Strategies relating to technology, materials and supply chain management, quality management and waste minimisation (lean manufacturing) will be a focus. You will learn about:

- strategies to improve the efficiency and effectiveness of operations related to technological developments, including the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development
- strategies to improve the efficiency and effectiveness of operations related to materials, including forecasting, master production schedule, materials requirement planning and Just In Time
- strategies to improve the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management
- strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including the principles of lean management.

What's ahead

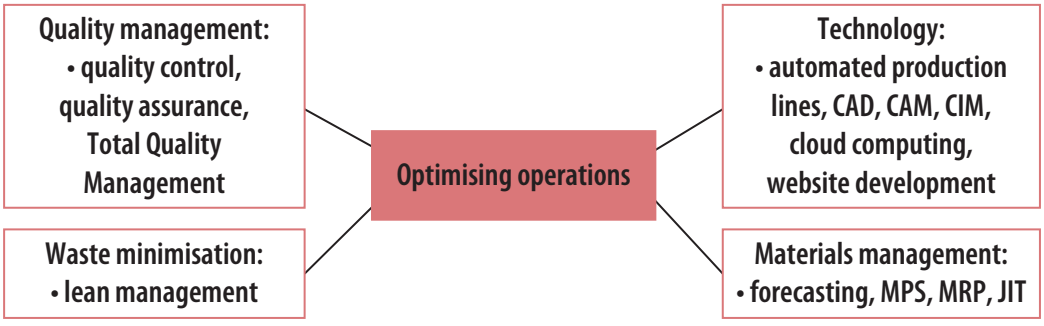


Figure 8.1 Optimising operations

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8.1 Strategies to optimise operations

Technological development

technology practical application of science to achieve commercial or industrial objectives

A major influence on business operations comes from technological development. **Technology** is the equipment and knowledge available to assist a business to function and create products. Developments in technology may facilitate new methods of production being introduced or new equipment being used to quicken or lower costs of production.

Introduction of new technology into an operations system may offer significant efficiency and quality improvements. While adoption of new technology can mean initial increased costs in its development or acquisition, this must be weighed up against potential improvements in productivity (efficiency) and quality (effectiveness) that the new technology can bring to the business.

A business that fails to keep up with the latest technological advancements will rapidly lose competitiveness. Following are several examples of technological innovation, each of which has added significantly to operational efficiency and the effectiveness of operations.

Automation

automation replacement of human activity with technology

Automation involves replacement of human effort by machinery and technology. Automation has resulted from engineering, mechanics, hydraulics, electric, electronic and computer advancements. Complicated automated systems such as modern factories, aeroplanes and surveillance systems use a combination of these things.

Most modern manufacturing operations systems and their production lines involve degrees of automation.

Figure 8.2 Automation replaces human labour with technology.



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Table 8.1 Advantages and disadvantages of automation

Advantages of automation	Disadvantages of automation
Increased production speed	Technology can be viewed as inflexible, given that it is developed to perform a particular task
Potential to remove dangerous and repetitive work/tasks	Development costs can be excessive
Reduction in human labour costs	High initial set-up costs – the automation of a plant involves significant capital outlay plus hidden costs such as preventative maintenance and cost of training employees to operate the machines
Greater precision and accuracy of work done	Social responsibility implication in removal of human employment opportunities
Consistent and improved quality of final output	Security threats – an automated system is not able to think 'outside the square' and is therefore more vulnerable to computer hackers and viruses
Reduction in material waste	
More efficient use of time	

Examples of automation

Automated production lines

Automated production lines are utilised in manufacturing industries, usually those that involve mass production such as the manufacture of automobiles. It is worth noting that the world's most successful manufacturing economies, notably Japan and Germany, have high investment in automation.

automated production line process where raw materials enter and finished products leave with little or no human intervention

An automated production line is comprised of a series of workstations linked by a transfer system and an electrical control system. Each station performs a specific operation and the product is processed step-by-step as it moves along the line in a predefined production sequence. Each workstation is linked to the next by an automated transfer system that moves products between stations and is designed to perform a specific processing operation or task.

All of the operations, transfers and activities on an automated production line must be sequenced and coordinated for the automated line to operate efficiently. Computers do this by facilitating connections between the equipment. Timing and sequencing of all equipment is controlled by computers.

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Figure 8.3 Automated production lines are controlled by technology. Human involvement in the production process is minimised.

The requirement for labour as an input in the operations system is reduced significantly with an automated production line. The human role is reduced to the areas of system design, making adjustments to equipment, supervision and monitoring rather than controlling the system directly.

An automated production line offers the advantages of improved productivity through lower labour costs, reduced production times and overall lower unit costs of production. Production is faster, more stable and accurate with reduction in human error. Automation also offers greater levels of workplace safety as dangerous tasks such as those involving toxic materials or situations, such as mining, can be performed by technology rather than humans. Repetitive, boring and difficult physical jobs may also be replaced by automation.

However, there are disadvantages with the adoption of automated production lines. The most significant is the huge initial costs involved in purchase and development of automated systems. Ongoing maintenance of equipment is also likely to be high, as it involves employment of a highly skilled group of maintenance workers with IT training. This creates significant labour costs. The social costs of automation in reducing available employment opportunities are another drawback.

computer-aided design (CAD) computer program that facilitates creation and modification of design

Computer-aided design

Computer-aided design (CAD) is a computer program that streamlines the creation and modification of product design. It has become standard in most manufacturing and design businesses. CAD speeds up the process of product design and increases accuracy. It is costly to introduce but saves time and money in the long term.

This software has allowed for the creation of three-dimensional diagrams from given data, thereby allowing for more accurate predictions of what the final product will look like from all angles, as well as more accurate cost analysis. CAD allows architects, engineers and designers to draw and adjust three-dimensional designs based on client requirements. Email allows a client to review a CAD from anywhere in the world, make comments and request alterations. CAD may be linked directly to a manufacturing process using CAM (computer-aided manufacturing) software. Product specifications can be shared through the CAM system with subcontractors and suppliers.

Figure 8.4 The use of CAD is pivotal in many design industries.



The development of CAD means that technical documents can be produced three to four times faster than by using manual methods. CAD takes the tedium and errors out of product design. CAD documents are also more accurate, flexible and manageable.

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Computer-aided manufacturing

Computer-aided manufacturing (CAM) involves control of machinery, tools and equipment through a computer. Machines are fed programmed instructions from a central computer, allowing for greater precision and less margin for error. CAM also reduces the need for manual resetting of machinery, which saves on time and labour costs. Using CAM, large sections of production can be controlled with greater efficiency, fewer errors and fewer staff. Time is saved and fewer mistakes made.

computer-aided manufacturing (CAM) computer-controlled manufacturing

computer-integrated manufacturing (CIM) CIM, a combination of both CAD and CAM, is a computer program that controls and directs production from start to finish. CIM directs planning, cost estimations, inventory planning and control, and quality control systems.

Computer-integrated manufacturing (CIM)

Computer-integrated manufacturing (CIM), a combination of both CAD and CAM, is a computer program that controls and directs production from start to finish. CIM directs planning, cost estimations, inventory planning and control and quality control systems.

Flexible manufacturing systems

Flexible manufacturing systems (FMS) create total computer control of all aspects of the operations system involving CAD-based equipment, with automated transport systems delivering component parts and raw materials in the correct quantities just as they are required. Computers detect things such as machine breakdowns and notify operators about the correct replacement parts required. They also reset equipment when it is required in order to produce different product types according to different specifications within reduced set-up times, and allow far greater flexibility.

Figure 8.5 Computer-aided manufacturing controls machinery, tools and equipment through a computer.



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CASE STUDY 8.1

Optimising operations through technological development: the use of CAD and CAM in the textiles industry

The textiles and fashion industry has significantly changed with the application of CAD, now widely used for all aspects of the design process. This effectively eliminates the manual, time-consuming processes of the past. Designers using CAD systems continue to explore their creativity. Designs can be stored electronically and hence are easily accessible for repeat orders. Processes such as colour matching, dye weighing and fabric printing can be automated. Designs and related information can be sent electronically on a global scale.

CAD creates the technical drawings that provide clear guidelines for the CAM process. After a designer completes a design using a CAD system, it is transferred to a CAM system that automates the production process. This can include the printing of designs, cutting of fabric and automated processes such as buttonholing and embroidery.

The initial set-up costs of machinery and programming are high. However, manufacturers benefit from efficient production and standardised quality.

ANALYSIS

1 Distinguish between the use of CAD and CAM in the textiles industry.
2 Outline the benefits this technology has brought in terms of productivity and product quality.
3 Identify and explain two disadvantages of CAD and CAM technology.
4 Identify and research one other industry that would benefit in using CAD and CAM technology.

Robotics

Robots are programmable machines with the ability to detect changes in the environment. Initially built to complete repetitive tasks, modern robots are beginning to have a degree of artificial intelligence.

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Robots offer significant cost savings and efficiencies. They reduce labour costs and are not subject to human error. Robots work without breaks and do not, as human employees do, suffer from boredom, require breaks, become ill or demand to be paid a wage. Significantly, robots are able to work in potentially harmful environments, thus improving the work conditions and safety of employees.

Robots do, however, incur costs via maintenance requirements and may experience mechanical failure.

The use of **robotics** has become widespread in industry. Initially, robots were introduced in Japan to complete tasks such as precision assembly of circuit boards. Car manufacturers also understood the benefits of introducing robots to their assembly lines. They not only reduce the costs of labour, but are able to continue working for long hours without breaks. Robots on production lines are programmed and controlled by computers. They can be programmed to handle a number of different products that are being assembled on the production line. The mining industry has replaced a large part of its labour force with robots and automated (driverless) trucks. Warehouses such as Amazon have deployed automated robotics systems to load and select stock.

robotics use of robots to perform manual tasks; a form of automation

ACTIVITY 8.1

Research Amazon's warehouse system and complete the following tasks. (*Hint:* Search 'Amazon warehouse robots'.)

1 Describe how this system might increase productivity at Amazon.
2 Analyse the disadvantages you can see with this system.

Technological developments in the service industry



Figure 8.6 The articulated robot is one of the most common types of industrial robots, resembling a human arm in its mechanical configuration.

Technology has also impacted significantly on the operations of service-based industry.

- Computerisation of the workplace has reduced operating costs and made significant time economies. Businesses are able to create and easily access databases. Information is now easily and quickly accessed through computers. The need for storage space has also been reduced, as filing cabinets are no longer required to hold business records.
- Global positioning systems (GPS) have assisted businesses with their logistics. They can track vehicles, such as delivery vans, buses and taxis. Logistics company Brambles is planning to place GPS chips into the pallets it supplies to other businesses so it will be able to track the movement of these pallets. This will be a cost saving for Brambles, as in the past it has lost large numbers of pallets, costing it considerable sums of money.
- Bookings and appointments are increasingly being made via the internet.
- Business-based intranet has improved communications and time required to locate and access data.
- **Scanners** have reduced costs and transaction times in retail stores. Many large retailers have reduced staff by introducing self-serve checkouts. Staff are only required to monitor and correct problems, thereby reducing labour costs.

scanner a device for sensing recorded data, as in a barcode; for example, a supermarket scanner

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Figure 8.7 Self-service checkouts have revolutionised large retail businesses all over the world.

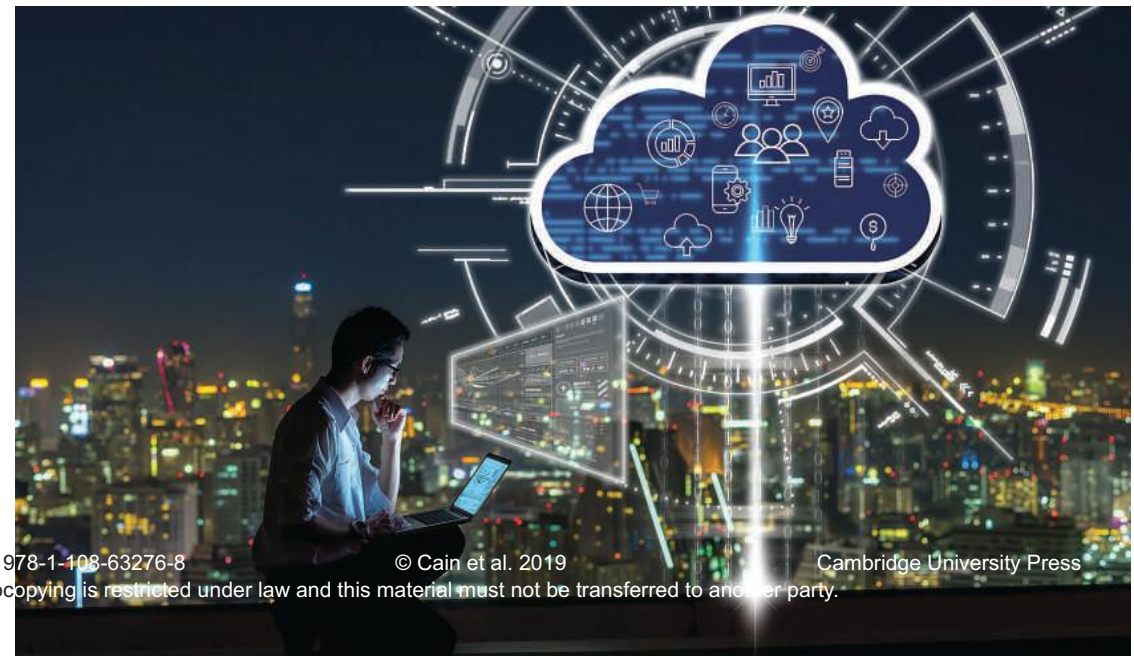
- Portable hand-held devices with access to the internet at broadband speed, such as tablets and mobile phones, have also greatly increased productivity levels.
- Mobile apps have proliferated. Businesses use these in multiple ways; for example, sharing documents and making voice calls. These can also be useful for marketing a business.
- Easy access to the internet has meant that many employees are able to work from home, saving office overheads. This also means that a business is accessible to customers/clients 24 hours a day, thus improving productivity.
- Web conferencing and webinars allow for face-to-face meetings and seminars when people are in different locations, thus reducing travel costs and increasing productivity.
- Email has become the dominant form of written communication. It has the advantage of being instantaneous and free. Email has advanced the global market with immediate information transfer. It is self-documenting and provides an audit trail.

Cloud computing

Cloud computing involves storing and accessing data and programs over the internet instead of a local computer hard drive (local storage and computing). Cloud computing can be done anywhere and anytime. When information is saved to the cloud, it is stored on servers on the internet instead of a computer. This allows access to calendars, emails, files and more from any computer that has an internet connection anywhere in the world. Cloud computing offers the following potential benefits to an operations system:

- A virtual office can be set up anywhere, allowing the flexibility of connecting with files anywhere and anytime. The increasing use of web-enabled devices such as smartphones and tablets allows immediate access to data outside the office. For example, a builder on-site would be able to access designs and legal documents online.
- Data stored in the cloud is backed up and protected in a safe and secure location and is not lost when an internal server goes down. Data is protected from natural disasters and power failures.

Figure 8.8 Cloud computing offers significant productivity improvements.



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- Increased ability to communicate and share information. Cloud computing gives employees, contractors and others working on a project in several locations access to the same files immediately.
- Greater flexibility, as data can be accessed from home, while on holidays, overseas and during a commute to work. This increases productivity.

Website development

In the twenty-first century, the development and maintenance of an accessible and easily locatable business website is vital for competitiveness. Whereas in the past, potential customers used print such as the Yellow Pages to locate and access information about businesses, nowadays the first port of call is an internet search engine such as Google or Bing.

Customers invariably research businesses, their products, menus, location, special offers and product benefits via business websites. For this reason, a business website is a vital marketing tool that must be easily accessible and visually appealing. A website establishes credibility and is often a competitive advantage. It also offers improved communication with customers and suppliers. A business website is an increasingly important avenue of sales through ecommerce.

ecommerce buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet

Ecommerce and use of the internet

Ecommerce has grown exponentially. As of 2017, 85% of Australians are connected to the internet and over 12 million Australians use social media. In 2017, online shopping in Australia increased by 10%, while in-store foot traffic increased by just 3%. The convenience for the shopper and the reduction in overheads for the retailers are the primary drivers of Australian ecommerce growth. And this is a trend that is set to continue into the future. Megastores such as Coles, Woolworths, Target and Kmart have opened ecommerce websites to take advantage of the increased margins of online retail and the ability to provide service around the clock.

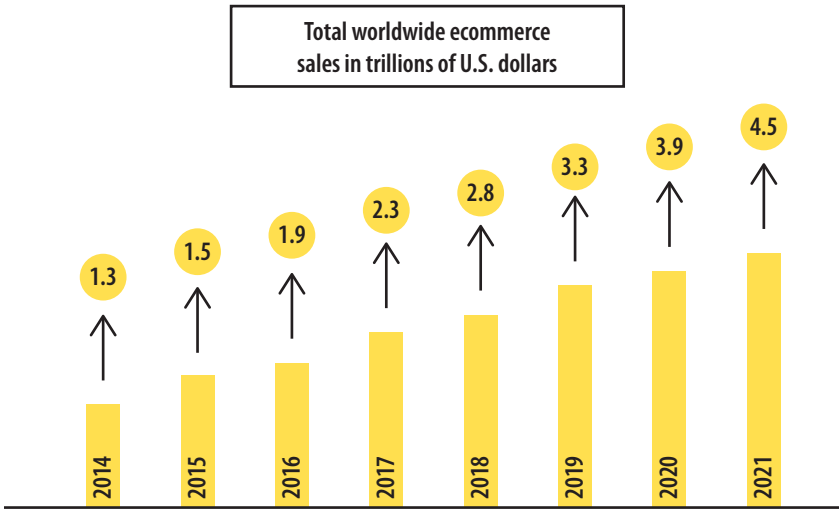


Figure 8.9 Global ecommerce sales will reach $4.5 trillion by 2021.

Effectiveness and efficiency improvements offered via ecommerce

- Costs are significantly less than those of setting up and running a 'bricks and mortar' business. An online business can be established for minimal cost. Marketing costs are also significantly less.
- A website is accessible to customers worldwide 24 hours a day, every day of the year. In effect, you can sell while you sleep! Selling online allows a business to reach a wider audience worldwide. Online business is environmentally friendly. There is less petrol usage and less paper. This also reduces costs and improves efficiency. Customer feedback is easy to obtain. It is also easy to track how customers found you (which search engine they used, etc.). This reduces market research costs and therefore enhances efficiency.

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- Marketing costs are reduced through the use of e-newsletters and email marketing. This improves productivity (efficiency).
- Customer service can be provided more effectively and immediately, thereby improving business effectiveness.

Potentially, billions of people have immediate access to any website. Hence the website has become a vital aspect of any twenty-first century business. Online trading is increasingly important to business. A business website is therefore important for business competitiveness.

Figure 8.10 Ecommerce is predicted to further expand in the future.

8.2 Materials management

Effective and efficient management of the materials requirements of a business has a direct link to how competitive a business is in the marketplace. Materials management relates to the inward flow of materials, including movement and storage of raw materials, work-in-process inventory, and finished goods from point of origin to point of consumption.

Aspects of materials management include forecasting, the procurement of supplies, master production scheduling, materials requirement planning, managing inventory using Just In Time (JIT) and distribution of finished products to customers (logistics).

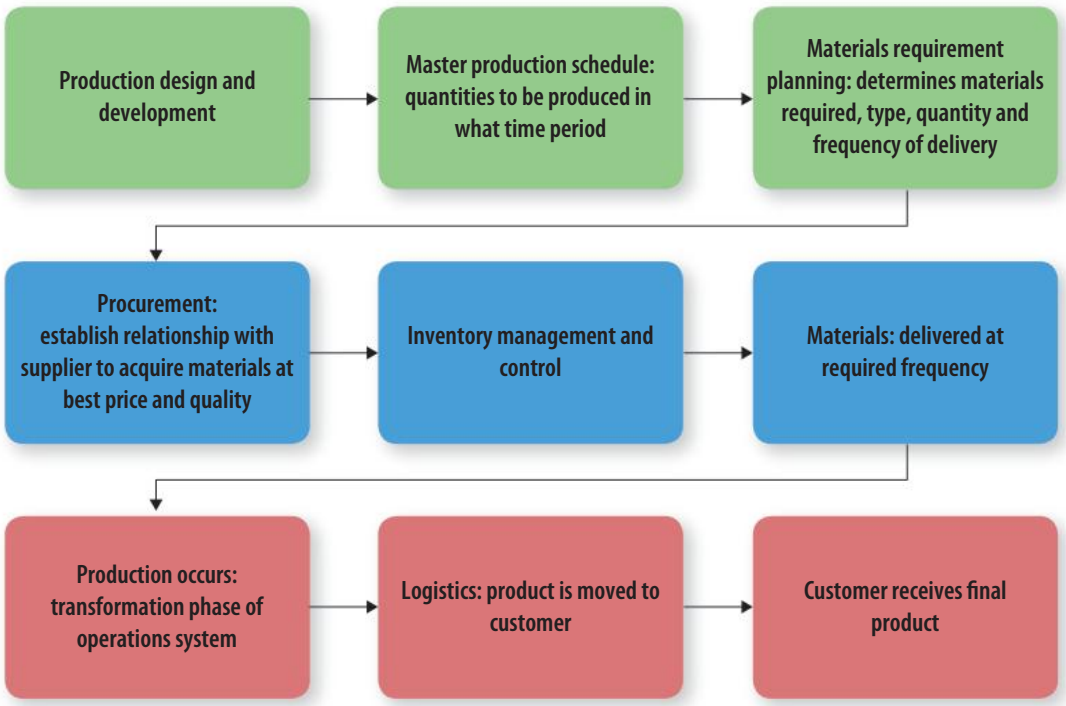


Figure 8.11 Effective and efficient materials management is vital to maintaining competitiveness.

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Forecasting and procurement of inputs

The job of a materials manager is to provide the right materials in the right quantities and levels of quality at the right time, at the right price from the right source. Procurement of inputs involves locating and acquiring a regular and reliable supply of high-quality inputs. In order to do this, an operations manager must locate sources of supply, negotiate the best price, place purchase orders, follow up, maintain good relations with vendors, approve, evaluate and rate vendors.

The first step in forecasting is predicting which materials will be required and in what quantities. Timing of orders and reordering must also be planned. The following factors must be considered:

- **Supplier lead-in time:** Suppliers require prior warning of orders. Component manufacture, for example, may take some time, so orders must be made in advance to allow for this.
- **Future price changes:** This possibility must also be considered. Prices may change due to seasonal variations, world market conditions or changes in the value of the Australian dollar.

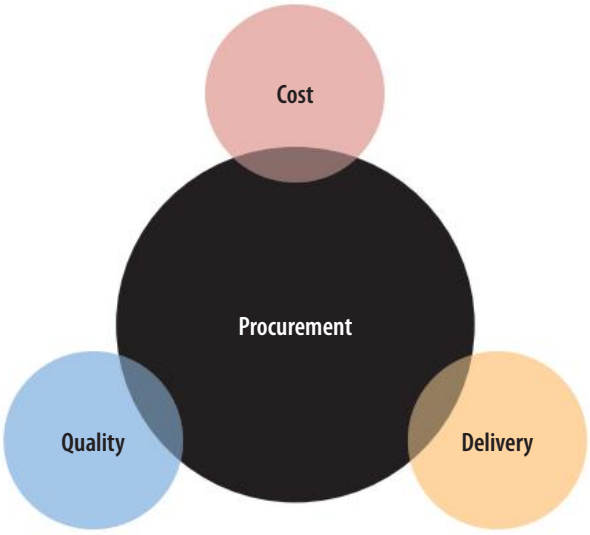


Figure 8.12 Procurement requires operations managers to source quality inputs at a competitive price from reliable suppliers.

Tools designed to optimise materials forecasting and planning

Master production scheduling

Production scheduling involves setting out the production requirements and breaking these down into stages. A **master production schedule (MPS)** shows exactly what will be produced in what time frame. It outlines delivery dates and when contracts are to be met. The MPS allows the operations manager to analyse production capacity requirements ahead of time and to allocate additional resources if required.

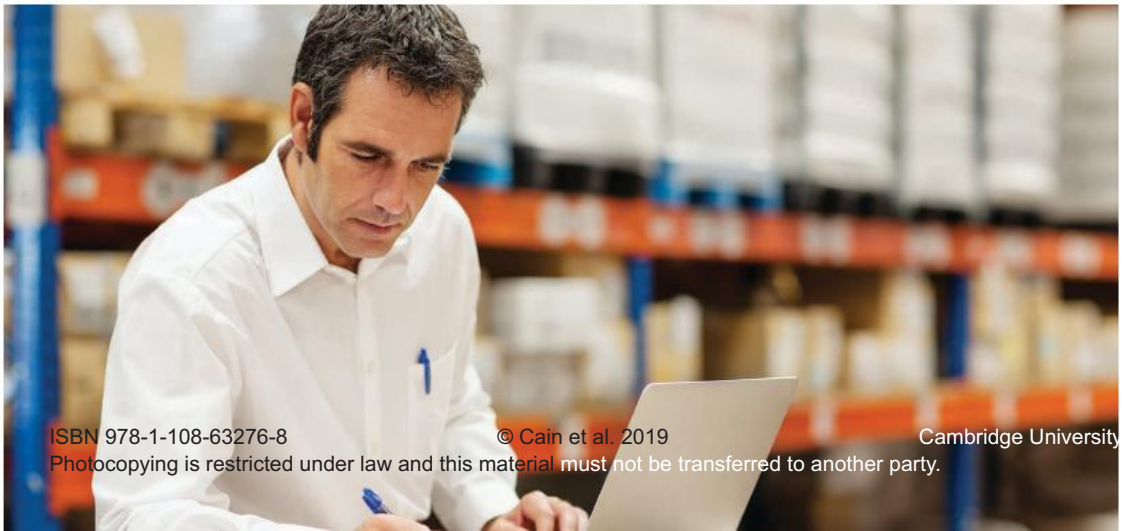
master production schedule (MPS) a statement of what a business intends to produce, in what quantities over a set time frame, taking into account forecast customer demand and production costs

The MPS specifies the:

- quantities and types of production over daily, weekly and monthly periods
- quantities of inputs that will be required to meet these output levels over each time frame.

Computer software has been written to assist businesses to generate a plan that sets out exactly what will be produced and in what quantities over a designated time period. Quantities to be produced within a time frame are detailed, as are the levels of input required.

Figure 8.13 A master production schedule allows managers to organise production efficiently.



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Materials requirement planning and scheduling

materials requirement planning (MRP) a computerised inventory management system used to schedule and place materials orders

inventory the holding or storage of raw materials, component parts, work in progress and finished goods

Materials requirement planning (MRP) is a computer-based inventory management system designed to assist the operations manager with scheduling and placing orders for materials. Working backwards from the MPS, the MRP develops material requirements for input materials so the correct quantities of product are produced within the desired time frame. The MRP determines what materials will be required in what quantities and when. It assists productivity levels by:

- ensuring sufficient inputs are on hand to meet production requirements
- minimising **inventory** costs
- planning operational activities, delivery schedules and purchasing activities.

A schedule containing an itemised list of the types and amounts of input materials required to meet the MPS requirements is drawn up using anticipated and real customer orders. The following factors should be considered in doing this:

- Supplier lead-in time. Suppliers will take time to obtain or produce an order. Component manufacture, for example, will take time; similarly transport and delivery times must be taken into account.
- The exact amounts of materials required. Opportunities to take advantage of reduced prices for buying in bulk may be considered.
- Possible future price changes in materials caused by seasonal variations, changes in the value of the Australian dollar or other reasons should be factored in.
- Planning must occur to ensure that sufficient quantities of materials are kept in storage (inventory) to enable production to continue.
- Contracts with suppliers should be established to ensure regular and reliable supplies of input materials.
- Systems must be established, to keep inventory at required levels and avert theft and loss of materials while in storage (e.g. JIT).

Optimising operations through inventory management and Just In Time

Inventory is storage of:

- raw materials and component parts
- unfinished production
- finished goods ready for distribution.

Inventory takes up storage space and is therefore a cost. The aim of inventory management is to ensure that correct quantities of parts and materials are available for the operations system to keep running, while simultaneously ensuring that there are sufficient finished products to satisfy demand. This must, however, be balanced against the costs of storage.

If inventory fails to hold sufficient quantities of a required input, the entire operations process could come to a halt. On the other hand, excess inventory takes up space and is a cost to the business. Optimal inventory levels must be clearly identified and monitored, and reordering procedures put into place. Acquisition of materials must be planned to ensure timely and uninterrupted supply of the necessary inputs and components. Sources of supply for raw materials and components must be identified.

Inventory management and planning necessitates decisions regarding:

- how much to order (quantities to replenish)
- timing of ordering (when to order)
- control of the stock security system.

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There are two important aspects to optimising inventory:

- Developing a reliable and accurate inventory system that determines what items to order, in what quantities. The goals are to maintain a level of inventory that allows production to continue without any delays, while avoiding the cost of excess stock.
- A system of **inventory control** that determines how and when to store items, that is capable of tracking movement of raw materials, components and part-completed units while protecting against loss from theft or damage.

Most organisations have computerised inventory records, resulting in vastly improved accuracy of recording systems and reduced opportunity for stock damage, loss and theft. The use of a barcode scanning system has largely replaced the physical stocktake.

Examples of improvements in inventory management and control are:

- New mechanical and automated warehousing equipment have significantly improved efficiency through easier stock movement.
- Computerised stock control systems with barcoding, enabling greater control over order assembly, stock availability and monitoring.
- The **Just In Time (JIT)** system of inventory management from Japan has grown in popularity.

Figure 8.14
Careful planning is involved in inventory management.

inventory control system of overseeing the contents of an inventory; usually involves maintaining correct levels of stock as well as averting stock loss and theft

Just In Time (JIT) an inventory management system that aims to avoid holding any stock (either as inputs or finished goods). Supplies arrive just as needed for production, and finished products are immediately dispatched or sold to customers.

JIT involves the reduction/minimisation of inventory levels in the supply chain, thereby reducing inventory costs. Inherent to JIT is the availability of products in the required amounts at the right time at every stage in the production process, while at the same time minimising the use of materials, equipment, labour and space. JIT systems eliminate waste and storage costs by having all operations completed just in time for the next stage to commence, thereby reducing production costs via reduced lead times, reduced inventory holdings and resultant decreased inventory storage space requirements. For retailers, JIT means carrying only enough inventory on hand to meet the immediate needs of customers.

JIT processes are driven by technology. Buyers and suppliers commonly use electronic data integration to synchronise computers. This allows automatic alerts to be sent to suppliers when product inventory reaches a critical level. A supplier receives the message and sends out a new order. Removal of manual processes of monitoring inventory and calling in orders is vital to JIT. However, while JIT offers great potential for productivity improvement and cost savings, it does have potential drawbacks.

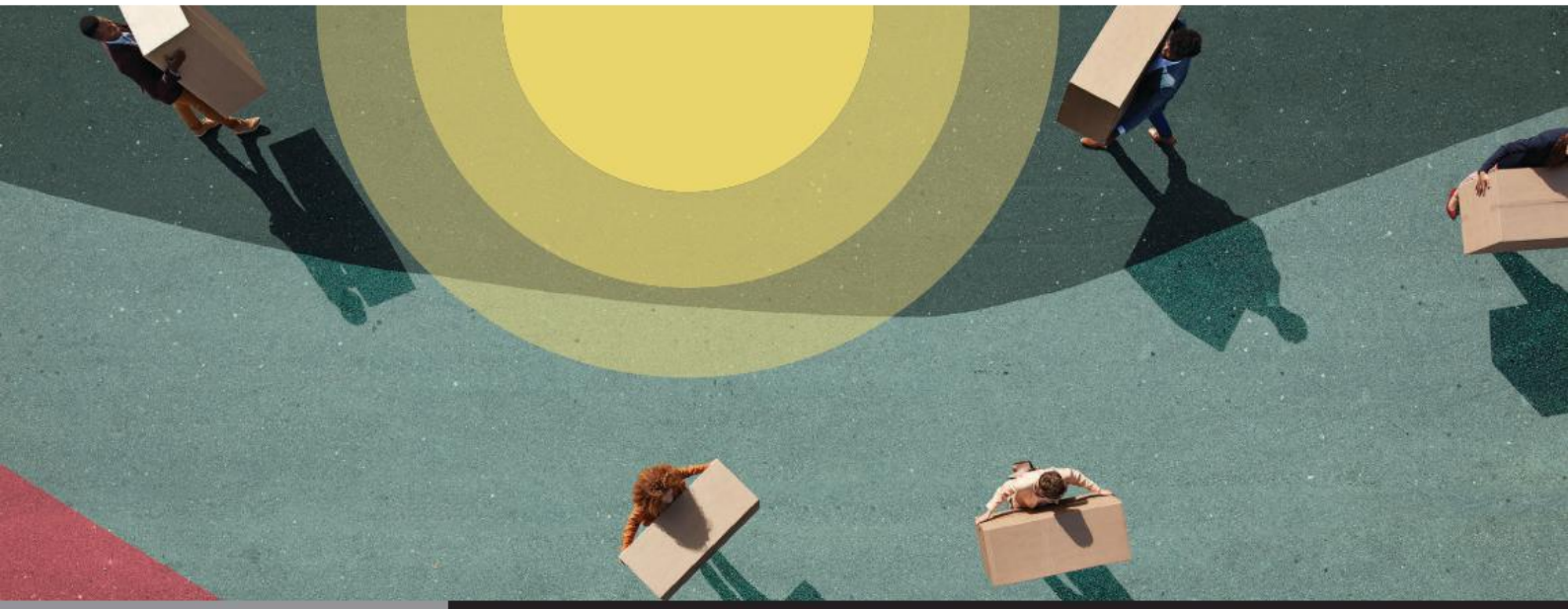
Disadvantages

- JIT depends on reliable and frequent deliveries of materials. Inputs must be received just as they are required, and less inventory is held as a buffer. Any factor affecting delivery schedules has the potential to completely shut down the production process. Industrial action at a manufacturer of a component used as input by another manufacturer has the potential to close down production at the second manufacturer.
- JIT allows less time for checks on the quality of materials as they arrive.
- Ordering and administration costs may increase with the requirement for more frequent orders.
- Bulk buying discounts may be lost.

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Key elements of the Just In Time system

- JIT aims to reduce costs through minimisation of inventory.
- Small quantities of inputs, such as raw materials and component parts, are delivered more frequently with a view to meeting immediate requirements. Large stockpiles are therefore avoided.
- Inventory is replaced as it is used.
- Employee participation is required to identify wasteful work practices and eliminate these on a continuous basis.



CASE STUDY **8.2**

Optimising operations through materials management: Dell Computers and ALDI Supermarkets

Dell is an American multinational computer technology company that employs over 100 000 people in the United States and around the world. Dell is well known for its innovations in supply chain management and ecommerce. As a computer manufacturing company, Dell has developed a direct-sales model that allows customers to order computers directly online. Customers have the opportunity to customise their order, from selecting hard drives to specifying features such as colour and screen width. As soon as the order is received, materials and parts are ordered, assembled and then shipped to the customer.

ALDI

ALDI is a German supermarket chain with over 10 000 stores in 20 countries. ALDI's competitive pricing strategy is the way that it stands out from the competition. For example, its home-branded products are often cheaper than its rivals, by 30% or more. To achieve these prices, ALDI relies on being highly productive and efficient. This competitive strategy is also known as 'lean thinking'.

An important aspect of 'lean thinking' at ALDI is the use of a Just In Time system of inventory management.

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ALDI stores only hold stock immediately required for sale. Consequently, less capital is tied up in idle stock not generating income. Warehousing costs are reduced as smaller areas are required to hold stock and fewer staff and equipment are needed to operate warehouses as a result. Products are delivered to ALDI in display-ready cases. These can be placed on display immediately without the need for unpacking and stacking of shelves. This is both quick and efficient.

ANALYSIS

1 Describe what JIT inventory management is and the principles on which the system operates.
2 Describe how Dell uses JIT.
3 Explain how ALDI implements JIT in its stores.
4 Analyse the potential benefits of using JIT for Dell and ALDI.
5 Analyse the potential disadvantages the use of JIT may bring to businesses like Dell and ALDI.
6 Write a paragraph about JIT, including several 'deliberate mistakes'. Share this with at least two other people. Identify the deliberate mistakes in each other's work.

Transport and distribution (logistics)

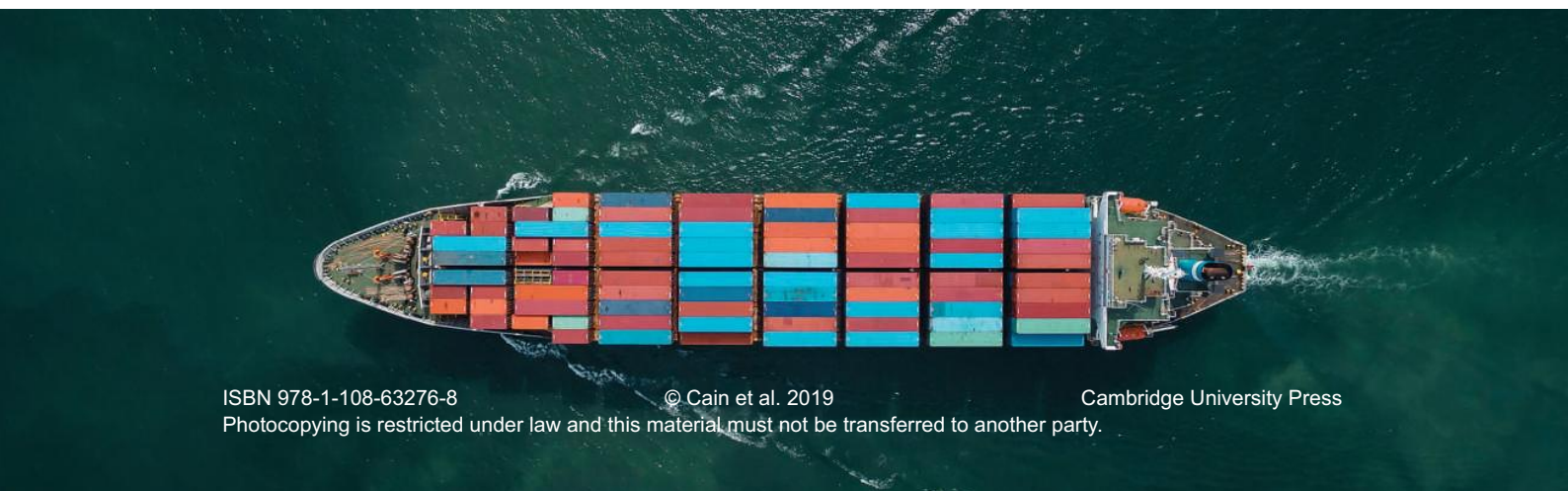
An efficient system of transporting finished products to customers is required. This may involve contracts with transport specialists such as couriers. Frequency of deliveries must be established, as must routes to be taken.

Quality management

Quality is the degree of excellence in a product and its ability to satisfy client/customer requirements. Consumers generally base purchasing decisions on quality and price, looking for the best possible quality at the lowest price. Organisations with a reputation for quality products and services have a distinct competitive advantage. Similarly, those that are able to develop operations systems of a higher quality standard enjoy significant advantages in terms of operating costs through minimising waste and defect rates.

quality the degree of excellence in a product or service and its ability to satisfy the customer

Figure 8.15 An effective and efficient supply chain is vital to business success.



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Quality management programs are a means of enhancing organisational competitiveness. Quality management may involve one, or a combination, of quality control, quality assurance and **Total Quality Management (TQM)**.

Total Quality Management (TQM) a concept whereby all staff in a business have responsibility for its process and output

Table 8.2 Factors determining quality

Factors that can be used to determine the quality of a product or service		
• Durability • Maintainability • Speed of service • Design • Features • Reliability	• Performance • Responsiveness • Aesthetics • Consistency • Ease of use • Uniformity	• Customer satisfaction • Dependability • Availability of spare parts • Conformance to standards/ specifications • After-sales service

Quality management strategies aim to:

- minimise waste and defect rates in production, thereby maximising operational efficiency and productivity
- obtain consistently high standards of product and service at every stage of production
- achieve set quality standards or benchmarks.

ACTIVITY 8.2

Construct a list in order of importance of the five characteristics you would look for in each of the following products/services for it to be judged as 'high quality':

1 a designer dress
2 a restaurant meal
3 a bathroom renovation
4 a car service
5 a highly publicised music performance.

quality control process of checking the quality standards of work done or quality of raw materials or component parts

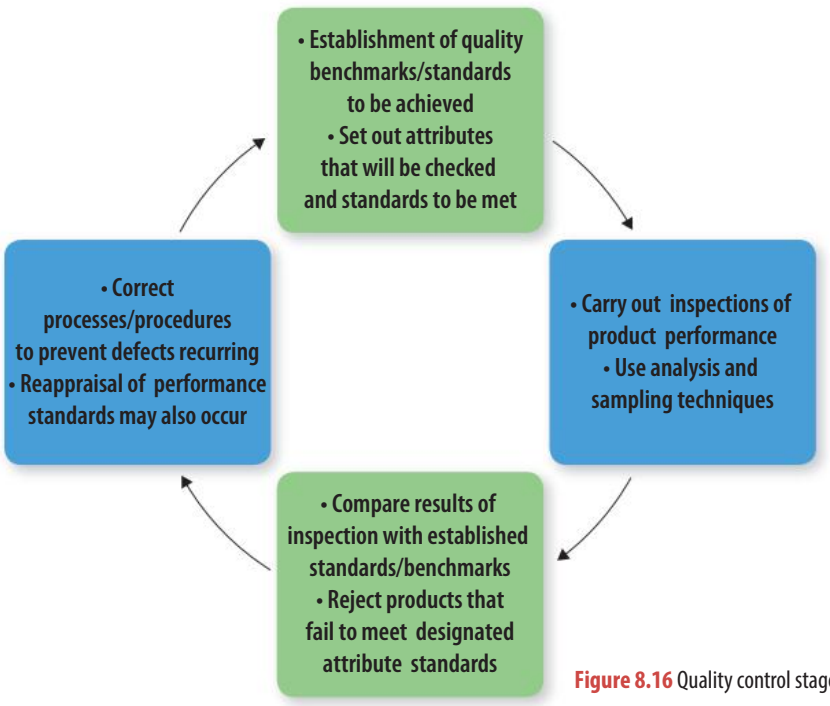


Figure 8.16 Quality control stages

Quality control

Quality control involves the use of a series of physical checks at different stages of production to ensure that products and services meet designated standards and errors are eliminated post-production. Defective products are rejected and may be sold as 'seconds'. Quality control is reactive and aims to detect and eliminate defects after they occur. Once detected, operations management decides whether production needs to be halted to fix the problem's cause or not.

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At times, a **product recall** becomes necessary to rectify problems with units already sold. For example, Black and Gold Frozen Vegetables were recalled in 2018 due to possible listeria contamination.

product recall when a defective product is sourced and either rectified or replaced after it has been sold by the manufacturer

Figure 8.17 Quality control: recall of suspected hazardous products

Product Safety Recall



Bouncealot 3000 Pogo Stick

BA3000

Sold at Barry's Sports Emporium May 2019 - June 2021

Defect: In some circumstances the springs on the pogo stick may break and shoot off in random directions

Hazard: If the defect occurs whilst in use the pogo stick can collapse causing serious injury to the user, or to those in close proximity to the pogo stick

What to do: Consumers should immediately stop using the pogo stick and contact their nearest Barry's Sports Emporium store to receive a replacement pogo stick or a full refund of the purchase price

Contact details: You can contact your nearest Barry's Sports Emporium store by phoning 1800-pogo Mon-Fri 11:00am – 11:30am, via email at barrysdodgysports@geemail.com or go to www.barryssportsemporium.com.au

See productsafety.gov.au for Australian product recall information (and for real product recall notices ☺)

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CASE STUDY 8.3

Procal Dairies and operations management

Procal Dairies is a privately owned family company established in 2003 by the Thyssen family. The business successfully transitioned from distribution to manufacturing in 2009 with the opening of a purpose-built facility located in Campbellfield. The company has won gold medals across its entire range in the annual Dairy Industry Association Awards (DIAA). Procal Dairies has evolved into a thriving, award-winning business with an annual turnover of over $55 million.

The company operates across several sectors, including the rapidly growing cafe and hospitality industry, food service and retail industry. Its products are Fast Moving Consumer Goods (FMCG) that are fresh with a short shelf life, requiring 'on demand' ordering and competitive pricing. Over 40 independent owner distributors deliver to over 4000 cafes across Melbourne and Sydney.

OPERATIONS

Three stainless steel silos have been installed on the Campbellfield site with a capacity to store over 250 000 litres of milk, which is transformed to a wide range of dairy products, including fresh milk, yoghurt, cream and sour cream. The processing plant continues to be regarded as an industry benchmark for quality, incorporating modern machinery and processes. In aiming to improve both efficiency and effectiveness, the company has heavily invested in high-level technology for automated production lines. Laney Quinn, General Manager, views technology as a major expense for the business. 'During its early stages of implementation, technology is expensive and integration with current machinery or applications can be difficult. Technology can also be difficult to integrate as a business is growing.'

An integrated computer program controls and directs production from start to finish, requiring minimal staff who monitor the process. The automated production process involves a series of sequences to produce quality dairy products. With two high-speed bottle-filling lines, 125 2-litre milk bottles can be filled per minute. Ten thousand 140-gram tubs of yoghurt can be produced

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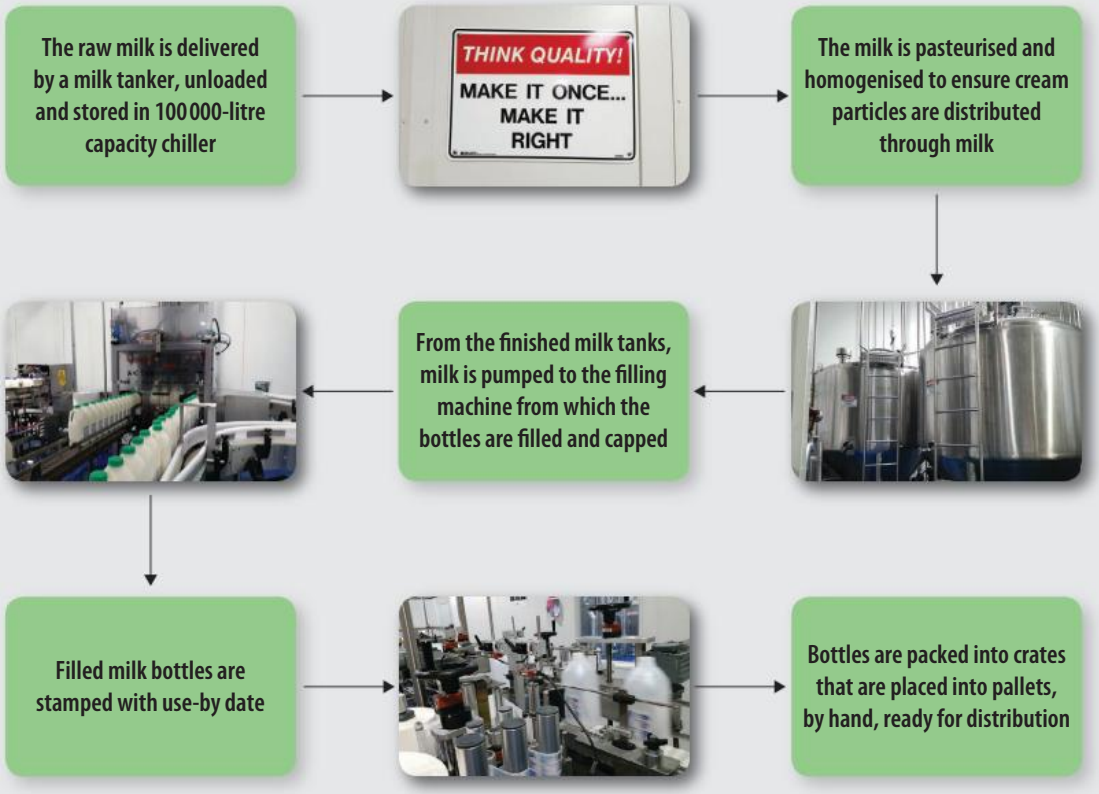


Figure 8.18 The process of transforming raw milk to bottled milk ready for consumption

each hour. The plant has the capacity to process between 150 000 and 200 000 litres of milk each day, with 86% of the company's product being white milk, 10% cream and sour cream and 4% yoghurt. To enhance further efficiency, robot packing equipment is used. Staff are required for packing at the final stages of the process.

Samples of milk are withdrawn from the system every 30 minutes to be quality tested in the onsite laboratory. Quality tests are conducted to meet the requirements of Dairy Food Safety Victoria (DFSV), Safe Quality Food Institute (SQF), halal and kosher certifications. The plant is audited every six to 12 months by these associations to ensure the company's processes are meeting the required standards.

Management are determined to achieve their objectives in further expanding the company with the aim of turning over more than $100 million each year and aim to achieve this by continuing to explore potential opportunities, including expanding to South-East Asia, developing UHT and non-dairy milks.

ANALYSIS

1 Explain how operations management contributes to the overall business objectives of Procal Dairies.
2 Discuss the use of technology at Procal Dairies in improving the efficiency and effectiveness of the company's operations.
3 According to Laney Quinn, technology can be difficult to integrate as a business is growing. Explain your understanding of this statement and evaluate the use of technology in operations management.
4 Identify and explain one materials management strategy that is used by Procal Dairies to improve the efficiency and effectiveness of the operations system.
5 Identify and explain one quality strategy that is implemented by Procal Dairies to improve the efficiency and effectiveness of the operations system.

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Quality assurance

quality assurance a system established to ensure that predetermined quality standards are achieved

proactive using initiative to gain an opportunity; acting in anticipation

A **quality assurance** system aims to build quality into work processes, thereby avoiding errors before occurrence. It is a **proactive** process that may involve use of an external organisation called a 'certification body', which audits against published national or international standards. Attaining certification entitles an organisation to display certification marks. SAI Global is the best-known Australian certification body that issues certification against published International Organization for Standardization (ISO) standards. The right to use recognised certification marks provides confidence to an organisation's stakeholders, adds great potential for selling into export markets and demonstrates a huge competitive advantage in globalised markets over its non-certified competitors.



Figure 8.19 This is a certification trade mark owned by SAI Global Limited. Only parties certified by SAI Global to ISO 9001 on SAI Global's terms and conditions have the right to display this mark in the context of the goods or services subject of certification.

While different quality standards apply to different types of organisations, standards usually cover aspects such as:

- specific processes to be adopted in regard to customer satisfaction, continuous improvement and the production process
- training of staff
- documentation of processes
- controls
- corrective action
- auditing of processes.

Quality assurance is growing at a rapid rate among Australian organisations as globalisation increases international competition and the quality expectations of Australian consumers.



Figure 8.20 Quality assured mark

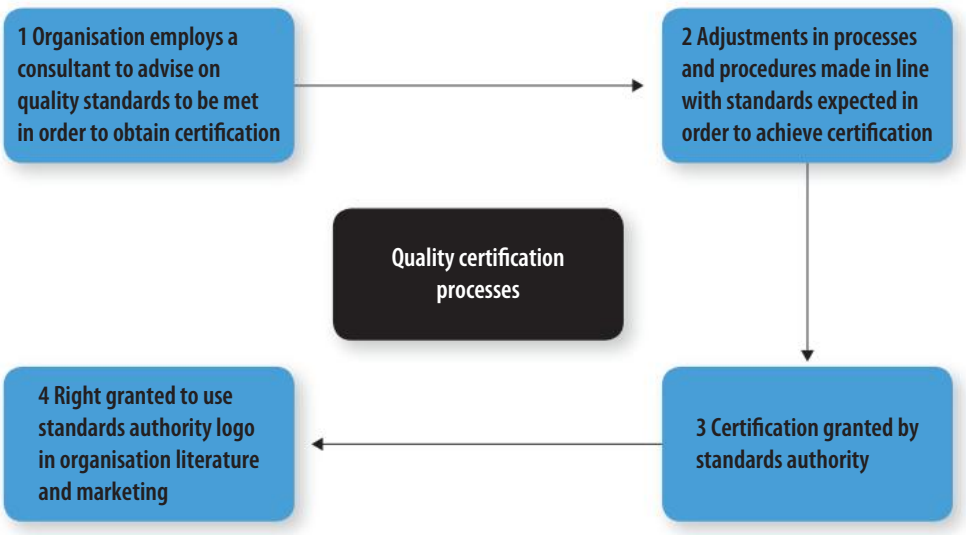


Figure 8.21 Quality certification processes

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ACTIVITY 8.3

Melbourne's largest single-site employer, Crown Melbourne, has developed an award-winning sustainability program across all of its operations. The company has invested in educating staff so that they are aware of Crown's environmental objectives and to ensure successful implementation. Crown Melbourne has adopted an Environmental Management System that is in line with ISO 14001 guidelines.

Go to the Crown Melbourne website, open 'Site Map', click on 'Environment', and then click on the 'Environmental Management' tab.

1 Explain how Crown Melbourne supports an environmental management system.
2 Go to the International Organisation for Standardisation website and search the ISO 14001 guidelines. Discuss the advantages and potential challenges in meeting the ISO 14001 standards.



Figure 8.22 International Organization for Standardization ISO 14001

Total Quality Management

Total Quality Management (TQM) is a holistic approach to quality where all members of an organisation aim to participate in ongoing improvement of organisational culture and production processes. All organisational members are required to have a commitment to ongoing, incremental quality improvements in everything they do. Employees are placed into a work group known as a **quality circle** and are required to work together to achieve quality improvements on an ongoing basis.

quality circle a group of workers who meet regularly to discuss quality and production issues. Any proposed changes to production methods are then put forward to management.



Figure 8.23 TQM essential components

TQM is a totally integrated, management-led effort aimed at improving performance at every level of the enterprise and in every aspect affecting competitiveness and customer satisfaction.

William Edwards Deming

An American statistician named William Edwards Deming developed TQM after World War II. He had been sent to Japan to assist in rebuilding its industry base after it had been devastated by wartime bombings. He introduced new quality control concepts to the Japanese, with his central idea being to change the production system to prevent defects rather than simply detecting and throwing out the defective products after they had been made.

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Figure 8.24
Statistician William Edwards Deming

Deming's definition of quality was 'meeting or exceeding the needs and expectations of the customer'. The goal of a business is to ascertain what customers want, and then fine-tune processes to ensure they get it. 'Customer' refers to both internal and external customers. Every work group has a customer: the person who receives their output. TQM states quality should be the responsibility of everyone in the organisation.

The Japanese adopted and further developed Deming's ideas. The application of process improvement was extended so that the quality concept applied to an entire organisation.

Japanese industries now have a worldwide reputation for high standards of quality and workmanship. Much of this improvement can be traced to the adoption of quality management practices and procedures. During the 1980s, Western manufacturers began to adopt quality concepts and added other management techniques in the area of employee motivation, measurement and rewards in response. This blend of quality management techniques and philosophies is generally referred to as Total Quality Management. Companies that use TQM include Exxon Mobil and Xerox.

Core TQM concepts

1 Continuous process improvement

- People view their work as one step in a continuous process rather than in isolation.
- A process is a sequence of tasks, which together produce a product or service. Every work group has a supplier and a customer before and after them in the process.
- The way to improve quality is to ascertain who the customer is and what they need, and then improve processes to meet these needs.
- Teams are established to analyse problems and processes and implement solutions.
- Continuous improvement takes place in small, incremental steps and never stops. You are always looking for a better way of doing things.

2 Customer focus: everyone has a customer

- External customer – person who purchases the final product.
- Internal customer – those who use what your work group provides.
- Work groups determine ways of providing greater value to customers.
- Customer focus involves finding out exactly what the user needs and wants, and ensuring that the process provides it.

3 Defect prevention

- TQM is proactive. It aims to prevent defects in products before they occur.

4 Universal responsibility

- Quality is not just the responsibility of the inspection department. Every work group is concerned with seeking ways to improve the quality of their own product.

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8.3 Improving productivity through lean management and waste minimisation

Optimisation of an operations system in order to improve productivity can also be brought about through the introduction of waste minimisation strategies. A focus on waste reduction can help address high raw material prices, rising costs of hazardous waste treatment and disposal, and pressure to increase the sustainability of operations. Faced with regulations, public pressure, landfill shortages and the need for increased resource efficiency, companies are moving away from the waste treatment approach and towards waste prevention.

Businesses are being forced to change the way they manage waste. Waste prevention techniques are increasingly utilised in business. These are commonly summarised as the so-called 4Rs: Reduce, Reuse, Recycle, Recover:

- **Reduce** – the use of resources
- **Reuse** – if waste is produced, effort is made to reuse it where practical
- **Recycle** – to recycle waste material into usable products
- **Recover** – sometimes it is possible to recover materials or energy from waste that cannot be reduced, reused or recycled.

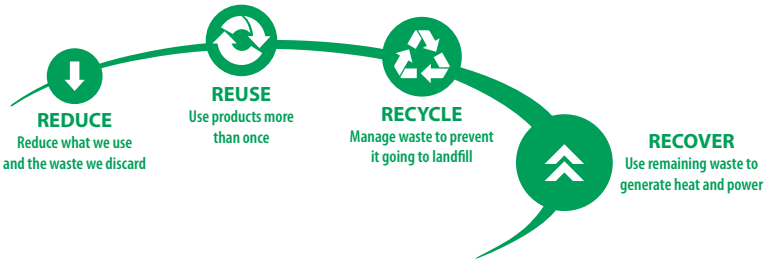


Figure 8.25 Reduce, Reuse, Recycle, Recover

By practising waste prevention, reusing products, recycling and making environmentally conscious purchases, businesses can cut costs and increase profits. Cost savings take the form of:

- lower waste disposal costs
- lower waste treatment costs
- lower energy costs
- savings on materials and supplies
- a reduction in regulatory compliance costs
- lower storage costs
- cost recovery through the sale of recyclable materials
- cost recovery through sales of 4Rs technologies developed through research and development.

Reduction of waste generated by a business organisation will usually result in significant cost savings and productivity improvements. Waste removal and disposal can be significant expenses. Unused scrap and other materials that are not used efficiently are also unnecessary costs. Time and equipment used in fixing mistakes is not productive. Unnecessary storage and transport are a direct cost and can contribute to energy and fuel costs. Purchasing items that are not used or producing items that are not sold can also be costly forms of waste.

ACTIVITY 8.4

Alto Hotel Melbourne: 'Australia's first carbon neutral hotel'

1 Go to the website of the Alto Hotel and read its Environmental Sustainability Fact Sheet under the 'Green Hotel' tab.
2 Construct a table to summarise its waste management strategies.

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Lean management systems and waste minimisation

lean management the term given to a range of measures traditionally used by Japanese businesses in an attempt to reduce waste and costs in production

Lean management (commonly referred to as lean production) is a manufacturing system mostly derived from the Toyota Production System (TPS) or Just In Time production. Lean management involves a systematic process for the elimination of waste in the manufacturing system.

It is based on the principle that productivity improvements will come through a continuous process of identifying and eliminating areas of waste in the operations system. It involves identifying and removing all activities and processes occurring in an operations system that do not add value to a product as it is being produced. This will increase productivity levels.

The development of lean management can be attributed to engineer Taiichi Ohno. Working for Toyota after World War II, Ohno developed the process to help eliminate waste, reduce inventory, improve productivity and empower workers. This is in contrast to the production line method used by Henry Ford around the same time: materials were kept on hand in anticipation of future orders, and workers were assigned a single task to complete repetitively. Making use of multiskilled employees meant that Toyota was able to flatten its management structure, allowing it to adapt to change faster than its competitors.

The steps in lean production are:

1 Identify what customers will pay for a product (value).
2 Identify all steps taken in the operations system (process mapping).
3 Make everyone in the organisation responsible for identification of areas of waste/improvement on a continuous basis (continuous improvement – *Kaizen*).
4 Implement improvements to:
   - minimise inventory levels
   - maximise production flow
   - produce items when required (pull production from customer demand)
   - do it right the first time (quality).
5 Empower workers and make them responsible for developing strategies to eliminate waste.
6 Partner with suppliers.

Lean production is based on:

- **Just In Time** – materials are delivered just as they are required in the production process, so inventory costs are kept to a minimum. (See earlier in this chapter for more detail.)
- **Kaizen** – the notion of continuous improvement. A strategy where employees at all levels of the company work together proactively to achieve regular incremental improvements in the production process.
- **use of automation**.



Figure 8.26 Key terms of lean production/management

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CASE STUDY
8.3a

Toyota and lean management

Please see the Interactive Textbook to access this case study.



CASE STUDY
8.4

Bombardier and lean management

Bombardier is a multinational aerospace and transportation company based in Canada. It is the world's leading manufacturer of both planes and trains. Bombardier employs more than 39 000 people in 27 countries. In 2017, this produced revenues of over US$16.2 billion. As a global leader in the rail industry, Bombardier daily moves over 500 million passengers in more than 60 countries. The company's vision is to shape the future of mobility, continuously finding ways to bridge distances and bring people together across cities and countries.

The Australian operations headquarters is located on a 41-acre site in Dandenong, Victoria, plus an additional 21 locations across Australia, employing over 1000 people. Bombardier has established strong partnerships with more than 1500 Australian suppliers. Its rail vehicles combine contemporary design and technical innovation. Optimal operational performance is assured with high levels of reliability, safety, environmental performance and cost efficiency. Bombardier has manufactured over 200 cars for VLocity trains used across regional Victoria. A $300 million contract with Victoria's Department of Transport for 50 trams strengthens Bombardier's position as the largest supplier of Victorian trains and trams.

CONTINUED ITEM

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IMPLEMENTING LEAN PRODUCTION AND EMERGING ISSUES

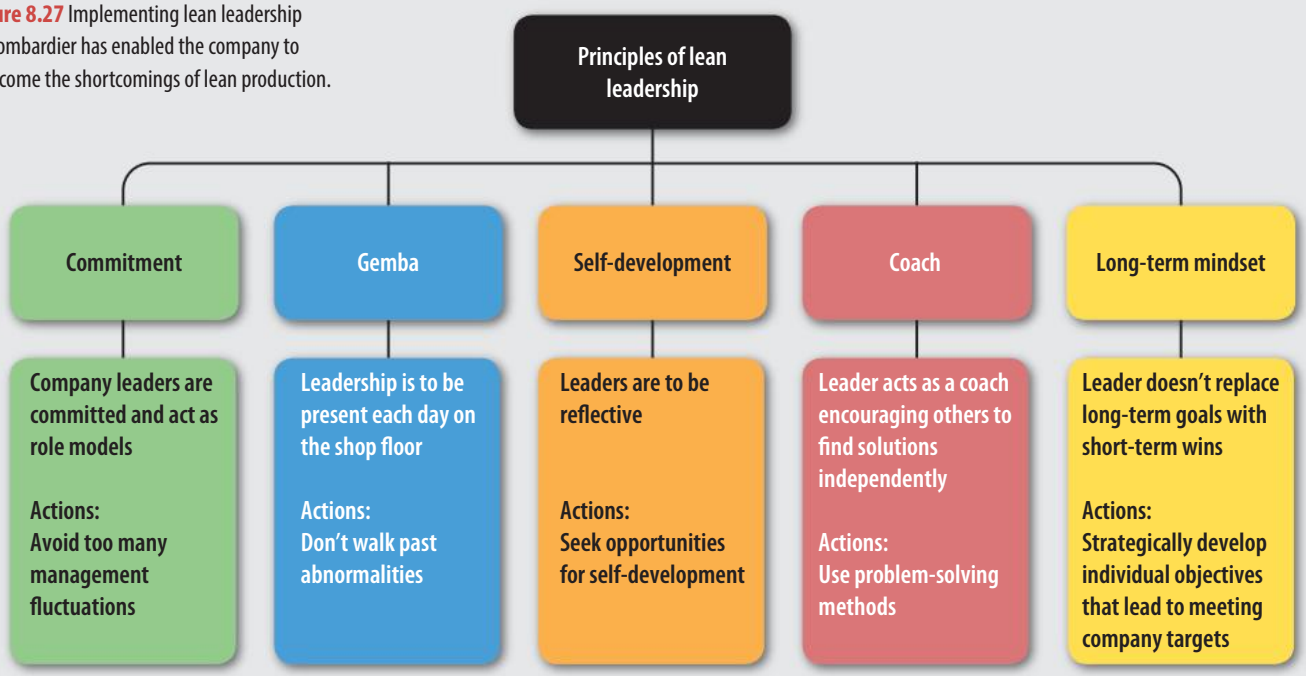
In aiming to improve productivity, reduce inventory and eliminate waste, Bombardier implemented lean production in all of its manufacturing plants. Improvements were evident in the first few years with a number of expected gains, including cost savings, less inventory, increased efficiency and productivity as well as increased employee motivation. However, these improvements were not maintained, resulting in savings targets not being met. The company found that the focus on waste production meant that short-term wins were valued at the expense of developing long-term, sustainable strategies. It appeared that high-level management were not committed to the process, and this led to questions regarding their credibility. Employees were not as motivated in implementing the strategy, and this led to resistance in applying further changes, which were seen as being too many and too quick. A culture of continuous improvement failed to develop.

INTRODUCING LEAN LEADERSHIP

Bombardier has successfully implemented 'lean leadership' as a response to meeting the shortfalls of lean production. Making this shift allows leaders to build sustainable companies built on respect, learning and continuous improvement. Lean leadership allows leaders to leave a legacy they can be proud of, with their careers largely devoted to learning, empowering others with their work in companies that create quality products and genuine value.

Lean leadership expects leaders to commit to their employees, the system and making changes that bring about continuous improvement. Rather than have managers and executives work in a bubble, Gemba (a Japanese term meaning 'real place') anticipates a regular presence on the factory floor. During the Gemba walks, leaders interact with their employees and observe aspects of the production process. The emphasis on self-development is closely tied with developing personal mastery that positions the leader in their role as coach. Problem-solving processes become standardised in the coaching process, empowering employees to master the ability to focus on solving problems. A long-term mindset requires strategic planning of long-term goals with small, specific steps that lead to meeting the company's goals and targets.

Figure 8.27 Implementing lean leadership at Bombardier has enabled the company to overcome the shortcomings of lean production.



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ANALYSIS

1 Describe the shortcomings of lean management at Bombardier.
2 Predict two negative outcomes in operations if Bombardier continued with implementing lean management.
3 Outline the five key principles of lean leadership.
4 Distinguish between the application of lean management and lean leadership in operations management.
5 'The implementation of lean leadership can be viewed as providing the missing link to success.' Discuss this statement in relation to Bombardier's overall business performance.

ACTIVITY 8.5

Lean production: Toyota

Access the following sites using Google or your favourite search engine:

- 'Toyota Production System' on Toyota's global site
- 'Implementing the Toyota Production System: Introduction' on the Lean-Manufacturing-Japan website
- 'Toyota Production System (TPS)' on the Vorne website.

Answer the following questions after reading the information about the operations system of Toyota.

1 Identify the desired outcomes of the Toyota Production System.
2 Explain how each of these goals addresses issues important for corporate social responsibility.
3 Define the term 'standardisation'. Explain the link between standardisation and maintaining consistently high standards of quality.
4 Define Kaizen and explain its basic principles.
5 Discuss the link between Kaizen and employee empowerment.
6 Outline the key aspects of the Just In Time (JIT) system at Toyota.
7 Explain how JIT improves efficiency and acts to ensure that neither overproduction nor underproduction occurs.
8 Describe the main characteristics of a Kanban system, including how it acts to regulate production.
9 Identify and explain how Jidoka differs from JIT.
10 Toyota suppliers have also been obliged to adopt the principles of TPS. Discuss the effect of this.



Figure 8.28 Toyota implemented lean production to help eliminate waste, reduce inventory, improve productivity and empower workers.

SAC AND EXAM TIPS – linked to key skills

Evaluate three strategies that can be implemented to improve the efficiency and effectiveness of operations related to technological development – requires you to consider the benefits and limitations of each of the three strategies that you have selected. The final step to completing an evaluate question requires you to conclude by giving your opinion.
Propose and justify two strategies that can be used to improve efficiency through waste minimisation – requires you to put forward two strategies that can be used to improve efficiency through waste minimisation. To justify your choice of strategies, you will need to provide supporting points or arguments for each one.

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Chapter summary

- The optimisation of an operations system involves maximising levels of productivity and quality of production while at the same time achieving ethical and social goals. This maximises business competitiveness.
- Strategies designed to optimise an operations system include the following:
  - The use of up-to-date technology is the strategy most frequently used by business to improve both efficiency and quality. Technological developments such as automation of production lines include strategies like computer-aided design, computer-aided manufacturing and robotics introduced in operations. The development of websites has resulted in enhanced sales and marketing strategies that have established ecommerce.
  - Materials management strategies involving managing the use, storage and delivery of materials ensure that the right amount of inputs is available when required for production. Forecasting, MPS and MRP are tools utilised by operations managers in working towards an efficient process.
  - Inventory management strategies and technologies such as inventory control systems and Just In Time ensure that inputs are available at the right amount just as they are required for production.
  - Implementing quality management programs assists in ensuring that outputs are of a consistent high-level quality. To deliver the highest possible quality product and services to customers at a competitive price, quality management strategies are implemented in the operations process. Quality management programs include quality control, quality assurance and Total Quality Management.
- Waste minimisation strategies such as lean management assist in reducing the operating costs of a business, increasing productivity, which allows a business to become more competitive.

Chapter summary tasks

1 Discuss how the introduction of each of the following strategies has the potential to improve operational productivity levels and business competitiveness:
   a robotics
   b CAD
   c CAM
   d website development.
2 Explain what automation of a production line is. Give an example to illustrate.
3 Distinguish between each of the following terminology pairings:
   a automation and technology
   b forecasting and JIT
   c quality management and TQM
   d reactive and proactive approaches to quality.
4 Outline the three approaches to quality management that may be implemented in seeking to improve the quality of products and services. Use examples to illustrate how each approach operates.

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5 Identify the technology that has enabled each of the following operations improvements to occur. Explain how each technological advancement has the potential to improve operational productivity levels and business competitiveness.
   a a reduction in machine downtime due to breakdown
   b the increase in speed and accuracy of product design
   c a reduction in labour costs
   d instant communication from one workstation to another
   e the integration of product design, engineering, manufacturing and inventory
   f the ability to keep up-to-date records of inventory stocks and the movements of these.
6 Analyse the importance of waste minimisation in improving the efficiency and effectiveness of an operations system.
7 Evaluate the effectiveness of lean management as a strategy in waste minimisation.

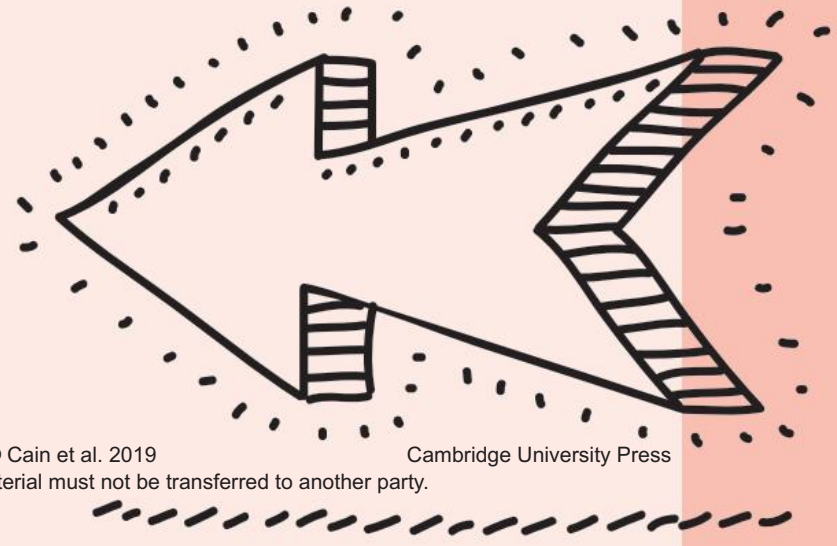
Examination preparation

Tree of Life Furniture is a highly successful Melbourne furniture manufacturer that designs and manufactures award-winning dining tables, coffee tables and side tables. In recent times, two of Tree of Life's competitors have gone bankrupt and management wish to take advantage of the potential to increase the business's current market share. This will require Tree of Life to invest heavily in the expansion of the business. However, management are nervous that the potential expansion of their operations function may impact on the quality of the final product.

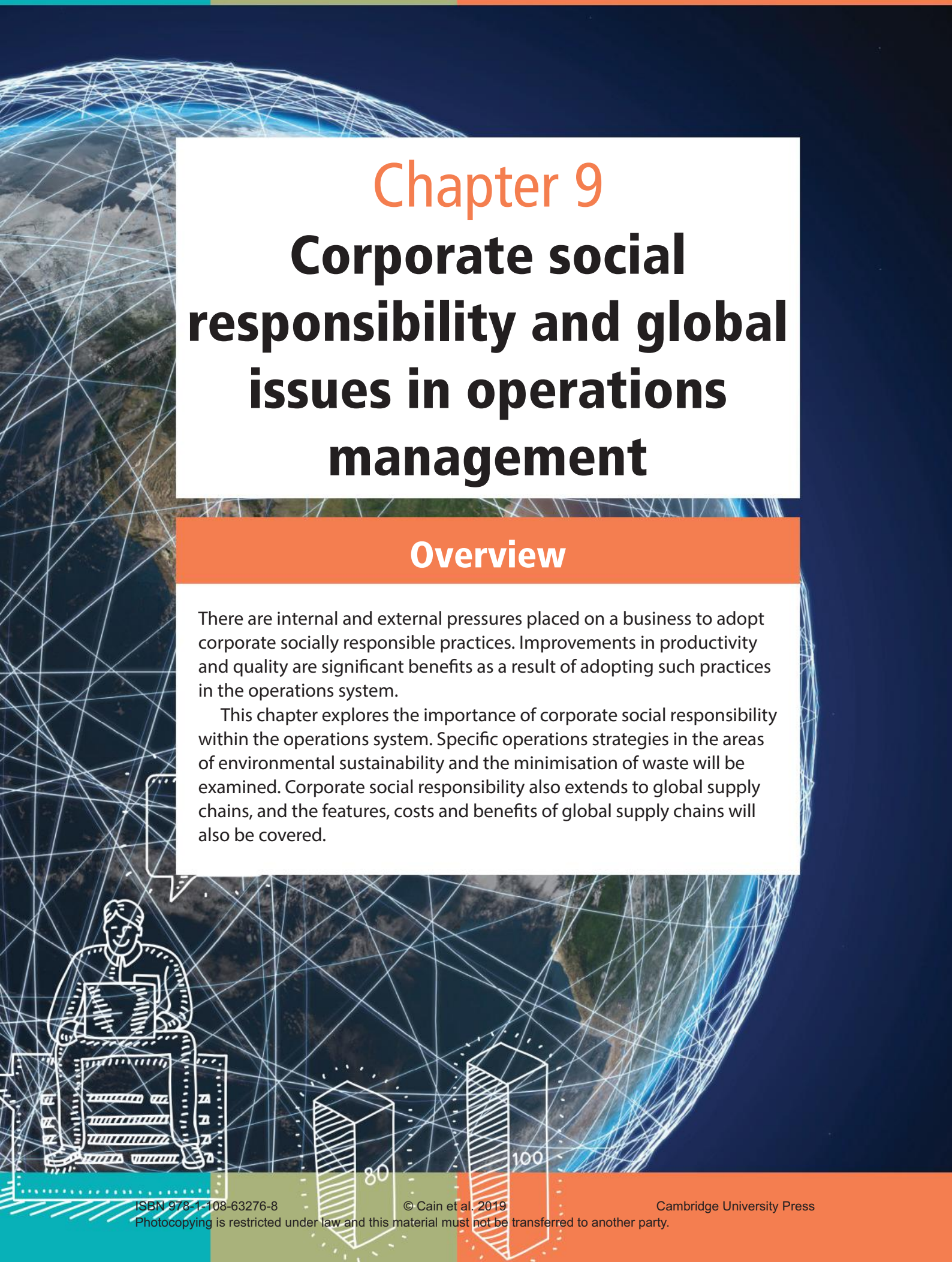
Management have sought professional advice to examine ways of improving operational efficiency and effectiveness. The consultant's report recommends:

- introducing technology in order to reduce labour costs and improve quality of production
- implementing a new quality management program
- making changes in the area of materials and supply chain management in order to improve business competitiveness
- developing processes that minimise waste.

1 **Explain** the relationship between business objectives and operations management. **(2 marks)**
2 **Propose and evaluate** two technological strategies that Tree of Life should introduce to improve efficiency and effectiveness in operations. **(4 marks)**
3 **Recommend** two strategies for Tree of Life to implement that will improve the efficiency and effectiveness of operations related to materials management. **(4 marks)**
4 **Compare and evaluate** two quality management strategies that could be introduced to ensure that the furniture manufactured by Tree of Life maintains high quality. **(8 marks)**
5 **Describe and discuss** three strategies that could be implemented by Tree of Life to effectively minimise waste in the operations process. **(6 marks)**



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Chapter 9
Corporate social responsibility and global issues in operations management

Overview

There are internal and external pressures placed on a business to adopt corporate socially responsible practices. Improvements in productivity and quality are significant benefits as a result of adopting such practices in the operations system.

This chapter explores the importance of corporate social responsibility within the operations system. Specific operations strategies in the areas of environmental sustainability and the minimisation of waste will be examined. Corporate social responsibility also extends to global supply chains, and the features, costs and benefits of global supply chains will also be covered.

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Key terms

- corporate social responsibility (CSR)
- environmental management system (EMS)
- environmental sustainability
- logistics
- purchasing policy
- supply chain
- supply chain management
- sustainable procurement
- triple bottom line reporting

Key knowledge

You will learn about:

- corporate social responsibility considerations in an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs
- global considerations in operations management, including global sourcing of inputs, overseas manufacture, global outsourcing and an overview of supply chain management.

What's ahead

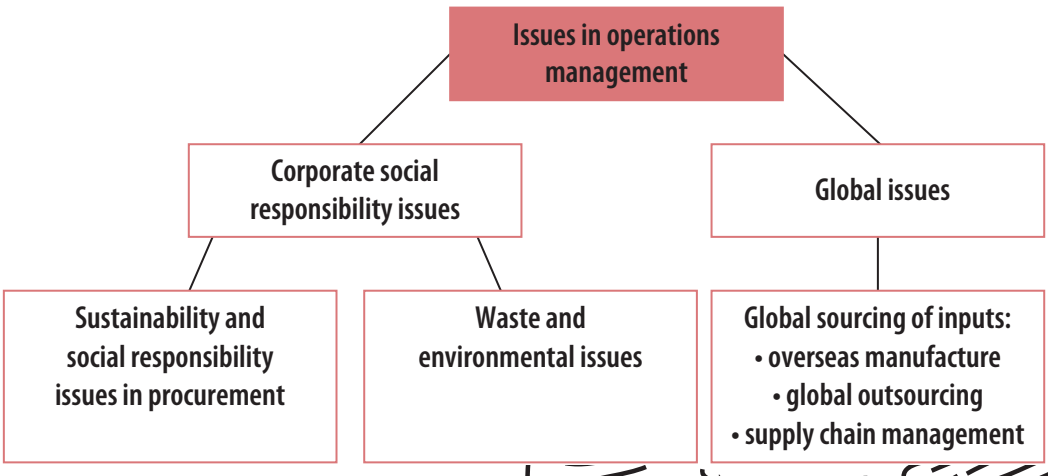
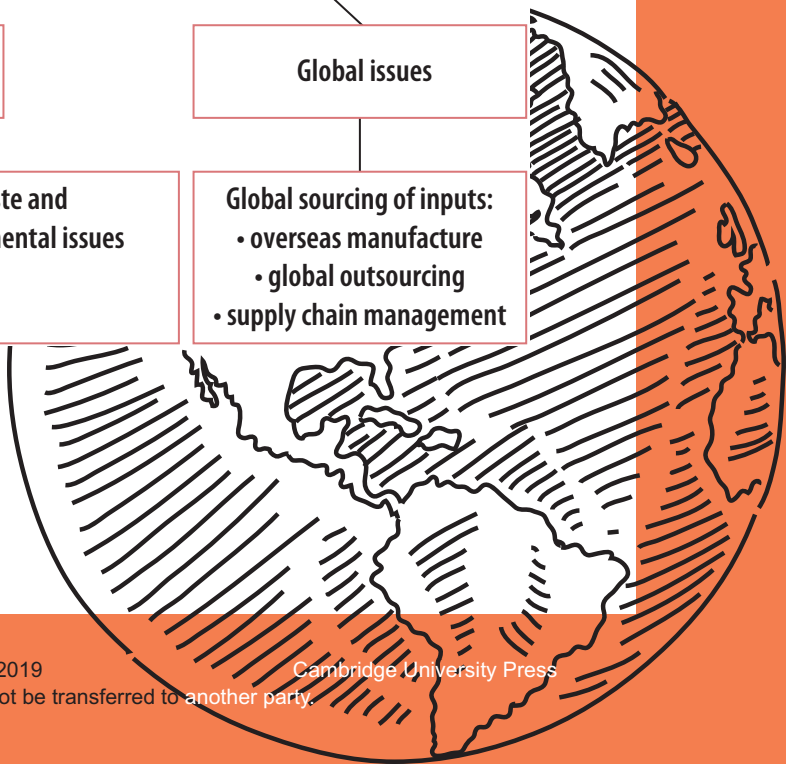


Figure 9.1 Issues in operations management



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9.1 What is corporate social responsibility?

corporate social responsibility (CSR) the commitment by organisations to conduct their business in an ethical manner, to take responsibility for the economic, social and environmental consequences of their activities, and to be accountable to a wide range of stakeholders, including employees, customers and suppliers – now and in the future

Corporate social responsibility (CSR) is a concept whereby organisations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment.

The World Business Council defines CSR as 'the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families and the local community and society at large'.

In order to be seen as behaving in a socially responsible manner, a business organisation must adopt practices to ensure it operates in ways that meet or exceed the ethical, legal, commercial and public expectations that society has of it. This includes questions about what a business can do for society.

Pressures to adopt ethical and socially responsible business practices come from a variety of sources both internal and external to a business. These include:

- **Employees** often choose to work with employers who are known to have CSR policies and practices in place.
- **Customers** are more likely to buy from a business that demonstrates social responsibility.
- **Shareholders** often make investment choices based on the level of social responsibility demonstrated by a business (also known as 'green investment').
- The **community** is increasingly concerned about and aware of social responsibility issues and expects greater corporate responsibility from its corporate citizens.
- The **media** highlights CSR issues and companies that 'infringe' risk, incurring damage to reputation.
- **Suppliers** often choose to give preferential treatment to CSR businesses.

CSR has a positive impact on the corporate culture of an organisation. This will reduce staff turnover and increase productivity generally.



Figure 9.2 Environmental sustainability is a key consideration of corporate social responsibility.

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Ethical and socially responsible management of operations

Social responsibility is a commitment to give back to the community, aid its development and take account of the interests of *all* stakeholder groups (not just shareholders). Ethical and social responsibility considerations are crucial in establishing and running an operations system. Socially and ethically responsible behaviours involve doing what is 'morally right' and taking account of the economic, social and environmental impacts on the wider community and ecosystem. To attract and retain customers, a business must be seen to have practices, policies and actions that are both environmentally sustainable and responsible towards the societies in which they operate. Failure to do this will usually involve negative consequences such as legal action, fines, loss of investors, negative media attention and loss of customers.

As the community has become increasingly aware and concerned about social and environmental problems, an increased expectation that large organisations consider the economic, environmental and social impacts of their actions has emerged. In the twenty-first century a business is expected to act in the interests of the wider community as a global citizen, and not simply meet the financial expectations of shareholders. Merely meeting legal requirements for social responsibility, such as laws regarding the environment, is not sufficient. Corporate social responsibility covers five main areas:

- **Corporate governance and accountability:** A company is accountable for its actions and its impact on shareholders, government, employees, customers and community.
- **Sustainability and environment:** Business is accountable for its environmental impacts.
- **Employees should be treated ethically:** Fair pay and conditions, equal employment opportunity, provision of safe workplaces and work–life balance are examples.
- **Human rights:** Use of ethical suppliers and fair trade issues are examples.
- **Community involvement:** Volunteering programs and philanthropy are examples.



Figure 9.3 Values underpinning corporate social responsibility

A socially responsible organisation builds community goodwill and subsequently a positive reputation. It is easily able to both attract and retain good employees, and is often able to gain cost advantages. A reputation as a socially responsible business may be important to organisational survival. Socially responsible operations systems include processes that:

- do not endanger or harm the physical environment
- enhance and do no damage to the societies in which the business operates.

Aspects of a socially responsible operations system might include:

- waste minimisation schemes, such as recycling
- strategies that reduce carbon emissions, such as green technology
- provision of enhanced quality of life for employees through safe working environments and respecting employee rights
- taking responsibility for the environmental, social and economic impact of the organisation's activities.

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The United Nations Global Compact: corporate social responsibility

Launched in 2000 by Kofi Annan, the Global Compact promotes greater corporate responsibility around the world. Some describe the Global Compact as a revolution in global governance. The Compact's 10 principles are derived from international laws such as the UN Declaration on Human Rights and the UN Convention Against Corruption.

The Global Compact recognises that corporations are major players in globalisation and the international community's common goals cannot be fulfilled without the participation of these businesses. Currently there are almost 10 000 business signatories worldwide. Corporate sustainability starts with a company's value system and a principled approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption.

Responsible businesses enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another. By incorporating the Global Compact principles into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success.

The adoption of the United Nations Global Compact follows a cycle of assessment, implementation and evaluation to ensure that companies meaningfully adopt the corporate sustainability initiatives. Management are encouraged to be transparent in their endorsement by incorporating the principles into existing company policies and strategies. They are to measure and monitor progress, checking for successful implementation across all areas of business activity. Communicating progress to all stakeholders, including the company's value chain, creates an open dialogue requiring management to evaluate achievements. Management confirm commitment to the Compact by assessing additional opportunities and progress through a cycle of continued improvement in working towards adopting all of the initiatives of the United Nations Global Compact.

Figure 9.4 The United Nations in New York City



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The 10 principles of the UN Global Compact

Human rights

- **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2:** make sure that they are not complicit in human rights abuses.

Labour

- **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4:** the elimination of all forms of forced and compulsory labour;
- **Principle 5:** the effective abolition of child labour; and
- **Principle 6:** the elimination of discrimination in respect of employment and occupation.

Environment

- **Principle 7:** Businesses should support a precautionary approach to environmental challenges;
- **Principle 8:** undertake initiatives to promote greater environmental responsibility; and
- **Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

- **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

(Source: 'The ten principles of the UN Global Compact', United Nations Global Compact website.)



CASE STUDY 9.1

Corporate social responsibility: investing ethically

Ethical investment is also known as sustainable investment and socially responsible investment. The term describes an investment process that considers environmental and social factors when selecting investments. Superannuation funds need to be careful in their selections given that one of their primary objectives is to achieve a competitive financial return, meeting the expectations of their investors.

CONTINUED ITEM

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Similar to ethically minded consumers who decide to buy only fair-trade coffee and take their own bags when they go shopping, both retail and institutional investors are considering the environmental, social and ethical impact of their investments. The responsible investment industry is continuing its upward trajectory and now makes up the majority of the overall investment in Australia. The 2018 Annual Report, released by the Responsible Investment Association Australasia (RIAA), reported that managed funds in ethical and sustainable investments grew 'significantly in the year increasing to $866 billion at December 2016, a 39% increase from the previous year's total of $622 billion'.

The RIAA report lists funds that apply an 'ethical screening' process to exclude companies that test products on animals or produce alcohol, weapons and gaming products and quotes the example of 30 super funds that had divested tobacco stocks from their entire funds during the previous two years.

As Australians are alerted to corporate involvement in environmental pollution, governance issues, the abuse of human rights or of animals, there is a growing need to invest in 'clean' shares that will grow their funds but not compromise their principles and be harmful to the environment or to others. Examples are funds that have a green or sustainability focus and invest in sustainable agriculture and forestry, green technology, renewable and clean energy companies. Sustainability themed investing attracted more than $31 billion in 2017, an increase of 14% from the 2016 total of $27.2 billion.



Figure 9.5 Australians are choosing to invest in companies that mirror their values, and divest from less environmentally-friendly industries.

According to RIAA chief executive Simon O'Connor, 'There's a growing understanding from the public that there are ways they can invest their retirement savings in line with their values and beliefs.' He adds, 'There's a very good investment case for doing this and responsible investment has become the benchmark of good investment practice. We're seeing that when companies mismanage social and ethical issues it's really damaging their shareholders' value.'

Should responsible investment funds continue to outperform the ASX 300 as they had been doing in the past decade, the RIAA's prediction of a boom that awaits the sector is bound to come true.

ANALYSIS

1 Explain why ethical investing has grown to become so profitable.
2 Identify three pieces of evidence from the article that show that corporate social responsibility is increasingly important for businesses in terms of attracting investors.
3 Describe three types of businesses that:
   a would be negatively impacted by the increase in ethical investment
   b would be positively impacted by the rise in ethical investment.

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Corporate social responsibility and operations management

Why be socially responsible?

Communities increasingly expect businesses to act in a CSR manner. Failure to do so will see both customers and investors turning away, as well as possible legal sanctions. Shareholders and institutions controlling shareholder investments examine the performance of corporates based on social and environmental performance as well as their economic performance. A business with a reputation for not behaving in a socially responsible manner risks gaining a negative reputation, and deterring both customers and investors.



Figure 9.6 The community expects businesses to act in ways that are consistent with society's values.

Increasingly, businesses assess performance based on **triple bottom line reporting** results. This involves assessment based on environmental and social performance as well as economic results (profits).

triple bottom line reporting where a business organisation reports on social outcomes and environmental impact as well as financial performance

Measuring social responsibility: triple bottom line reporting

Traditionally, business organisations measured performance purely in financial terms. Financial key performance indicators, such as net profit and share value, were primary tools for performance measurement. Non-financial measures were less important. Growing community expectations that businesses operate in a socially responsible manner and act as 'good corporate citizens' have, however, resulted in the rise of triple bottom line reporting. Triple bottom line reporting involves a business measuring its performance in three areas.

Economic performance is measured using financial key performance indicators (KPIs), measuring profits, financial turnover, market share and monetary value of assets held.

Social performance is measured through examination of impacts the business has on people both within (employees) and outside the business (community). A business applying triple bottom line reporting will act in a way that benefits the community and ensures people are not exploited or endangered by the operations of the business. Social factors considered include wages and conditions, and contribution to the community.

Environmental performance is measured through impact on the natural environment. Limiting or reducing negative environmental impacts is assessed. This includes levels of waste generated and the overall environmental impact a business organisation and its operations system has on the environment overall. Triple bottom line reporting allows a business to gauge its level of corporate social responsibility.

Figure 9.7 Triple bottom line reporting



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Table 9.1 Triple bottom line reporting: components

Aspect measured	Measures	Examples of KPIs used
• Organisational financial/economic performance 	• Monetary gains/losses • Inflow of resources to the organisation as a ratio of outflow • Business net worth • Earnings/profits	• Net profit • Turnover • Market share • Share price • Value of assets held
• Organisational social performance 	• Impact of the organisation on people. Both: – employees (internal stakeholders) – community (external stakeholders) • Net benefit to the community • No exploitation or endangerment to any stakeholder group is the aim	• Labour utilisation • Staff morale • Number of complaints • Wage levels • Working conditions • Community living standards
• Organisational environmental performance 	• Total organisational impact on the natural environment, including waste/emissions levels • Aim to improve the natural environment where feasible or to, at the very least, minimise/reduce/limit negative effects	• CO_2 emission levels • Rates of recycling • Waste levels • Waste disposal costs

Strategies to maximise social responsibility

Environmental management systems and waste minimisation

environmental management system (EMS) series of policies and practices that focuses on an organisation's approach to environmental issues

An **environmental management system (EMS)** is a tool for managing the environmental impact of a business and its activities. It comprises a set of policies and practices that focus on reducing environmental impacts and increasing the operating efficiency of the business through consistent review, evaluation and improvement of its environmental performance.

ISO standards ISO 14001 set out criteria for an EMS system (this was also covered in Chapter 8). This set of standards maps out the framework a business can follow to set up an effective EMS. As with other quality assurance standards, organisations apply for certification in environmental management. Over 4000 Australian organisations are certified to the ISO 14001.

An EMS requires:

- development of an environment policy that reflects the organisation's commitments
- implementation of legal requirements and awareness of scrutiny regarding environmental issues. Government bodies such as the Environment Protection Authority monitor and evaluate business environmental effects.

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- identification of how the organisation interacts with the environment
- integration of environmental management practices into everyday operations, including staff training
- establishment of environmental objectives, targets and programs
- monitoring and measuring of its progress
- reviews of the system and environmental performance
- creation of a cycle of continuous improvement of the organisation's environmental performance.

Although implementing an EMS can be both time-consuming and costly, organisations have found that the benefits outweigh the limitations. Businesses find that there is improved environmental performance, including pollution prevention and resource conservation. This leads to increased efficiency and lower costs. Employee morale is lifted, as is their awareness of environmental issues and responsibilities. The enhanced corporate reputation and image leads to new customers.

ACTIVITY 9.1

AMCOR Environment Management System

Amcor Ltd is a global packaging company with its head office located in Southbank, Melbourne. In 2018, Amcor reported an annual revenue in excess of $9.3 billion. Amcor is a global leader in developing quality packaging that is used in a wide range of industries, including pharmaceutical and personal care.

Visit the Amcor website, click on 'Sustainability', and complete the following tasks:

1 Outline the 2025 goals and targets set by Amcor regarding environmental performance.
2 List the areas that Amcor is working towards improving in order to meet targets.
3 Identify and describe Amcor's sustainability partners.
4 Describe the key community programs being financed and undertaken by Amcor in order to improve its social performance.



Figure 9.8 Amcor is a global leader in packaging.

Operations strategies for social responsibility

Designing and operating an operations system, taking into account ethical and socially responsible considerations, must incorporate all three stages of the operations system. The following strategies might be considered.

Inputs

Sustainable and socially responsible procurement of inputs

Sustainability and socially responsible considerations are important criteria in the selection of suppliers. Many businesses adopt a **purchasing policy** stipulating **environmental sustainability** and social responsibility criteria to be applied when choosing suppliers. An environmental management system sets out a **sustainable procurement** process.

Suppliers are frequently selected using social responsibility criteria. Simply having the lowest price is no longer the only criterion for a successful tender. Evaluation of a supplier's environmental and social performance is usually done before awarding a contract. Known

purchasing policy a policy within an organisation placing requirements for employees seeking to acquire goods or services for use by the company

environmental sustainability ability of an ecosystem to maintain itself into the future; involves using Earth's resources at a rate they can be replenished

sustainable procurement a system of procurement of inputs that allows a business to meet its economic needs while minimising damage to both the environment and society

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as prequalification, this may be done via a questionnaire checking whether a supplier meets set standards on environmental and social issues. Factors to be considered may include:

- Use of environmental management practices. Does the supplier have an EMS? Does the supplier meet ISO 14001 environmental management standards and practices?
- Is there legal compliance with environmental legislation?
- Does the supplier have appropriate environmental and social responsibility policies in place?
- Is the supplier a signatory to the UN Compact?

An audit of suppliers and their social responsibility practices and policies may also be done to assess which suppliers satisfy the criteria.

Local suppliers are often given first consideration, as these will have a lesser impact on CO_2 emissions as less distance will need to be covered with deliveries.

Social responsibility considerations may include treatment of employees. Do they pay fair wages and provide adequate working conditions? Suppliers who are found to use child labour or exploit workers in developing countries may be excluded on these grounds.



CASE STUDY **9.2**

Socially responsible operations strategies: Fairtrade

Fairtrade is used to describe the certification and labelling system governed by Fairtrade International.

The Fairtrade system allows consumers to identify commodity goods (basic goods used in commerce), such as tea, coffee, spices, cotton, cocoa and sugar, that have met internationally agreed standards according to the Fairtrade system. There are a few non-food products, such as beauty products and sports balls, that can also be used.

FAIRTRADE

Figure 9.9 Products bearing this mark are Fairtrade certified.

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Fairtrade is a certification scheme that sets out to tackle poverty and empower primary producers in developing countries. Suppliers who purchase from certified producers are entitled to use the Fairtrade Mark on their products, in return for ensuring the conditions below are met.

Producers (farmers) must meet designated economic, social and environmental standards. In return, they are guaranteed sustainable and fair prices for their products to guard against fluctuations in world markets. The price is guaranteed to cover their costs of production. Farmers also receive an additional sum of money known as a Fairtrade Premium on top of the guaranteed price. This is designed for investment in local communities in social, economic and environmental developments, such as schools and hospitals. The use of this money must be decided democratically.

Fairtrade aims to deliver a better deal to farmers and producers in the developing world through:

- fair and stable prices
- the security of long-term contracts
- investment in local development
- improved working conditions through a prohibition on use of forced and abusive child labour
- development of environmentally sustainable farming methods
- support in gaining knowledge and skills needed to operate successfully in the global economy.

ANALYSIS

Visit the Fairtrade website.

1 Explain in your own words how Fairtrade works.
2 Locate the Fairtrade product page and select a commodity that you are interested in.
   a Describe the experience of these producers, including the challenges that they face.
   b List five brands that are using this commodity in Australia.
3 Outline how adoption of Fairtrade might affect the operations system of:
   a a cafe
   b a coffee grower in Papua New Guinea.
4 Discuss the advantages and disadvantages of Fairtrade for:
   a producers
   b Australian businesses that use Fairtrade certified suppliers
   c customers.



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CASE STUDY
9.3

Socially responsible operations strategies: Nike

Nike is the largest seller of athletic footwear and apparel in the world. Nike products can be purchased at Nike-owned retail stores, factory stores, community stores, websites and through a mix of independent distributors, licensees and sales representatives in virtually all countries around the world. Overall revenue in 2017 was US$34 350 million. Manufacturing takes place in over 500 factories, across 42 countries, employing over one million people.

Nike is innovating a new business model for the 21st century, in which supply chains are lean, green and equitable with the use of sustainable materials and products. Nike takes its corporate social responsibilities seriously, producing each year a series of targets that are measured and reported on. Nike's purpose is to use the power of sport to move the world forward, believing in a fair, sustainable future. The 2016/2017 Sustainable Business Report states that Nike aims to create a culture where everyone has an opportunity to play an important role and be successful. Nike will measure change and progress in the following areas:



Figure 9.10 Nike is an internationally recognised brand with a commitment to improving their socially responsible policies.

- Diverse representation and an inclusive community to embrace it. This is reinforced with the Unconscious Awareness Program developed for employees.
- Equitable pay and benefits, which now eliminates excessive working hours. All Nike employees are entitled to at least one day off in every seven days and are not to exceed a 60-hour working week.
- Employee development and well-being. Nike believes that protecting life and health is a fundamental right. The Culture of Safety initiative focuses on developing safety leadership behaviours and enables employees to engage in safety programs.

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Table 9.2 2017–18 key priorities for Nike

Nike 2017–18 priority targets	Strategies
Increase use of more sustainable materials in footwear and apparel	• Use of sustainable cotton • Use of recycled rubber • Use of recycled polyester in clothing
Transform manufacturing	• Sustainable sourcing • Maximum 60 hours work per week • Partnerships to accelerate change
Eliminate footwear-manufacturing waste to landfill	• Strengthening recycling capabilities – in 2017, over half of Nike footwear used recycled waste • Waste to be recycled and regenerated to produce new Nike footwear, apparel and sports surfaces
Unleash human potential	• Supporting sport for children • Health and safety practices throughout the value chain • Team-based awards to enhance culture and reinforce teamwork and collaboration • Workforce training and development

(Source: Based on *Maximum Performance Minimum Impact: FY16/17 Sustainable Business Report*, NIKE, Inc.)

ANALYSIS

1 Describe the three areas that Nike aims to develop over the next 12 months.
2 Select one area and propose two KPIs that could measure its successful implementation.
3 According to the report, 'workers are key to delivering on the promise of high quality and high productivity, and need to be compensated accordingly'. Analyse how Nike plans to not only pay its workers accordingly, but also 'unleash human potential'.
4 Outline how Nike aims to optimise operations to improve efficiency and effectiveness.
5 Identify three ways that confirm Nike as being aware of its corporate social responsibilities.

Selecting sustainable and socially responsible inputs

Every product has an effect on the environment. Purchase of sustainable inputs will minimise the effects a business operation has on the natural environment, as well as on community health and social conditions. Sustainable procurement practices will offer the following benefits:

- reduced impacts on the natural environment with less waste and associated costs such as landfill
- increased productivity through new, cleaner technology choices
- improved business reputation
- reduced utility bills.

These benefits must, however, be balanced against the initial cost of purchasing and developing the new socially responsible practices.



Figure 9.11 An additional benefit of CSR is that it encourages competitiveness.

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Examples of environmentally sustainable input strategies

- Purchase and use of green energy options. This will reduce carbon emissions and minimise energy use.
- Purchase of sustainable technology and equipment options. Energy-efficient equipment will save on energy use. Green company vehicles, for example, with smaller hybrid engines will save on fuel costs, reduce CO_2 emissions and improve business image.
- Purchase of the most sustainable input options; for example, recyclable materials.
- Choosing local suppliers to reduce carbon footprint and transport costs.

Figure 9.12 The use of green energy options during the transformation process will save on energy costs and improve the reputation of a business organisation.



Social responsibility is an important consideration when planning the transformation stage of the operations system. Legislative compliance with environmental and social laws will allow a business to avoid legal sanctions; however, conducting an operations system in a socially responsible manner is more than just a legal duty, as it affects a business's bottom line and therefore its long-term success.

Sustainable business practices use fewer resources, have lower emissions, less waste and reduce costs. For example, the use of biofuels in a production process will reduce emissions, fuel consumption and therefore costs.

Businesses that adopt sustainable operations processes will use fewer resources, reuse resources where possible and recycle resources after use. This will reduce business costs and increase productivity. Business reputation will also improve. Consequently, competitiveness will improve.

Examples of environmentally sustainable and socially responsible processing/transformation

- Utilisation of practices that minimise/reduce use of resources
- Reuse of resources
- Recycling of resources
- Ensuring that all employees have access to training and development
- Utilisation of green technologies
- Retaining all processing within Australia. This will ensure Australian workers are employed. It will also reduce carbon emissions associated with transport.
- Ethical treatment of employees. Ensuring all employees:
  - are paid a fair wage
  - are not exploited
  - work in a safe and secure environment where facilities, technology and working conditions contribute to their health and welfare. Includes the establishment of regular maintenance of machinery and equipment to ensure it remains in safe working order and the storage of toxic materials in a safe manner (occupational health and safety)
  - are not exposed to toxic substances.

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CASE STUDY
9.4

Socially responsible operations strategies: Sydney Fish Market

Sydney Fish Market (SFM) is proud to be Australia's Home of Seafood and wholeheartedly embraces the corporate and social responsibilities that come with being a leader in the seafood industry. A working fish market, SFM sources both nationally and internationally and trades over 13 500 tonnes of seafood annually.

In an industry that operates in an environment that is dominated by growing concerns for the sustainability of seafood resources and of aquatic environments, SFM actively seeks to both minimise the impact of its activities and operations while supporting and promoting sustainable practices at every stage of the seafood supply chain. SFM is committed to ensuring a sustainable supply of seafood for future generations and has developed a set of core principles that are actively implemented.

Innovation and continual improvement

SFM is committed to innovation and to the continual improvement of processes and practices across every aspect of its business. It maintains the Food Safety Management Systems Standards. SFM is a pioneer in best practice in food safety handling and continues to advance a seafood Quality Index to help assess the freshness, quality and shelf life of seafood. The pursuit of continual improvement extends to efforts to minimise wastage, reduce water and electricity consumption, as well as greenhouse gas emissions. Each year, 125 000 polystyrene boxes are recycled, rescuing nearly 70 tonnes from landfill.

SFM is committed to ensuring a sustainable supply of seafood for future generations by supporting responsible fishing practices, environmentally responsible farming practices and responsible fisheries management based on rigorous and sound science. Its commitment to the ongoing viability of the Australian seafood industry is brought to bear all along the supply chain with robust up- and down-chain traceability to support species-specific sustainability and resource management and assistance in elimination of illegal fishing activity.

(Source: Based on 'Corporate Social Responsibility', Sydney Fish Market website.)

CONTINUED ITEM

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Table 9.3 Sustainability principles of Sydney Fish Market

Sustainability principles of Sydney Fish Market	
Seafood for future generations	SFM works with government agencies and other stakeholders to ensure that strong management frameworks are in place to produce sustainable outcomes which encompass environmental integrity, social well-being, economic resilience and good governance.
Lawful supply	Never trade in seafood that has been caught or farmed illegally and actively work with government agencies to eliminate unlawful activity through the supply chain.
Traceability	Maintain a robust through-chain traceability system and continue to encourage innovation in this field.
Protection and enhancement of the marine environment	Support OceanWatch Australia in its work to protect marine habitats, improve fishing practices and minimise by-catch.
Research and development	Continue to support rigorous scientific research into the sustainability of Australian fisheries.

(Source: Based on 'Sustainability Principles', Sydney Fish Market website.)

ANALYSIS

1 Examine how Sydney Fish Market works towards meeting each aspect of triple bottom line reporting.
2 Propose two strategies that Sydney Fish Market could implement that would support 'economic resilience'.
3 Describe how Sydney Fish Market uses corporate social responsibility in the management of its supply chain.
4 Explain why it is important for Sydney Fish Market to plan for sustainability.
5 Identify the quality strategy used by Sydney Fish Market to improve efficiency and effectiveness and explain its relationship to corporate social responsibility.
6 Evaluate the strategies that Sydney Fish Market has introduced to ensure a sustainable fishing industry.

Table 9.4 Examples of socially responsible operations management strategies

Operations management strategy	Potential influence/impact of social responsibility
Waste minimisation	Reduction of operating costs through: • reduced landfill and reduced use of materials/inputs • need for special equipment and procedures to handle toxic wastes • improved reputation
Recycling of materials	Reduced costs through lower use of materials means: • improved reputation • lower landfill costs
Lean manufacturing	Improvements in: • productivity, quality and competitiveness • employee motivation through empowerment
Inventory management systems	Greater efficiency and productivity through: • reduced waste and productivity improvements

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Outputs

Social responsibility and environmentally sustainable considerations are important when considering final output.

- Quality outputs add real value for consumers (fit for purpose).
- Non-harmful: Social responsibility entails selling products that are non-harmful to society. Unsafe products, either poor quality or simply unethical, have the potential to cause community/social harm by injuring and/or causing distress to consumers or the environment. Product recalls may be required to remove unsafe products from the marketplace. Similarly, the sale of products with potential to cause harm, such as alcoholic drinks, must be managed to minimise social harm. Business organisations that produce unsafe or ethically questionable product lines are often subject to adverse publicity and their reputation suffers as a result.
- Honest marketing: Truthful and non-deceptive marketing campaigns are important to maintaining a socially responsible image. Businesses that engage in unethical marketing practices risk damaging reputation and competitiveness.
- Packaging: Product packaging with minimal environmental impact and that is non-offensive will help maintain a reputation for ethical and social responsibility.
- Recyclable and/or biodegradable options are used as packaging materials. Non-offensive packaging design is also an important consideration.



Figure 9.13 Animal testing can be an ethical concern. The Not Tested on Animals Rabbit Logo is a registered trade mark and may only be used by Choose Cruelty Free accredited companies that have taken out a licence.

ACTIVITY 9.2

Product recalls

Go to the product recalls website run by Product Safety Australia, under the ACCC.

1 Identify five products that have been recalled by their manufacturers during the past 30 days.
2 For three of these products:
   a Describe the reasons why the product has been recalled.
   b Outline the potential effects on the business selling each product of the recall in terms of:
      - reputation
      - sales and business competitiveness.

   Justify your answers with reasons.

The most socially responsible option is not always clear-cut

At times, the most socially responsible option is not clear-cut. For example, while it may be socially responsible to choose ethical local suppliers who employ local labour, thus retaining high Australian employment levels and avoiding the



Figure 9.14 Business decisions can have both positive and negative consequences with regard to CSR.

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exploitation of workers in less developed countries such as Bangladesh, it could be argued that it is not socially responsible to deprive workers in Bangladesh of any employment at all.

Similarly, importing new, greener technologies from overseas may reduce carbon emissions but would also have a negative effect on Australia's balance of payments.

ACTIVITY 9.3

Draw up the following table in your workbook and complete it, identifying the advantages and disadvantages for a business adopting each of the following operations management strategies.

Operations strategy	Advantages	Disadvantages
Adoption of new, cleaner/greener technology imported from overseas		
Adoption of a purchasing policy that stipulates that only local suppliers will be used		
Use of recyclable packaging		
To use green energy rather than that produced through burning coal		
To close a manufacturing plant that has been found to have produced large amounts of waste and carbon emissions		



CASE STUDY 9.5 *Socially responsible operations strategies: Concept Amenities*

Concept Amenities is a business that supplies and manufactures guest bath and body products for the hotel and hospitality industries. The business was founded in Melbourne in 1983 and has customers in Australasia, North America, Europe and Asia.

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Concept Amenities describes itself as being 'values driven' and that it 'infuses every action with a highly principled and ethical approach'. Several aspects of its operations system bear this out:

- **Soap Aid:** Every day thousands of hotels discard millions of pieces of soap, much of which has only been used once. This ends up in landfill, which contaminates groundwater systems. At the same time, more than 2.6 million people worldwide lack adequate sanitation and an estimated 1.8 million children die annually due to hygiene-related illnesses, 40% of which could be averted by the provision of soap for hand-washing. Soap Aid is a program where used soap is collected from hotels by Concept Amenities and reprocessed. The reprocessed bars of soap are then redistributed, along with educational materials, to impoverished countries and other places such as homeless shelters.
- **Environment:** Ever conscious of the growing environmental awareness of clients, Concept Amenities does the following:
  - All packaging, such as plastic bottles, is made from biodegradable plastics.
  - No finished product is tested on animals.
  - All products are created from vegetable-based and/or biodegradable products.
  - All products are certified as Environmentally Responsible Products (ERP).
- **Supply chain:** Concept Amenities will only deal with suppliers of palm oil that are certified as sustainable producers. This means they don't use land from deforestation, they pay fair wages, provide fair working conditions and protect wildlife.
- **Production:** Production is highly automated. Concept Amenities has been awarded ISO certification in Cosmetics (quality assurance standards). It also uses a system of strict quality control checks throughout its operations.



Figure 9.15 Concept Amenities is a leading supplier of exclusive hotel guest amenities.

ANALYSIS

1 Identify and describe four aspects of the operations system of Concept Amenities that could be described as being socially responsible. Justify your answer.
2 Identify and describe three potential disadvantages that might arise from the ethical and socially responsible activities identified.
3 Identify and describe three advantages that the ethical and socially responsible activities identified might bring to Concept Amenities.
4 Describe the competitive advantage that might arise from the activities as described.

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9.2 Global issues in operations management

Management of an operations system in the twenty-first century requires a global perspective. The global economy and its associated technology have meant that a business organisation must look beyond the borders of its country of origin when looking to both resource and run its operations system while optimising competitiveness.

Supply chain management: an overview

supply chain a system of organisations, people, activities, information and resources involved in moving a product or service from suppliers to manufacturers and then on to consumers

supply chain management meeting consumer demands for goods and services while making the most efficient use of input resources in both the production process and the distribution of the finished product to the customer

logistics the distribution of products, or the movement/delivery of materials and products from one location to another

A **supply chain** is a system of organisations, people, activities, information and resources involved in moving a product or service from suppliers to manufacturers and then on to consumers/customers. The supply chain takes natural materials and components and transforms or processes them into a finished product.

As part of the supply chain, a number of activities have to take place. These include planning and organising parts and raw materials to ensure that they are available and ready to be used. This is particularly important when the raw materials and components need to be sourced from another country and through other organisations.

Often there are many exchanges in the supply chain between different business organisations. Each business will try to maximise its revenue and profit from its contribution to the process in a supply chain.

The coordination of a supply chain on a global scale can be challenging. Sourcing and moving goods and materials around the world involve operating in a variety of political and economic conditions. This is often complex and requires a great deal of coordination. Ethical and social responsibility considerations such as treatment of employees and environmental sustainability considerations must be taken into account by a business organisation, as well as productivity and efficiency when planning and operating a global supply chain.

Supply chain management involves meeting consumer demands for goods and services while making the most efficient use of input resources in both the production process and the distribution of the finished product. **Logistics** refers to the distribution of products, or the movement/delivery of materials and products from one location to another. In a global supply chain, logistics becomes far more complex as movement of products over greater distances and between different political and economic regions (countries) is involved. For this reason, *outsourcing* of logistics to specialist transport and logistics companies is now commonplace.



Figure 9.16 Global logistics involves the movement of goods and materials worldwide.

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Participants in the global supply chain

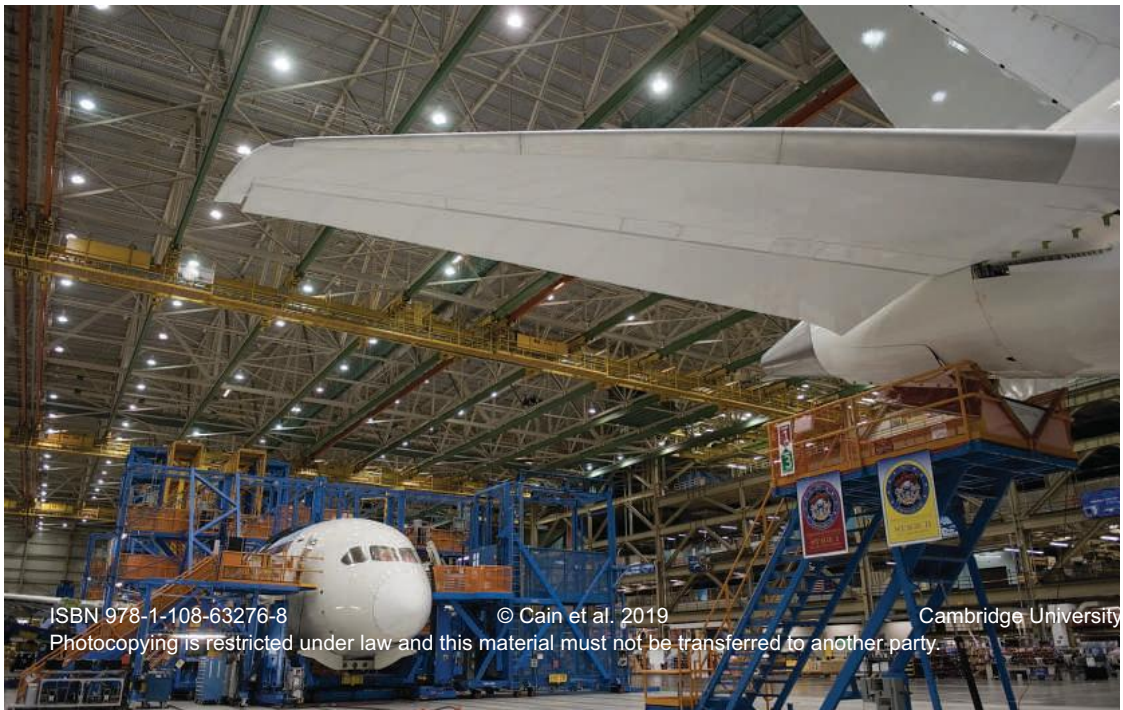
There are a number of stakeholders in the global supply chain. A business organisation must take account of the interests and expectations of each.

- **Consumers:** Consumers purchase products and determine levels of demand for products in a market economy. A business organisation must be aware of changes in patterns in consumer demands and expectations. The growth of the global economy has seen consumers increasingly expect that they have access to a wider range of products. Online shopping by consumers has also increased. As a result, many businesses now have a worldwide market, increasing the complexity of their logistics. Consumers are also placing increasing demands on business organisations to be socially and environmentally responsible.
- **Producers:** Production at all stages of a good or service has become increasingly complex, as business organisations source resources from all over the world. Producers must therefore source and sign contracts with reliable suppliers of materials and logistics services. Producers must also take account of consumers' environmental and social expectations.
- **Employees:** Many business organisations are managing employees and workforces in different countries. This means that the management of employees has become complex, as there are different rules, laws and regulations covering employees depending on the country in which the business is being conducted. Different cultures also have different norms and ways of working. A business organisation must adapt to these when operating in the global economy.
- **Governments:** Legal and political systems vary between nations, as does the level of government involvement in the national economy. A business organisation needs to consider these factors when operating across national borders.

Multinational organisations

A multinational business organisation (corporation) needs to be able to manage its supply chain and business activities across the world. All multinational corporations have their own supply chain management processes, which are often extremely complex.

Figure 9.17 The Boeing global supply chain is extremely complex.



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Global sourcing

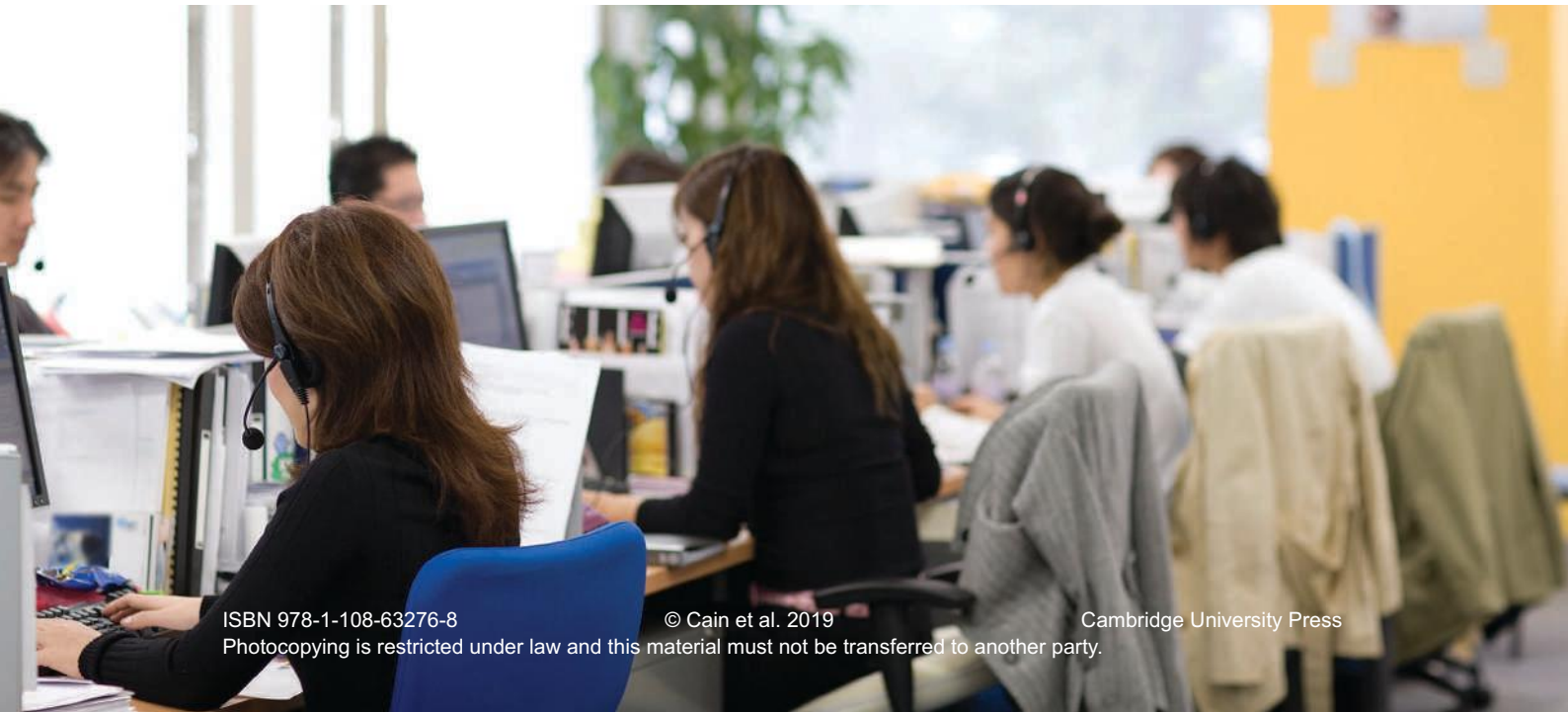
Business participation in a global supply chain is referred to as global sourcing. This usually takes one or more of the following forms:

- **global sourcing of inputs** – involves selection and use of suppliers from an overseas location
- **overseas manufacture/processing** – when the transformation/processing stage of the operations system is conducted in an overseas location
- **global outsourcing** – when a business organisation contracts another overseas business to perform some of its roles or functions; for example, IT is often outsourced.

Advantages offered through global sourcing

- **Opportunity to take advantage of global efficiencies:** Due to differences in the amount, types and quality of their economic resources, some countries have a natural advantage in the production of specific products; this is known as the national comparative advantage. Australia, for example, is able to produce farm commodities such as wheat and fine wool at a lower cost and higher quality than other nations. Similarly, many Asian countries have access to a large pool of labour at a lower cost than developed nations like Australia. This gives them a comparative advantage in the production of manufactured items.
- **Lower input and production costs in general can often be found overseas:** Most Australian clothing and footwear business organisations have moved their manufacturing operations to South-East Asian countries for this reason. Similarly, many businesses have outsourced their IT and call centre functions to India, where skilled employees can be found at lower cost. Reduced costs of production improve business competitiveness.
- **Skills and resources not found in the home nation can be tapped:** Rip Curl, for example, manufactures wetsuits in tropical areas such as Brazil and Thailand. Both nations have plentiful supplies of rubber and rubber trees. This also reduces transport costs.
- **Jobs and economic opportunity are provided in economically disadvantaged areas:** Global sourcing creates employment opportunities and assists in the economic development of less-developed economies.

Figure 9.18 Many Australian businesses have outsourced call centre operations offshore in order to improve business efficiency.



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CASE STUDY **9.5a** *Social responsibility and operations: Australian businesses and outsourcing – part 1*

CASE STUDY **9.5b** *Social responsibility and operations: Australian businesses and outsourcing – part 2*

Please see the Interactive Textbook to access these case studies.



CASE STUDY 9.6 *Global sourcing: livestock exports*

Horrific footage of animals dying in extreme heat aboard ships has raised fresh questions over the future of Australia's live export industry. The public has been angered by footage brought to light where about 2400 animals died horribly on an Emanuel Exports ship in August 2017, some apparently literally melting. In the previous year, more than 3000 sheep died on a ship from the same exporter.

So what do we need to do to humanely sell Australia's meat to the world? Can the meat be processed on our shores? And with many of Australia's livestock destined for the Middle East or Indonesia, can religious slaughter requirements be met while avoiding unnecessary animal suffering?

Meat exports have increased considerably in recent decades, overtaking wheat to become Australia's largest agricultural export by value. However, only about 20% of beef exports by carcass weight are live, mostly to Indonesia. The sheep trade is worth $250 million annually and involves about two million sheep.

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The welfare challenges for sheep during the current live export process are centred on the following issues:

1 failing to eat during the voyage
2 salmonella infection of the gastrointestinal tract (often linked to failure to eat)
3 heat stress
4 other onboard conditions related to lying space, lying conditions and ease of access to food and water.

Andrew Fisher, Professor of Cattle and Sheep Production Medicine at the University of Melbourne, suggests that heat stress can be lowered by reducing the stocking density of the sheep on a voyage. This enhances airflow around the animals and reduces the build-up of humidity and ammonia from the accumulating manure.

The use of very low stocking densities or even air-conditioned ships may be technically feasible (just as it is for human passengers). In practice, however, the economics of this may prompt a shift away from the mass live export of sheep for slaughter.

Andrew Butt, Associate Professor in Sustainability and Urban Planning at RMIT University, claims that a regional development policy would seek to retain as many stages of production as possible in the local region – in this case, growing, feed production, transport, slaughtering and packing of meat products. By increasing meat processing in areas with large farming communities, these chains can be strengthened. It may be possible to seamlessly substitute this trade for domestically slaughtered and processed meat.

A large portion of Australia's live exports go to Muslim-majority Middle Eastern countries and Indonesia. A factor in their preference for live exports is the limited refrigeration facilities outside major cities. Another factor is the need for meat to be slaughtered according to religious rules, making the meat either halal or kosher. Halal and kosher slaughter are supposed to provide the animal with a quick and humane death. Local Muslim community organisations and leaders can also play a crucial role by emphasising that the compassionate treatment of animals is a core element of Islam and that unnecessary cruelty is not halal. If Australia were to end live exports, it would be important to reduce the negative impact on societies such as Indonesia by supporting the development of the local livestock industry and of refrigeration facilities in regional areas.

(Source: Based on articles on *The Conversation* website: Michelle Grattan, 'Live sheep exports tarnish Australia's reputation and should be stopped', 12 April 2018; and Andrew Butt et al., 'Can meat exports be made humane?', 9 May 2018.)

ANALYSIS

1 To assist your analysis of the information, complete the following table.

Facts about the issue (This is explicit information)	Inferences (This is implicit information)	Predict what needs to occur for the inference to become facts

2 Use different coloured highlighters to identify the economic, social and environmental factors of this issue. You can refer to this table as you respond to the following questions.

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3 Taking into account prior information in this chapter, describe why live export can be considered by some as insensitive and inhumane. Discuss whether or not you agree with this point of view and use evidence to justify your answer.
4 Describe the economic significance of the live export industry to business and to Australia.
5 Identify one environmental issue in the export of livestock and propose two possible solutions to overcome the identified problem.
6 Describe two pieces of evidence from the article that demonstrate that corporate social responsibility is increasingly important for businesses in terms of attracting investors.
7 Identify three social responsibility issues in the treatment of exported livestock. Propose at least one solution for each identified problem.
8 Examine the relationship of the issue of exporting livestock to global supply chains.
9 Evaluate the three proposed strategies in improving this industry. In your concluding statement, outline which strategy would be the best in improving corporate social responsibility.
10 'It is time for Australian industry to lead the way in showing the world the importance of corporate social responsibility over profit.' Do you agree with this statement? Discuss and debate this divisive issue as a class.

Disadvantages of global sourcing

- **Hidden costs related to time zones and language barriers:** Often these factors create inefficiencies.
- **Financial and political risks associated with emerging economies:** Political and economic instability in a host nation may often disrupt production or supplies. If a war breaks out or a political coup occurs, business may be disrupted.
- **Risk of losing intellectual property such as patents and copyright:** Laws regarding intellectual property vary from country to country. Sometimes there is no recourse if a patent, copyright or brand is misappropriated by someone in another nation.
- **Time:** Reliance on supplies and products from other countries can result in delays and hold-ups. Shipping schedules, weather conditions, government regulations and the time taken to clear customs can cause blockages and delays in a supply chain. This in turn impacts on business productivity and competitiveness levels.
- **Loss of Australian jobs**: Using overseas labour means that Australians with equivalent skills will not be employed.

Figure 9.19 Intellectual property laws vary between nations.



Issues to be addressed in global sourcing

When involved in global sourcing, a business must consider the following:

- **Local labour costs and conditions:** These may be lower than in Australia. As a result, a business must take social responsibility factors into account. As shown earlier in this chapter, business reputation and levels of competitiveness can be negatively impacted if a business is found to be using unethical suppliers who exploit employees.

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- **Environmental impact:** A business must take into account the environmental impacts of sourcing globally. Factors such as greenhouse gas emissions generated by transport and manufacture, environmental impacts such as pollution in local communities, and use of resources such as fuel in transport must be factored in.
- **Exchange rates:** The often-changing value of the Australian currency compared to that of other nations affects the costs of doing business overseas.
- **Tariffs:** Taxes on imported products impact on the final cost of a product.
- **Location of overseas suppliers:** Suppliers must be close to transport links so products can be easily moved about.

SAC AND EXAM TIPS – linked to key skills

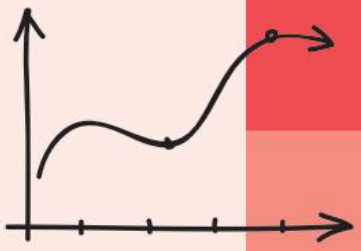
Outline how corporate social responsibility can be implemented throughout each stage of an operations system – requires you to provide a brief description of how a business can implement CSR in relation to the three stages of an operations system. This includes environmental sustainability of inputs, the amount of waste generated from processing and the production of outputs.

Chapter summary

- Corporate social responsibility, including ethical and social considerations, is crucial to the optimisation of an operations system. CSR covers corporate governance, sustainability and environment, ethical treatment of employees and customers, human rights and community involvement.
- Pressure to adopt ethical and socially responsible practices comes from a range of stakeholders. Customers and markets are increasingly considering CSR when making purchases. Employees often choose to work for an employer with good CSR credentials.
- Triple bottom line reporting is used increasingly by businesses to measure their economic, social and environmental performance.
- In aiming to manage the environmental performance aspect of the triple bottom line, over 4000 Australian businesses have introduced environmental management systems that meet the ISO 14001 standards.
- CSR has implications in the three stages of operations. In regard to inputs, businesses are to consider the environmental sustainability of raw materials. During processing or the transformation stage, businesses aim to reduce waste and ensure the ethical treatment of employees. In practising CSR in managing outputs, businesses must ensure that products are not harmful and marketing is not deceptive.
- Businesses are increasingly participating in global supply chains involving global sourcing of inputs, overseas manufacture and global outsourcing.

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- Advantages of participation in a global supply chain include:
  - ability to take advantage of cost efficiencies offered by national comparative advantage
  - access to skills and resources not available in the home country
  - provision of jobs and economic opportunity in other nations.
- Global sourcing, however, raises ethical and social responsibility issues such as environmental impacts of transport and treatment of employees in other countries.
- Other factors to be considered in global sourcing include:
  - impact of currency exchange rates
  - tariffs and import restrictions
  - legal and cultural differences such as intellectual property laws
  - political stability in developing nations.



Chapter summary tasks

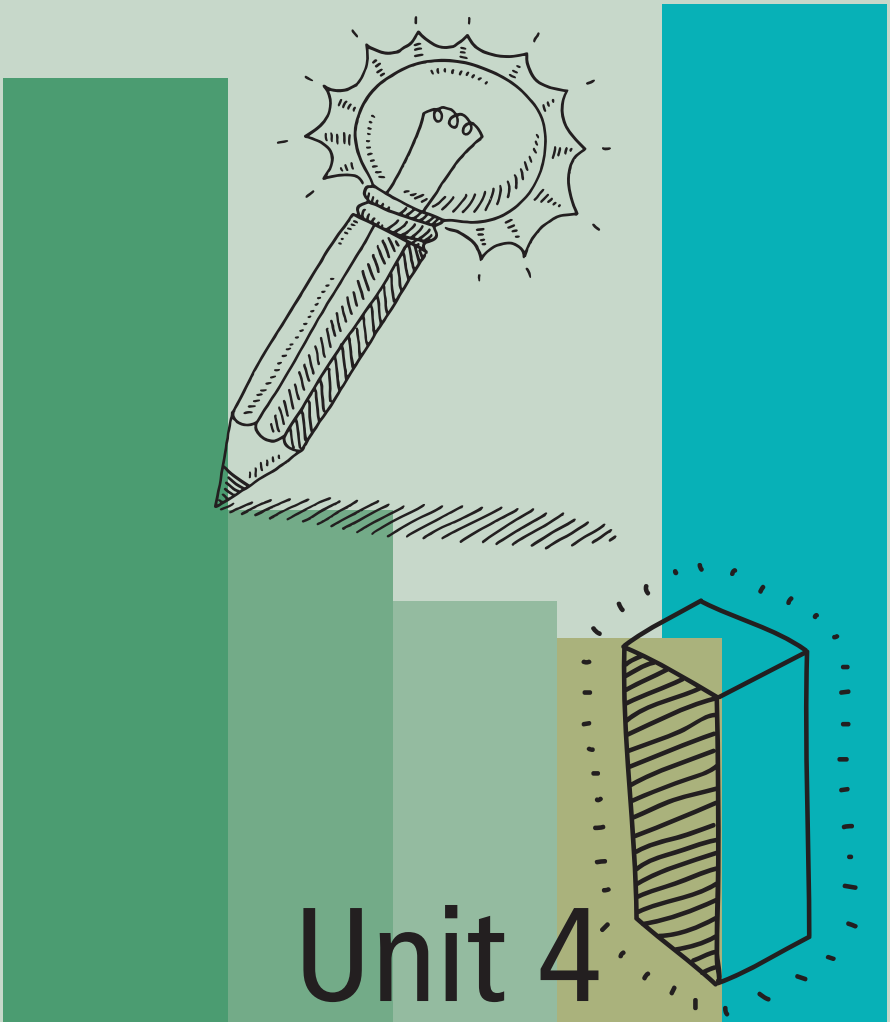
1 Define the following terms:
   a corporate social responsibility
   b ethics
   c environmental sustainability.
2 Identify and explain how each of the following stakeholder groups might pressure a business to adopt socially responsible policies and behaviours:
   a suppliers
   b investors
   c government
   d customers
   e media.
3 Explain what is involved in triple bottom line reporting. Discuss the reasons why a business might decide to adopt this type of business reporting.
4 Define sustainable procurement. Discuss the potential advantages and disadvantages of adopting sustainable procurement principles when sourcing inputs.
5 Describe four strategies from the transformation phase of an operations system that would be seen as socially responsible.
6 Discuss the implications of becoming a certified Fairtrade business.
7 Discuss how ethical and socially responsible management practices could affect each of the three stages of an operations system.
8 Discuss the advantages and disadvantages of a business participating in a global supply chain.

Examination preparation

'We saw that doing the right thing was good for business today – and would be an engine for our growth in the near future. With each new discovery and partnership, we willingly gave up old ideas to shift our thinking towards a better, smarter, faster and ultimately more sustainable future – financially, environmentally and socially.' – Mark Parker, CEO of Nike

1 **Discuss** what this statement means. In your answer, consider both the positive and negative effects that the adoption of corporate social responsibility policies and actions might have on organisational productivity levels. Use specific examples to **justify** your answer. **(10 marks)**
2 **Discuss** whether or not you believe that the adoption of an organisational environmental policy would be a sound business decision or merely an ethical one. **Justify** your point of view. **(6 marks)**

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Unit 4

TRANSFORMING A BUSINESS

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Part 1
Area of Study 1
REVIEWING PERFORMANCE – THE NEED FOR CHANGE

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 1

On completion of this unit the student 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.

To achieve this outcome the student will draw on key knowledge (listed at the start of each chapter) and key skills outlined in Area of Study 1.

Key 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: VCAA, *VCE Business Management Study Design 2017–2021*, p. 21.)

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Chapter 10
Reviewing performance

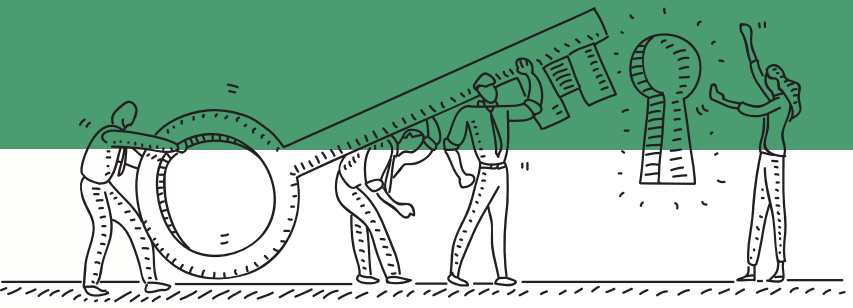
Overview

You will learn about the key performance indicators (KPIs) as a source of data to evaluate business performance. In many things we do, our performance is evaluated. An athlete or swimmer, for example, wants to know the time taken to complete the race. Similarly, after taking an assessment task a student wants to know the result. In the same way, all those with an interest in a business want to know how it has been performing. Managers also need to develop strategies and actions to respond to KPIs and other data. Strategies to respond to KPIs will be discussed in more detail in Chapter 13.





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Key terms

- benchmark
- components
- effectiveness
- key performance indicators (KPIs)
- level of wastage
- net profit
- number of customer complaints
- number of sales
- number of workplace accidents
- percentage of market share
- rate of staff absenteeism
- staff turnover

Key knowledge

You will be introduced to methods used to analyse the performance of a business. You will learn about:

- key performance indicators as sources of data to analyse the performance of businesses, including percentage of market share, net profit figures, rate of productivity growth, number of sales, rates of staff absenteeism, level of staff turnover, level of wastage, number of customer complaints and number of workplace accidents.

What's ahead

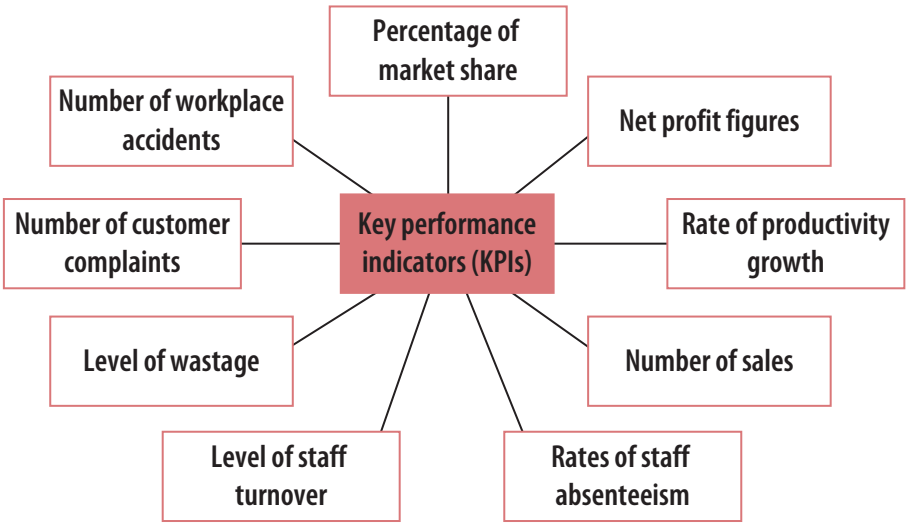


Figure 10.1 Businesses use KPIs to guide their decisions and increase their performance.



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10.1 Key performance indicators as sources of data to evaluate business performance

key performance indicators (KPIs) measures or a set of data that allows a business to determine whether it is meeting its business objectives

Part of a manager's role is to analyse the efficiency of all activities within the business, including the production processes, service delivery and the productive use of technology, the quality of products or services and the effectiveness of staff, management and procedures. The efficiency and effectiveness of such processes and activities can be measured against a range of data sources and **key performance indicators (KPIs)**. KPIs and other data can be used to evaluate both resource efficiency and objective effectiveness.

Efficiency and effectiveness

components the parts and resources used in a production process

The management process requires the efficient and effective combination of resources to produce goods or to successfully deliver a service. These resources can include:

- financial resources such as cash and loans
- material resources such as raw materials and **components** or parts
- human resources such as skills and contribution of the employees and managers
- information resources such as knowledge about a product or market
- forms of technology to assist in processes
- records of time to complete a process
- quality strategies to aid production.

Efficiency is judged as the best use of resources in the production of goods and/or services. It also relates to being able to accomplish a task with the minimum expenditure of time and effort. The outcome can be judged on both the quality and quantity of the goods or services produced. Efficiency can be measured in a number of ways according to the nature of the business and is important to consider. Examples of efficiency include:

- a bus line operator changes the routes along which its buses run so that it overcomes the time lost while waiting at traffic signals and busy intersections
- the number of barrels of wine produced per harvest of grapes without loss of quality
- in an attempt to become more efficient in its operations, the local supermarket has decided that it will allocate a quick check-out lane for customers who have purchased fewer than five items.

Figure 10.2 Performance evaluation helps to ensure a business operates at its peak.



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Another important concept for businesses is **effectiveness**. This can be defined as the ability of the business to achieve its previously determined objectives or goals. These objectives are developed at all levels of the business and are written in line with the overall mission and vision statements and strategic plan.

effectiveness the degree to which a business achieves its stated objectives; 'doing the right things'; the ability of a business strategy to achieve an intended or expected outcome

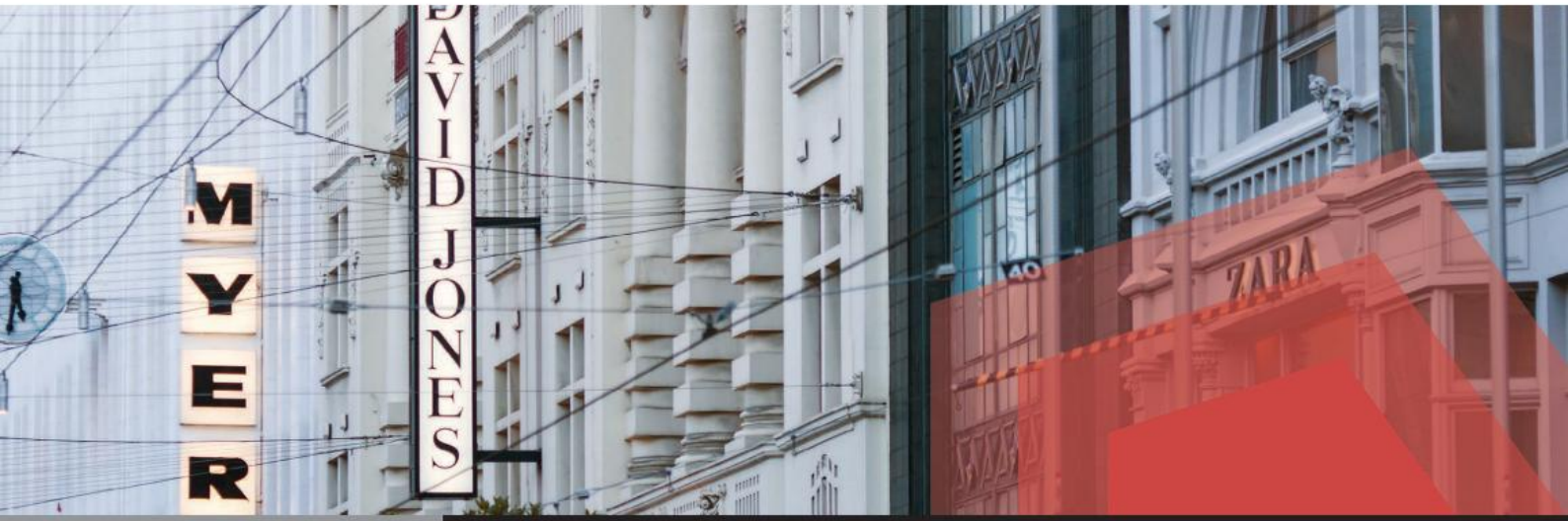
Why do businesses need to evaluate performance?

Everyone needs to evaluate or make a judgement as to how they are performing. Business owners and managers make plans and set objectives that need to be measured. It is not advisable to wait until the end of a business or financial year before making a judgement; it may be too late.

All businesses should regularly assess their performance and use a range of data and KPIs to ensure that information is relevant, accurate, reliable and timely. Businesses will often make major and strategic decisions using the information they have collated. They may also make changes in their plans and strategies if KPIs and other data indicate an issue. Therefore, it is critical that a business, regardless of its size, gathers and uses financial information.



Figure 10.3 Reviewing business performance allows owners to make strategic decisions.



CASE STUDY **10.1**

Evaluating business performance: Myer

Myer has vowed to try to lure back its 'traditional' customers. The business made a loss of $476 million in the six months to the end of 2017. Sales fell, as did earnings, and the share price also fell dramatically during 2017. This trend continued in 2018 with the retailer struggling to gain market share and increase sales.

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Executive chairman Garry Hounsell said the result was 'unsatisfactory' and reflected a number of mistakes Myer had made – including that it failed to respond to heightened competition in the market before Christmas. He said Myer would now focus on product, price and customer service to get its 'traditional customer base' spending again.

Myer is re-examining the more traditional product and prices and customer services in an attempt to try to attract former customers back.

In 2015 Myer had introduced a new strategy and focused on female customers who were seen as 'high-value' and prepared to pay high prices for fashionable and exclusive clothing and products. Myer did this at the expense of its traditional customer base.

Mr Hounsell also said Myer was taking steps to improve customer service and more focus on the basics such as greeting customers, and was trialling the use of commissions to motivate sales staff.

(Source: Based on Patrick Hatch, 'Bye fashionistas! Myer chases "traditional" customers after $476m loss', *The Age*, 21 March 2018.)

ANALYSIS

1 Describe the information that Myer used to make its decision to focus on 'traditional' customers.
2 Explain why a business would use this type of information to make decisions.
3 Identify the stakeholders who may have been affected by the decision, and discuss how they would be impacted.

Indicators used for measuring business performance

Key performance indicators

A performance indicator is a tool used to measure progress towards the achievement of business objectives. A key performance indicator (KPI) can be defined as a measure or a set of data that allows a business to determine whether it is meeting its business objectives. To enable a business to make accurate evaluations about performance, it should use a range of indicators and data.

KPIs will allow a business to make sound judgements and provide a wide overview of business performance. Any KPI or data source must be:

- relevant – does it provide the information required by users?
- valid – has the data been collected correctly?
- reliable – what is the source of the data? Has it been based on measurable data or is it anecdotal?
- deliver valuable information – will the KPI provide useful information that will help decision-making?



Figure 10.4 KPIs allow a business to determine whether it is achieving its business objectives, such as meeting shareholder expectations.

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KPIs should also be comparative, and this can include:

- changes over time – did the rate or amount increase or decrease over the past year?
- comparing it to other businesses or **benchmarks** in the industry sector – does the business meet or exceed benchmarks set by the best in the industry?
- budgets, estimates or targets set by the business – did performance match or exceed budgets?

benchmark a level of quality or achievement used as a standard of comparison for others; a point of comparison used to evaluate success levels

10.2 Key performance indicators used to evaluate the performance of a business

There are a number of ways to evaluate business performance. Some of the important KPIs are outlined below.

Percentage of market share

The **percentage of market share** can be defined as the proportion or amount of the market. If the proportion of market share increases, the business has a greater percentage of the market and sales. Some industry sectors are dominated by a few large businesses that have substantial market share and a large number of customers. In other sectors of the economy, there may be more competition and businesses will vie for market share and customers. Some small and medium businesses may be in a niche industry or market and, despite their size, have a large percentage of the market.

percentage of market share the portion of sales (units or revenue) of a product that a company achieved in relation to the sales of the same product that other companies achieved



CASE STUDY 10.2

Evaluating business performance: the LEGO Group

The LEGO Group released its results for 2017 and reported a decline in revenue and operating profit. Global sales remained flat. The decline in revenue was partly due to excess stock with no increase in sales.

CONTINUED ITEM

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Niels B Christiansen, the LEGO Group CEO, said: '2017 was a challenging year and overall we are not satisfied with the financial results. However, we ended the year in a better position ... In 2018, we will stabilise the business and invest to build sustainable growth in the longer-term.'

Revenue in established markets in North America and Europe declined in 2017. The Group sees strong potential in China, where revenue grew high double-digits in 2017. The company also will open an office in Dubai towards the end of 2018 to support efforts to expand operations in the Middle East and Africa.

During 2017, the LEGO Group continued efforts to achieve its ambition to bring LEGO play to more children around the world, and deliver on its 'Planet Promise' to have a positive impact on the planet and communities of which it is a part.

In May 2017, the company achieved its ambition to balance 100% of its energy consumption with energy from renewable sources and is the first toy company to do so. It will also continue working towards its ambition to use 100% sustainable materials by 2030. In March, the Group announced the launch of its first elements made from plant-based materials. Botanical elements, such as leaves and trees, made from plant-based plastic sourced from sugarcane will be introduced to sets during 2018.

(Source: Based on 'LEGO Group reports full year results for 2017', LEGO Group website, 6 March 2018.)

ANALYSIS

1 Define the concept of the percentage of market share.
2 Explain one reason why LEGO's performance may have declined in 2017.
3 Discuss where it is likely that the LEGO Group will attract new markets and customers, and most likely greater market share.

Net profit figures

net profit the amount left after all expenses (e.g. costs, taxes) have been paid, also referred to as the bottom line

Net profit is the difference between revenue and expenses. If a business makes a profit, it may be considered to be successful. Usually, a certain level of profit will be determined as acceptable by the business (in terms of its objectives and the expectations of investors, owners and other institutions). What an acceptable net profit figure is will differ depending on the size and complexity of the business. A small business might be happy with a small net profit as long as the owner can draw a regular wage. A large business, on the other hand, would have pressure from shareholders to deliver substantial and ongoing profits.



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CASE STUDY
10.3

Evaluating business performance: profit as a KPI

ARTICLE 1: THE AFL

The AFL announced a profit of $48.8 million. Revenue in the 2017 season was the highest ever recorded by the AFL. A spokesperson for the AFL stated that it was a good result that will allow it to strengthen the game and meet the challenges of the environment. The increase in expenditure included the Women's League, game development, and community and infrastructure investment.



Figure 10.5 The AFL has been successful in terms of profit and growth.

ARTICLE 2: QANTAS

In 2017, Qantas achieved its second highest profit before tax of $1401 million. All parts of the business delivered strong returns during this period. Qantas and Jetstar were the most profitable airlines in the Australian domestic market. This was followed up by a strong performance in the first three months of 2018. Revenue and sales increased and also reflected stronger demand from recovery in the resources sector and ongoing network adjustments.

Qantas has made and announced a number of changes, including changes to some of its international network, the start of the Perth–London route, a switch to Singapore as the hub for the second London service and a renewed partnership with Emirates. The company has also announced an order for new Boeing 787-9s and will retire some of its older planes.

The CEO, Alan Joyce, stated that a large part of the improvements had resulted from a focus on investment in customer experience, improvements in aircraft interiors, rollout of free Wi-Fi, changes to routes and an upgrade of lounges.



Figure 10.6 Qantas has continued to be profitable.

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ANALYSIS

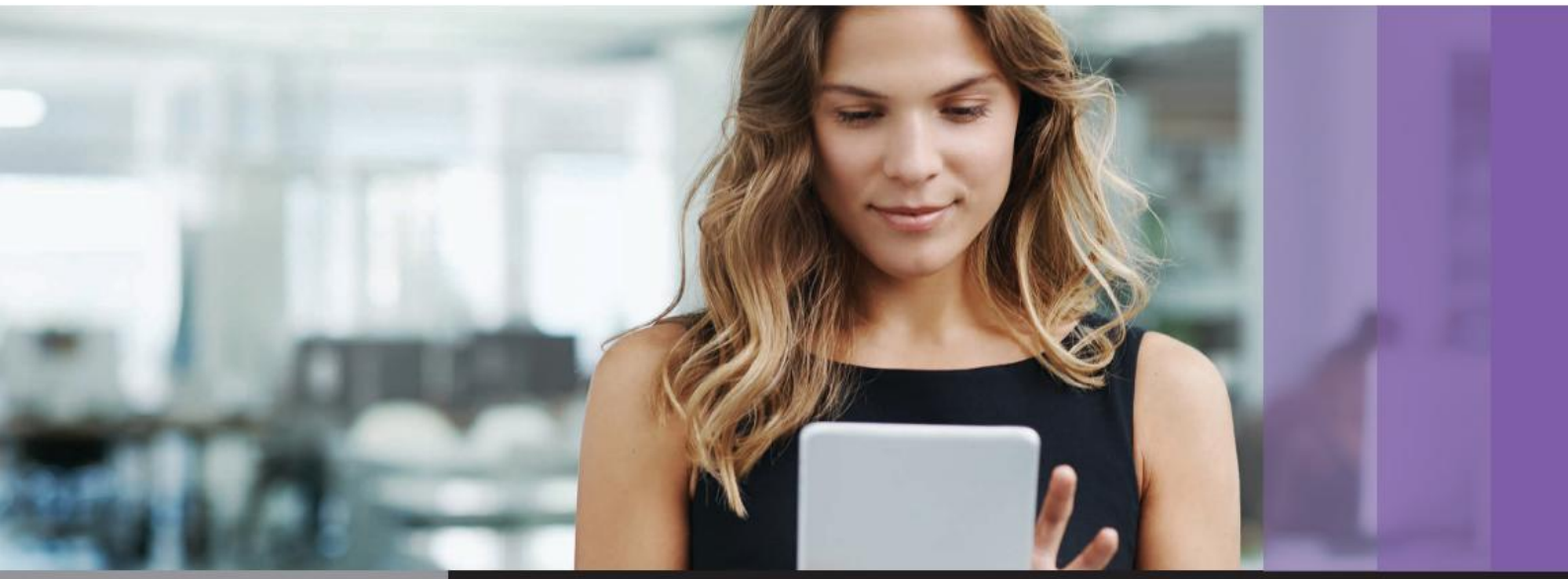
1 Define net profit.
2 Outline why businesses focus on profit.
3 Determine the information that this KPI provides businesses with.
4 The AFL has continued to develop and has a strategy to expand. Describe why the AFL has focused on a range of strategies.
5 Describe how Qantas has continued to work on increasing profit and expanding the business.

Rate of productivity growth

Productivity measures the business's ability to transform inputs into outputs; the ability of a business to increase outputs for a given level of inputs gives an indication of the rate of growth. Inputs include any resources required for the production of the good or service. An output is the finished good or service. A business that increases the rate of productivity growth uses resources more efficiently.

If, for instance, employees are able to increase the number of mobile phones produced each day by 10% using the same amount of inputs, then productivity has increased.

It is important for a business to evaluate whether the rate of productivity growth has met objectives.



CASE STUDY **10.4**

Evaluating business performance: productivity as a KPI

AUSTRALIAN PRODUCTIVITY TRENDS

For a small open economy like Australia, which specialises in commodity exports, fluctuations in the terms of trade and productivity growth are the primary drivers of per capita income growth and a key determinant of living standards.

Labour productivity growth is, and is expected to continue to be, the key determinant of growth in Australian living standards. In terms of the size of the economy, economic growth is determined by growth in labour utilisation and growth in labour productivity.

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At an individual level, the primary drivers of per capita income growth are fluctuations in the terms of trade and labour productivity growth.

Despite concerns, Australia's labour productivity growth over recent years is in line with its longer-term performance. In the five years to 2015–16, labour productivity in the whole economy has grown at an average annual rate of 1.8 per cent. This compares to an average annual rate of 1.4 per cent over the past 15 years and 1.6 per cent over the past 30 years.

Aggregate productivity growth can be affected by structural change in the economy. In Australia, most sectors have broadly similar productivity levels with the exception of the Mining and Utilities sectors, which have relatively high productivity levels. The movement of workers into and out of the mining sector is the dominant factor behind the effect of structural change on aggregate productivity growth.

(Source: Based on 'Australian productivity trends and the effect of structural change', Australian Government, The Treasury website, 28 August 2017.)

ANALYSIS

1 Define the concept of productivity.
2 Describe the trend in productivity in Australia over the past five years.
3 Explain why productivity growth can be affected by structural changes in the economy.
4 Go to the Australian Bureau of Statistics website and identify what has happened to productivity growth during the past 12 months.

Number of sales

number of sales the total quantity of sales of a particular product or service

The **number of sales** can be defined as the total quantity of a particular product or service sold. The level or number of sales of a product or service will allow a business to determine whether it is meeting sales forecasts and whether the business has to look at ways to increase sales in both the short term and longer term. Taking note of trends in sales, particularly for a specific product or service or in a region or at different times of the year, will assist a business in planning, budgeting and changing the mix of products and/or services as required.

Figure 10.7 The number of sales will determine whether a business is meeting forecasts.



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Figure 10.8 Business owners like Darcy and Adam can use fluctuations and patterns in sales figures to their advantage.

ACTIVITY 10.1

Darcy and Adam have established the Shearers Hub, a small take-away food business in rural Victoria. The business has started to build up regular customers who stop on the way to Sydney. Darcy has been checking the number of sales each month and has found that there has been an increase in the number of sales on Fridays and the weekend, especially Saturday morning.

1 Describe how Darcy and Adam can use the information about sales.
2 Outline decisions the business could make using the information about the increased sales on Fridays and the weekends to take advantage of the increased number of customers.

Rates of staff absenteeism

rate of staff absenteeism a percentage indicating the number of workdays lost due to unscheduled staff absence from work, especially without a good reason

The **rate of staff absenteeism** measures the number of times staff are not at work, and who may be using sick or personal leave and not attending the workplace. If staff are absent from the workplace, this is a cost for the business. Rates of productivity may reduce as the staff member is not there to complete their tasks; and it can be a cost to the business as other staff may have to be employed to take over the job as well as the staff member receiving payment if they are taking personal or sick leave. In a small business, high rates of staff absenteeism may mean the business cannot carry out its operations on some days, and this may result in lost sales and revenue.

If a business has high or increasing rates of staff absenteeism, this may indicate that staff are unhappy in the workplace and with their job. Businesses need to monitor rates of staff absenteeism and take steps to reduce rates if it is seen as an issue across the business.

A business can compare its rate of staff absenteeism for a period with rates for other periods or against an industry standard to determine how it is faring.

Ways to reduce the cost of employee absences

Employee absences can be a substantial cost for a business. It is important for businesses to measure the cost and impact of employee absenteeism. Knowing the reasons for employee absenteeism can assist a business in dealing with the issue if it is causing managers and other employees concern. There are five ways that staff absenteeism can be reduced.

These include:

1 Track staff absences. This may help a business determine if there are patterns or concerns about particular employees. Some employees may have other issues going on, and these may be addressed.
2 Make sure that the business has employee wellness programs to support employees.
3 Help employees to return to work. This may include a range of activities, including modifying work, allowing people to work from home or flexible work hours.
4 Eliminate workplace stress. Sometimes people feel overwhelmed and take time off work.
5 Offer employees flexible working hours and holidays. This might include allowing employees to take time off around a public holiday.

ACTIVITY 10.2

1 Explain why the rate of staff absenteeism is an important KPI for businesses to monitor.
2 Discuss why a business should look at ways to reduce staff absenteeism.

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Level of staff turnover

staff turnover measures the number of employees who had to be replaced within a given period

Staff turnover measures the number of people or employees permanently leaving a business. If the level of staff turnover is high (for example, higher than other similar businesses), it may indicate dissatisfaction in the workplace. Staff turnover means that a business incurs a number of costs, including costs for advertising, recruiting and training new employees. There is also a cost to the business when staff leave, as many people take knowledge and experience with them.

Often the competitive edge and difference between one business and another is their staff. If a small business loses only one key staff member, it can have an adverse impact on the performance of the business. Larger businesses can also be severely affected by high rates of staff turnover. The cost of advertising, recruiting and training staff can be high. A business may also gain a reputation as one that is not desirable to work at, and therefore the quality and number of applicants may decrease when positions are advertised.

There are a number of ways that a business can reduce staff turnover. These include:

- choosing good managers who have well-developed interpersonal and communication skills
- providing employees with clear expectations, including vision, goals, expected behaviours, standards, priorities and agreed actions
- encouraging employees to use their skills and recognising them
- providing support for employees when needed
- encouraging employees to get involved in decision-making
- providing opportunities for employees to provide feedback
- encouraging employees to upgrade their skills.



CASE STUDY **10.5**

Evaluating business performance: staff turnover as a KPI

Maybe high turnover is the quickest way to learn what needs fixing and what changes need to be made, a way to streamline processes, or a fast track injection of fresh talent and skills.

A high turnover rate can be turned around with the following in mind.

CONTINUED ITEM

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1 Exit interviews can be used to gather information

If exit interviews are handled correctly, a departing employee feels free to highlight the positives and negatives of working in the business and can provide information to support improvement and changes.

2 High turnover may mean fresh talent

Sometimes the person a business employs may not work out in the position. Sometimes there is not a 'fit' between the person and the role and work environment. If an employee leaves it may provide an opportunity to find another employee with a better 'fit'.

3 Effective performance management is a powerful two-way tool

Any performance management strategy should include:

- performance goal-setting – encouraging individuals to set their own goals;
- establishing agreed timelines and expected outcomes;
- day-to-day feedback among team members and managers;
- structured induction;
- targeted skills training;
- ongoing professional development;
- just-in-time coaching; and
- periodic career conversations.

It is not enough to attract good talent – the business must make sure that they remain engaged, challenged and are given opportunities to develop.

4 Turnover creates fresh impetus to stay competitive

Many businesses seek out employees from competitors to gain their skill and experience. It is important for a business to ensure that they look after the needs of their staff if they want them to stay.

(Source: Based on Eve Ash, 'High staff turnover – good or bad?', *SmartCompany* website, 20 June 2017.)

ANALYSIS

1 Explain why the level of staff turnover is an important KPI for a business to measure.
2 'Sometimes staff absenteeism is a good thing for a business.' Discuss this statement and outline the costs and benefits of high levels of staff turnover.
3 Find the staff turnover calculator on the Business Victoria website. Using the calculator, determine the cost of staff turnover using the following figures:
   a Number of staff leaving: 5
   Hourly rate: $30
   Percentage of resignations: 20%
   b Number of staff leaving: 12
   Hourly rate: $25
   Percentage of resignations: 32%

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Level of wastage

The **level of wastage** is an indication of the extent to which a company's processes are lean and effective. The level or proportion of waste in a production process will give an indication of business efficiency. Reducing waste levels will reduce the costs associated with producing a product and it may also mean that fewer non-renewable resources are used, having a positive impact in the wider community. Many businesses will try to implement processes to reduce waste levels and also recycle and reuse materials and offcuts as much as possible.

level of wastage in a production process will give an indication of business efficiency and is a measure of resources that have not been converted to outputs



Figure 10.9 The level of waste can impact on the efficiency of a company's processes.

One example of waste reduction occurred at Unilever. Unilever became aware of the issue of food waste in restaurants. The company now works with chefs and restaurant owners to reduce their waste in a number of ways, including purchasing and storage. The 'Wise Up on Waste Service' program contains a step-by-step waste audit to make kitchens more efficient. The program is running in 23 countries. Sustainability Victoria offers support to small and medium-sized businesses to find energy-efficiency improvements and to review pricing tariffs and suitable renewable energy options.

Number of customer complaints

The **number of customer complaints** is an indicator of how customers view the business and the quality of the product and/or service they have been given. It allows the business to compare the number of complaints over time or with the performance of their competitors. An increase in customer complaints may indicate there is a need for further training of employees or that products may not be of a satisfactory standard or quality. A decrease in the level of customer complaints may be seen as positive data and a goal for a business to achieve.

number of customer complaints the number of written or verbal expressions of dissatisfaction from customers about an organisation's products or services

For many businesses, regardless of their size, customer complaints and unhappy customers may mean that the reputation of the business suffers. A small business in a local area may find that comments by unhappy customers can impact on future sales if the business has not handled the complaint in a satisfactory manner.

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CASE STUDY
10.6

Evaluating business performance: customer complaints as a KPI

TIPS FOR HANDLING CUSTOMER COMPLAINTS

In every small business, problems can arise between businesses, their customers, suppliers, partners and employees. Most can be resolved quickly and efficiently. When dealing with customers, it is likely that a business might receive a complaint about a product or service.

Customer complaints are usually considered a bad thing; however, if they are handled correctly they can provide a business with an opportunity to turn the experience into a positive for the business.

Some of the strategies a business can use include:

- Having a clear procedure to handle customer complaints. This should be documented and followed by everyone in the business.
- Records kept of all agreements and undertakings, which can be referred to if required and as a means to avoid misunderstandings.
- Have a procedure to deal with refunding or exchanging products to support a more positive customer experience.
- Understand any legal obligations the business might have regarding pricing, warranties and products.
- Listen to customers and make a note of any feedback and take it on board if required.

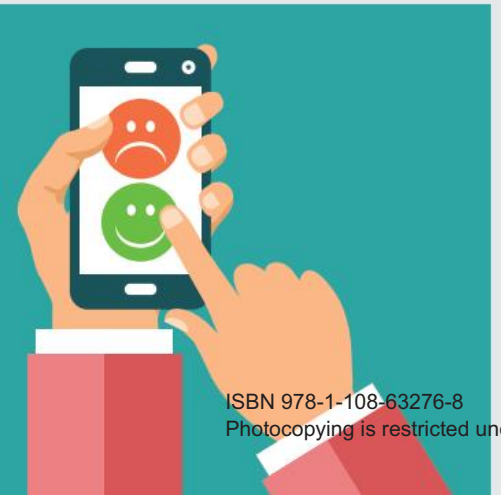


Figure 10.10 An unhappy customer could influence future performance when they share their negative experience with friends and family.

It is important for a business to remember that only a few out of the total number of dissatisfied customers complain; most will not return to the business. Many businesses now have a place on their website to allow customers to provide anonymous feedback.

(Source: Based on 'Tips for handling customer complaints', Australian Government, Business website, 9 November 2018.)

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ANALYSIS

1 Explain why it is important for a business to take customer complaints seriously.
2 Choose two of the strategies outlined in the article and describe how they might assist a business in maintaining its reputation.
3 Explain how a business might deal with the following circumstances:
   a An order went missing or never arrived.
   b A customer writes a bad review online.
   c The business is short-staffed.

Number of workplace accidents

The rate and **number of workplace accidents** can provide an insight into whether a business views employee safety as an important priority. Reducing the number of workplace accidents means employees are less likely to be injured, or even killed, in the workplace and demonstrates the propriety and concern of the business for its employees. It may also allow the business to reduce its WorkSafe premiums and ensure staff know that their safety is a priority for the business.

number of workplace accidents the number of unplanned events interrupting the workflow that may or may not include injury or property damage

Increasing workplace safety and thereby reducing the number of accidents has the following benefits:

- reduction in number of disruptions to work and production
- reduction in time lost due to accidents and consequent disruption
- reduction in lost production
- reduction in management time required to manage the effect of accidents and disruptions, and the administrative work resulting from these
- enhancement of the reputation of the business
- improvement in staff morale and loyalty.

Figure 10.11 Increasing workplace safety reduces the costs associated with accidents.



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ACTIVITY 10.3

Go to the WorkSafe website and answer the following questions:

1 Identify why it is important for a business to ensure it has a safe workplace.
2 Explain how a business can reduce accidents in the workplace.
3 Outline the rights and responsibilities of an employer.

ACTIVITY 10.4

1 Identify the most appropriate key performance indicator (KPI) for each of the following situations. Justify your choices.
   a The human resource manager is concerned about the number of people leaving the business.
   b A manager is concerned about the high number of staff sick days compared to last year.
   c Shareholders of the business want to know how it is performing. (*Note:* May be more than one KPI.)
   d A number of customers have been leaving poor feedback on the company website.
   e A consultant wishes to determine the level of staff job satisfaction within the business.
   f The operations manager wants to know whether resources are being used properly in the production process.
   g The marketing manager would like to check the percentage of company sales in the marketplace.
   h The operations manager wishes to examine resource use.
2 Apply your knowledge to match the KPI to the appropriate outcome or situation in the table below.

25% of employees left the business in the past six months.	Market share
Revenue less expenses is greater than the previous financial period.	Number of customer complaints
Total proportion of the market increased by 8% in the previous six months.	Net profit
The number of workplace injuries has dropped compared to last year.	Rate of productivity growth
Customer complaints have been identified as an area for improvement over the next six months.	Results of a customer satisfaction survey
Feedback from a customer survey indicated some unhappiness with the time taken to answer a phone enquiry.	Staff turnover
Resources have been used more effectively this financial year compared to the two previous periods.	Number of workplace accidents

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Why do businesses use key performance indicators?

All businesses need to continue to examine how they have been performing against business objectives. This will allow the business to determine whether resources are being used properly and to see if budgets and forecasts are being met or exceeded. If a business, regardless of size, does not continually monitor its performance, it may not be aware of issues until it is too late to change or amend processes. Monitoring of KPIs and other data also allows a business and its employees to have a method to determine how departments, individual staff and work teams are performing against benchmarks or other standards.



Figure 10.12 Monitoring employees against business benchmarks

ACTIVITY 10.5

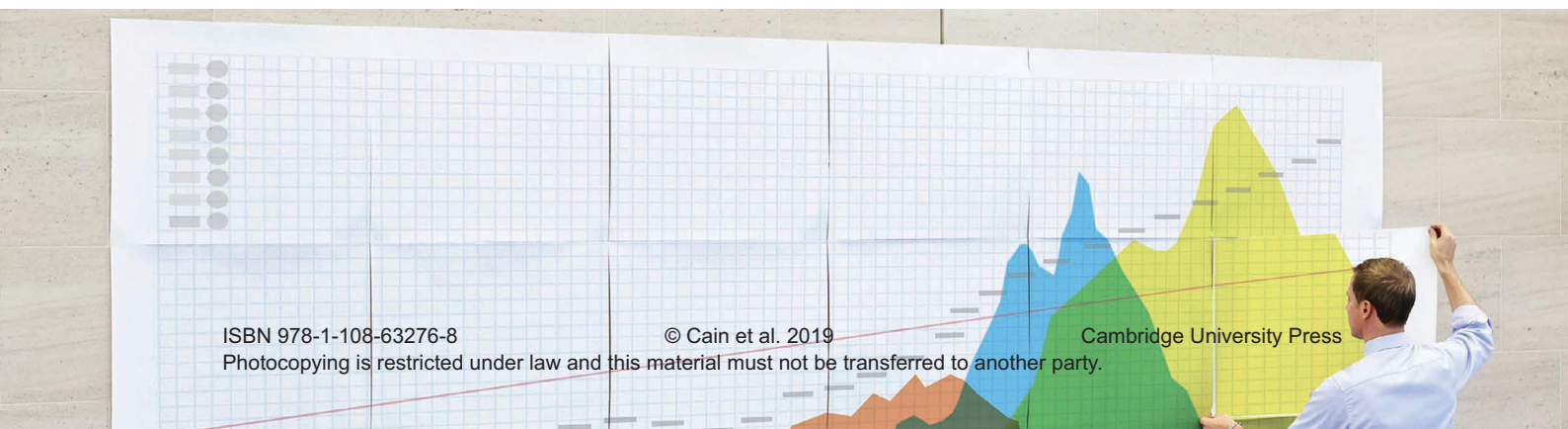
Examine the data provided by Matt Harris, Sales Manager of MH Car Detailers. The company has been operating for the past five years and has gradually built up a reputation for quality service and reliability. Matt has noticed that the change to a new supplier of cleaning products has led to a poorer finish on some cars.

He has collected the following data.

Performance indicator	2017	2018
Number of customer complaints – per month (average)	1	6
Market share	18%	17%
Net profit – for 12 months	$234 000	$253 000
Number of workplace accidents – per month (average)	13	17
Rate of productivity growth – per year	5%	3%

Matt has also examined some of the data available from other car detailers in the area. While his business is performing above industry standards, he is concerned that performance is starting to slip.

1 Construct a brief report (one or two paragraphs) on what data and trends the KPIs provide.
2 Choose two KPIs from the table and recommend what Matt might do now to try to improve the performance of the business.



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SAC AND EXAM TIPS – linked to key skills

Efficiency (resource use) and effectiveness (meeting business objectives) are core concerns for businesses of all types and size.
KPIs provide a business with information over time and can be compared with industry benchmarks and budgets. It is important to understand what a KPI is telling us about the performance of the business.
KPIs tell businesses about different management areas. The rate of productivity growth and level of wastage provide information about operations management.

Chapter summary

- KPIs can be used to analyse the efficiency and effectiveness of a business.
- Businesses need to use KPIs and other data to evaluate and judge their performance.
- KPIs should be valid, relevant, reliable and deliver valuable information.
- There are a range of KPIs used by businesses, including net profit, number of sales, level of wastage, rate of productivity growth, percentage of market share, number of customer complaints, number of workplace accidents, level of staff absenteeism and staff turnover.
- Businesses use KPIs to assess how the business has been performing against business objectives.

Chapter summary tasks

1 Define the following terms:
   a key performance indicators
   b efficiency
   c effectiveness.
2 Discuss why it is important for a business to monitor performance.
3 Explain why businesses need to use KPIs and other data.
4 Outline three KPIs that can be used to measure performance in the following businesses. Justify your choices.
   a A medical centre
   b A gym
   c A mobile phone store
5 Discuss the link between business objectives and performance.
6 Identify two KPIs you believe would be important for a restaurant to monitor. Justify your answer.
7 'Performance measurement is a complex issue.' Discuss this statement in terms of the use of KPIs in a business.
8 Explain why a business should regularly collect, check and monitor KPIs.

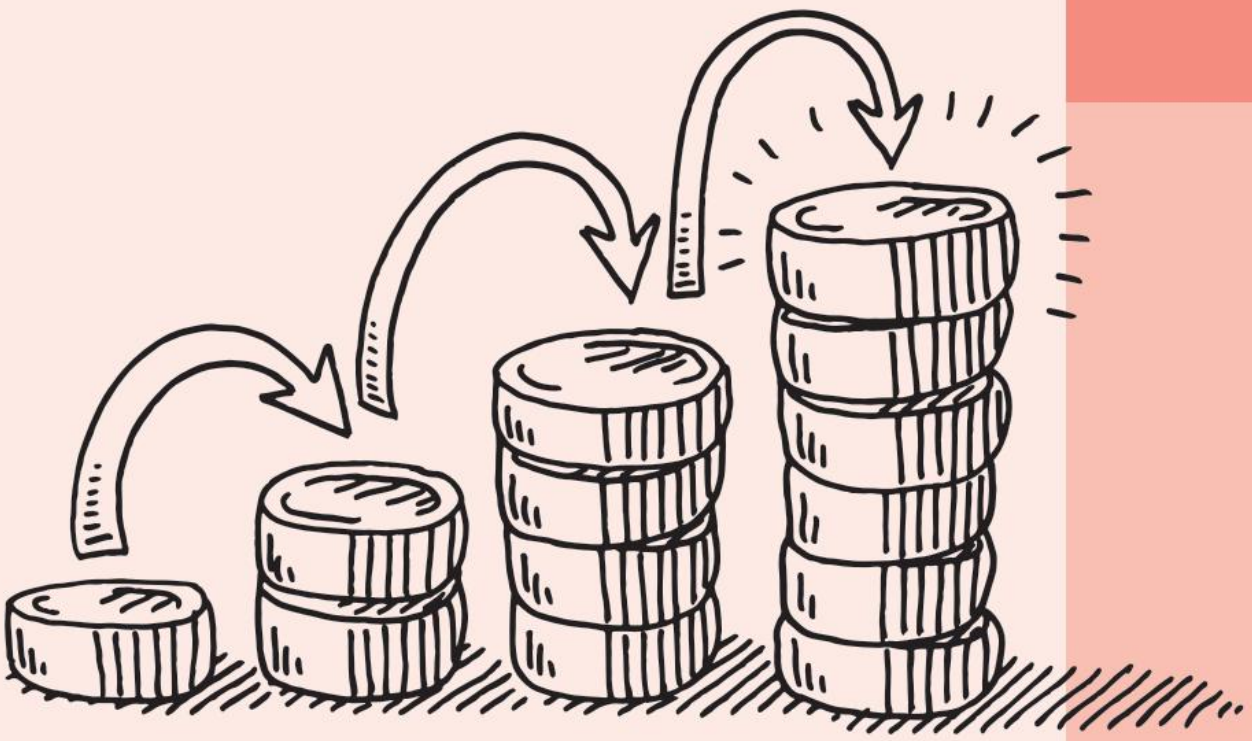
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Examination preparation

JB Cinemas is a small retro theatre operating in the northern suburbs of Melbourne. The business has been in operation for 40 years and employs a total of 55 staff. Over the past three years, it has seen declining profits due to changing preferences of customers who can access movies via internet streaming.

The owner, Ava Edwards, has examined net profit and market share figures and has found that they are continuing to decline. She is looking at ways to stop this and increase market share.

1 **Define** percentage of market share and net profit. **(2 marks)**
2 **Explain** why a business should use KPIs to evaluate performance. **(3 marks)**
3 **Identify** and describe two other KPIs JB Cinemas might use to evaluate performance. **(4 marks)**
4 **Outline** why a business such as JB Cinemas would need to seek out opportunities to further develop the business. **(4 marks)**



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Chapter 11
Forces for change

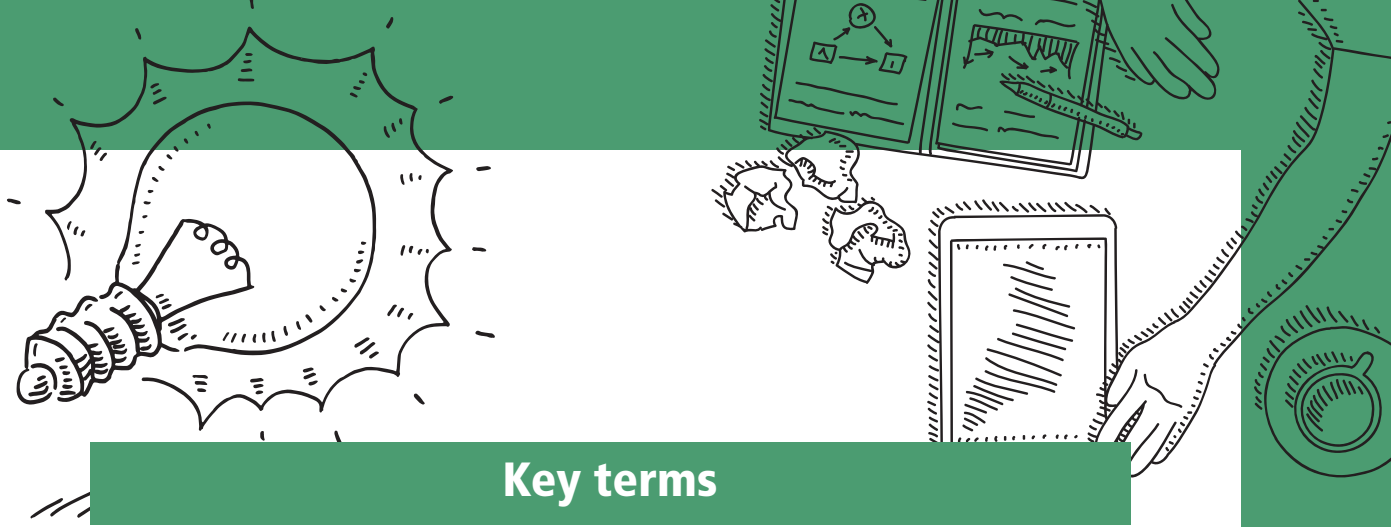
Overview

It is argued that while people accept that change is inevitable, most prefer change to be continuous, predictable and comfortable. For a modern business, the process of change and the transformation of a business is characterised by discontinuity and unpredictability. The external and internal environments of all businesses are constant sources of change. While change and business transformation has always occurred, the pace of change has gathered momentum and is far-reaching and can be volatile. It is important, therefore, for all businesses to be prepared for transformation, to adopt a proactive response, be flexible, and at the same time formulate plans for the future.

Businesses have to contend with a number of forces that will drive the changes needed or in many cases act as a constraint and restrain change. Lewin's Force Field Analysis provides a useful tool or framework to examine these driving and restraining forces.



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Key terms

- business change
- driving forces
- Force Field Analysis
- globalisation
- innovation
- organisational inertia
- restraining forces

Key knowledge

You will learn about the concept of change and examine the forces on business that cause change to occur. You will learn about:

- the concept of business change
- key principles of the Force Field Analysis theory (Lewin)
- driving forces for change in business, including managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes
- restraining forces in businesses, including managers, employees, time, organisational inertia, legislation and financial considerations.

What's ahead

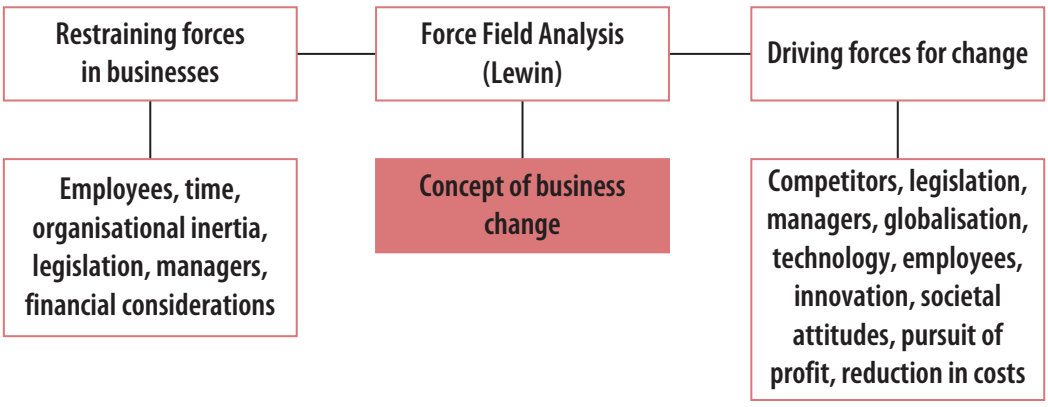


Figure 11.1 Business change and forces for change



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11.1 The concept of business change

business change any alteration to a business and/or its work environment

The concept of **business change** can be defined as the process of taking the existing business, altering it and establishing a new or modified form. Change occurs because of pressures placed on the business to make adjustments to its departments or divisions, operations and activities, employee jobs and tasks, policies, behaviours, management styles and corporate culture. Change can take many forms. It can be widespread and impact on every area of a business or it can be relatively minor and only lead to small changes in one area, team or department.

The leaders, managers and owners of a business have an important role in the change process. One of the main tasks for the managers and owners is to ensure the business is always ready to take on and apply new ideas and plans that can be implemented quickly and smoothly.



Figure 11.2 Business management involves leading the way for change.

For change to be successful, it is important to consider its effect on people. The change itself is external and people's internal reactions to change will differ. Employees may resist the change from their current position to a new unfamiliar situation or altered state. Employees may also feel a loss of personal identity, be afraid of failing and feel disorientated about where the change is leading them.

It is reasonable for people to be 'unreasonable' about change. Many employees will find change difficult and move backwards and forwards between stages of accepting, rejecting or ignoring changes. The transition stage from the 'old' to the 'new' is the most difficult – employees need to be able to move on to the new or changed situation in order to re-establish their roles and duties and become productive again.

Management of change is difficult but essential in all businesses; there can be no progress without it, so management must be committed to the change to ensure the success and future of the business.

ACTIVITY 11.1

Imagine you have arrived at school and found that the hours have changed, the number of lessons a day has increased, your timetable has changed, and all of your teachers have left and been replaced by different ones.

1. Write down four words that describe how you would feel.
2. Share these with someone else.
3. Examine as a class whether there are any common or similar words and classify these words as positive or negative.
4. Explain how this links to the concept of change in business.

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11.2 Key principles of Lewin's Force Field Analysis theory

Businesses are affected by change in many ways. To successfully manage or cope with change, managers and owners must try to be proactive and look at the driving forces behind change, rather than wait for the change to happen and then react to it and try to manage its effects. Successful businesses are pre-emptive and proactive – they initiate, innovate and embrace change.

Force Field Analysis theory

In 1969, Kurt Lewin, a management theorist, developed the concept of **Force Field Analysis**, based on the physical sciences. He developed his theory as a tool to understand problems and effects of change within businesses. He described a problem situation as one where there is a difference between the way things are and the way they are desired to be. The principle of Force Field Analysis is that in any situation it is 'the way it is' at any given point because counterbalancing forces are keeping it that way. Lewin was able to identify a number of forces as either *driving forces for change* (pushing the change to occur) or *restraining forces* where the forces or pressures stopped, blocked or hindered the change process.

By using a simple graphical model and identifying the **driving forces** and **restraining forces**, Lewin argued that issues can be plotted and discussed by key decision-makers.

Driving forces are those forces affecting a situation that are pushing in a particular direction and are supporting the goal or proposed change. They tend to initiate a change and keep it going. If a proposed change relates to improving productivity in a work group, for example, the driving forces may be from a manager, technology, employee suggestions and legislation.

Restraining forces are forces acting to restrain or decrease the driving forces. These may include employee apathy or hostility, lack of access to finance and other financial considerations, and organisational inertia. The restraining forces will work against any changes a manager or business is trying to implement.

Force Field Analysis looks at forces that are either driving movement towards a goal or change (helping forces) or blocking movement towards a goal or change (hindering forces)

driving forces those forces affecting a situation that are pushing in a particular direction and are supporting the goal or proposed change

restraining forces personal and organisational resistance to change that acts against the driving forces and could involve management, employees, cost, legislation and competitors



Figure 11.3 Driving forces push or support companies and people towards the intended change.

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Typically, users of Lewin's model take the following steps:

1 Define the target of change.
2 Identify the driving forces and the restraining forces.
3 Analyse the forces that can be changed.
4 Develop an action plan based on what can be changed.

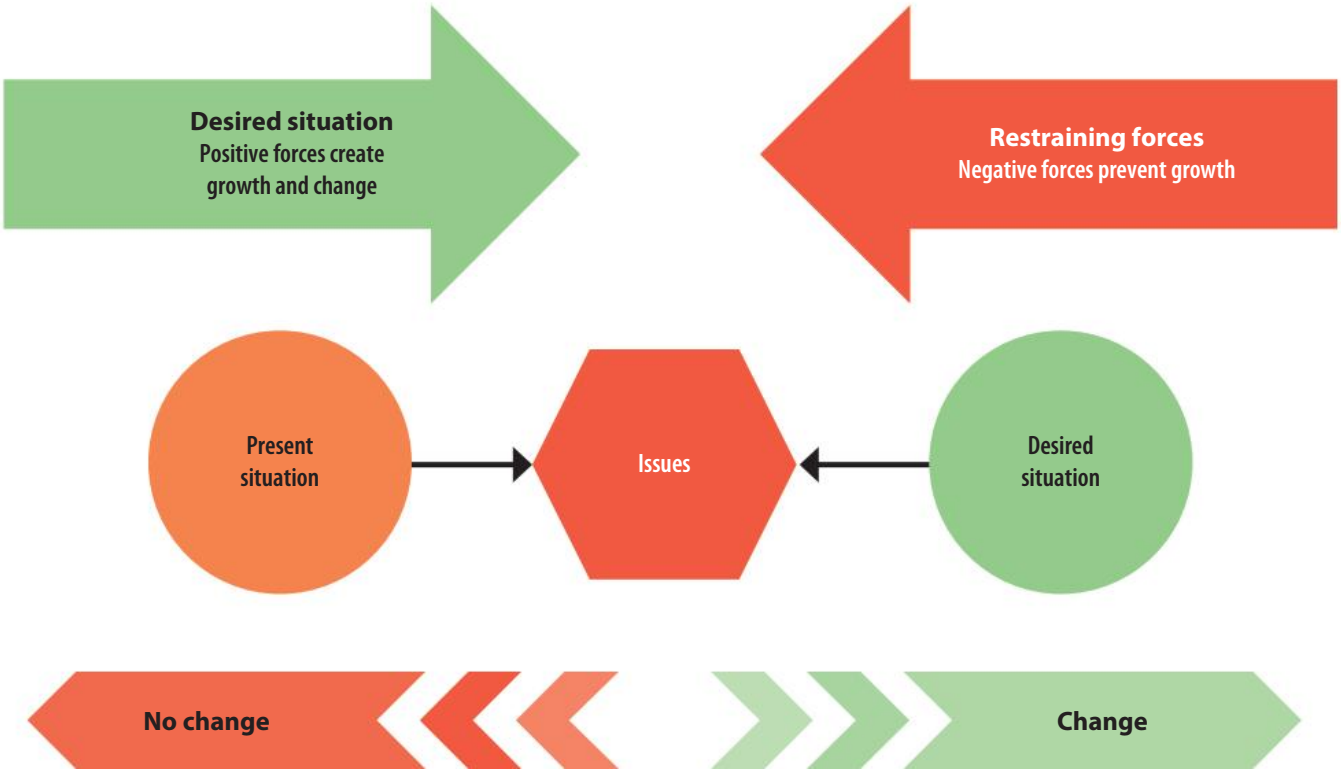
Harnessing the forces for change

It can be argued that the ability of a business to successfully implement change can be influenced by the comparative strength of the driving and restraining forces. Lewin concluded that a number of factors had to be present for the change to be successful. He determined the following:

1 When driving forces are more dominant in a business, the change is likely to be successful.
2 If the driving forces are met by restraining forces at a similar level, it is likely that the change will not be successful.
3 If the restraining forces are more powerful than driving forces, it is unlikely that the change will be successfully introduced.

Therefore, according to Lewin, a business requires particular conditions, which promote driving forces, in order for change to be successful.

Figure 11.4 Model for change



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11.3 Driving forces for change in a business

There are a number of different forces on a business that can push for change to occur. Driving forces include managers, employees, competitors, legislation, pursuit of profit, reduction in costs, **globalisation**, technology, innovation and societal attitudes.

globalisation the process of increasing interdependence between countries. It involves the increasing integration of businesses and economies. It removes economic boundaries, thereby creating free international trade and movement of capital between countries.

Managers

Managers are critical to the success or otherwise of change. Managers therefore act as an important driving force. Managers have influence on the business and will either provide the strategic direction for the change or be involved in a 'hands-on' role in ensuring that the change is implemented successfully. In a small business, the owner/manager may be involved in the whole change process, from initiation of the change to providing the driving forces through to ensuring that the change is implemented.



Figure 11.5 Managers need to be prepared for change.

Managers must be prepared for change and ensure that the leadership and management across the business are all clear about the changes required and that a consistent message is given to all stakeholders. Managers and leaders must be willing to share their ideas and expertise with others, as this can increase capacity and support for change across the business. Managers need to support and drive the change if it is to have any chance of succeeding.

ACTIVITY 11.2

Think about a change that has occurred in your school, or in your workplace if you have a job.

1 Identify the change.
2 Outline how the change was implemented.
3 Describe the role that managers or the school leadership team played in the change.

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Employees



Figure 11.6 Employees are an important force in change.

Employees can be a critical driving force for change. If employees support the change and are happy to implement it, the business is likely to find that the change can be successfully introduced. Even in cases where it may only be a few key staff members who support the change, they are usually able to influence others to ensure the change is successful and permanent. Many businesses now give employees more freedom and flexibility, which often results in employees coming up with new ideas and innovation. If a participative or consultative management style is used, this will also encourage employees to make changes or to support those changes implemented by managers. Employees are one of the main reasons for the success or failure of a change.



CASE STUDY **11.1**

Driving forces for change: employee involvement in change management

Employee involvement is the key to change management. It was once said that you should never expect 100% support from any person who was not personally involved in devising a change that had a direct impact on the work they did. People usually don't mind change once they are used to the idea and have an opportunity to impact on the direction and the way the change occurs.

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Creating a work environment where employees feel they can have a say in what is going to happen and how they feel about an issue will usually lead to a more positive corporate culture. Employees are generally unhappy if they feel that they have no voice or say in the changes that might be introduced. If there is no input from employees, they will feel that they are being forced to change and not treated with respect.

While it is usually impossible, especially in a large business, to involve every employee in every decision that is made, change is more likely to be successful when the business has made a real effort to use employee ideas and opinions. Employee involvement is often the difference between the success or failure of a change initiative.

There are a number of ways to get employees to support change:

- Involve as many people as possible and practical in the change process and the initial planning.
- Involve as many stakeholders as possible in the planning decisions and implementation.
- Make sure all employees have access to the information and decisions; otherwise, they will feel left out.
- Involve as many people as possible in decisions about how their work and duties might change as a result of those decisions.
- Communicate with people in groups and individually.
- Provide rewards and recognition for employees as changes are introduced.
- Explain the possible negative consequences for the failure to adopt the changes.
- Do not wait too long to introduce changes.

ANALYSIS

1 Describe how an employee can act as a driving force for change in a business.
2 The case study outlines some of the points to consider when implementing change. Discuss why a business might need to consider how change can be communicated and introduced.
3 Outline how postponing change and waiting for all employees to accept a change can have a negative impact on a business.

Competitors

Competition between companies may mean that a business is always aware of what its competitors are doing and is able to respond to changes quickly. Some industry sectors of the economy are highly competitive, so businesses always need to be ready to respond to any changes to ensure they do not lose customers or market share. Many businesses also need to stay ahead of competitors and be the first to respond to pressures in the industry or market. For many businesses, their competitors can come from anywhere in the world, making the management of change even more complex. If a business is able to be the one that leads the competition and comes up with the right changes before other businesses, it is likely to keep ahead of its rivals.

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CASE STUDY 11.2

Driving forces for change: Coles, Woolworths and competition

Woolworths has consistently beaten Coles during the past 15 months and has increased its profit and increased sales growth by 5% compared to Coles' 1.3% growth. Wesfarmers, which previously owned Coles, has also had issues with the poor performance of its department store Target. ALDI has established itself in Australia and has continued to gain market share in the grocery sector.

In order to gain an advantage over its competitors, Coles will shift its business strategy to 'put out the fires' and focus on meeting the needs and demands of wealthier customers and tech-savvy millennial shoppers.

Managing director John Durkan said it could 'never give up' being competitive with its rivals, but had to do more than just trying to attract shoppers on price as it attempts to regain momentum lost to Woolworths. The company was developing a strategy to ensure it remains relevant and keeps up with its competitors. Ensuring that there are adequate staff levels and improving car parks and facilities is part of the strategy.

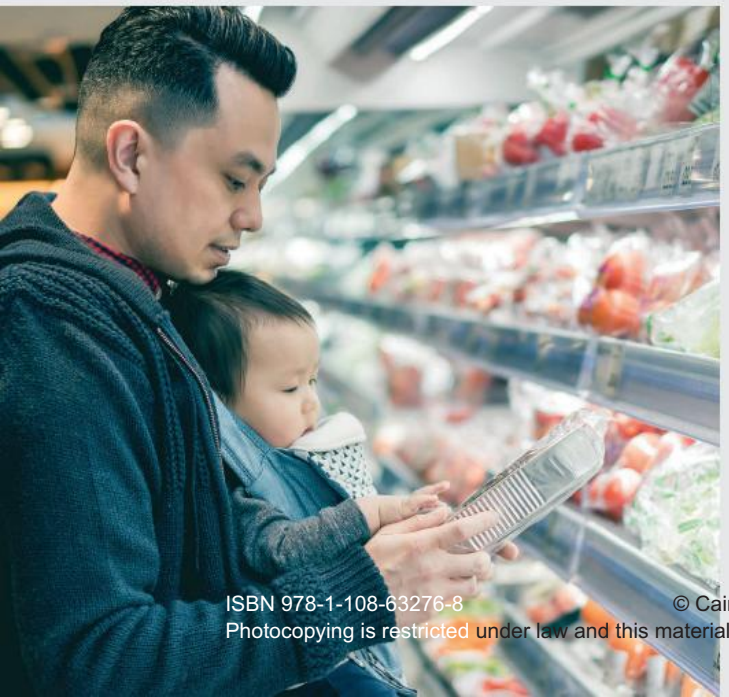


Figure 11.7 Coles aims to keep up with its competitors and stay relevant.

Coles has also developed a new advertising strategy that revolves around the slogan 'Good things are happening at Coles'. The campaign focuses on sourcing Australian produce, community and charity support, and sustainability initiatives. The business is also doing more to encourage medium and high-income earners and will develop a range of new products targeted at these groups. In this way, Coles is continuing to develop strategies to deal with competition.

Note: Coles was previously part of the Wesfarmers conglomerate, but was demerged in November of 2018. Coles is now listed on the stock exchange as a separate company.

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ANALYSIS

1 Discuss how competition can act as a driving force for change in a business.
2 Explain why market share and growth in the supermarket sector is important for each of the businesses.
3 Explain how this competition is driving changes in strategy at Coles.

Legislation

Businesses have to deal with three levels of government in Australia – federal, state and local. All levels of government initiate legislation and change laws and regulations, which can impact on businesses. Often these changes occur and businesses have to be able to respond and change aspects of their operations. Legislation as a driving force for change cannot be ignored.

At the federal level, the government may pass laws that change taxation requirements for businesses, and each year it publishes its budget, which impacts on government spending. Many of these changes may be targeted at particular types and sizes of business; for example, in 2017 and 2018 the federal government worked towards reducing the company tax rate. This budget measure is designed to stimulate the economy, create jobs and increase business investment and activity. Federal legislation can also lead to changes in policies and procedures within a business. Laws relating to employment, equal opportunity, anti-discrimination and privacy all mean businesses must comply with and respond to these new laws.

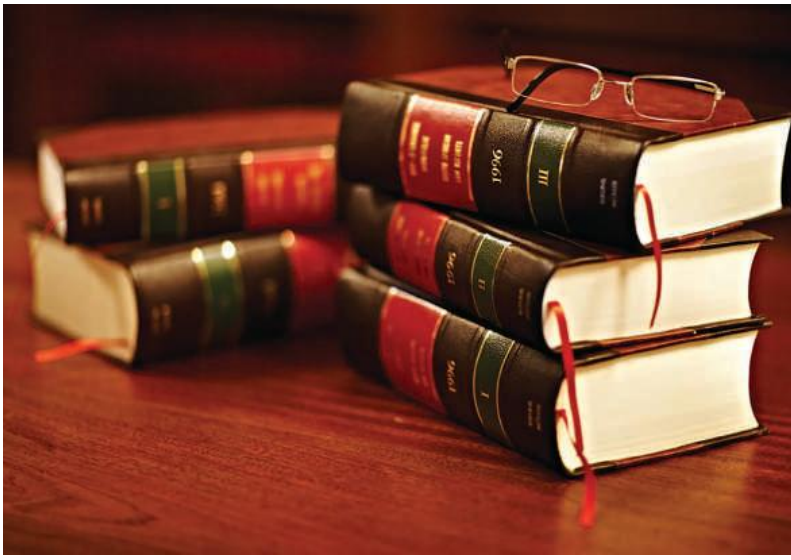


Figure 11.8
Legislation is a driving force for change.

At the state level, governments will also pass laws that can directly impact on businesses. Legislation regarding payroll tax, for example, impacts on many medium and large businesses. In Victoria, the 2017/18 budget focused on providing infrastructure to allow the community and businesses to operate more efficiently. Payroll tax has been further cut, which benefits businesses and assists in the creation of jobs. The payroll tax-free threshold has been increased from $575 000 to $650 000. Businesses in regional Victoria have been given a 25% discount on their payroll tax.

Local councils also directly impact on the operations of businesses in their area. Laws and regulations affecting businesses can include permits and licences, parking restrictions and by-laws that might impact on a business's ability to cater for customers. Many local councils have regulations that cover different types of businesses. Health businesses, such as hairdressers, tattooists and beauty therapy businesses, must comply with a range of regulations as do accommodation businesses such as hotels/motels, bed and breakfasts, guest accommodation, caravan parks and rooming houses.

Restaurants and other food outlets also have to comply with local by-laws. New outlets, for example, have to meet standards and planning approvals, and issues identified must be dealt with. Businesses that sell food are classified depending on the type of food sold and have

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to operate within the laws and regulations that apply to their type of business. Mobile and temporary food businesses are also required to obtain permits from councils and inform them of events.

Any change in laws can have a small or far-reaching impact on the operations of a business. Some of the changes may be minor; for example, a change in financial record keeping and costs for the business. In other areas, the change may require the employing of extra staff, or purchasing of software to manage the change, or a need for relocation to different premises.

Figure 11.9 Businesses that sell food are classified by the type of food they sell.





ACTIVITY 11.3

Describe how each of the following can act as a driving force on a business.

1 The federal government reduces the company tax rate to 20%.
2 The local council has offered to support new businesses through a networking and mentoring program.
3 The Victorian Government has reduced payroll tax for all businesses that employ more than 25 people.

Pursuit of profit

Profit drives many businesses to introduce change. Successful businesses, regardless of their size, will implement changes and improvements in an effort to increase sales, market share and profit. Profit needs to be sustained over time to ensure that the business can continue to grow. Many large businesses are under continual pressure to increase profit, particularly from shareholders expecting high share prices and a stream of dividends. The pursuit of profit may mean that a business may be continually looking at improving the quality of its products and services, while other businesses might pursue a strategy to increase profit by cutting back on expenses and costs – sometimes reducing the number of employees they have is a quick way to increase profit.

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CASE STUDY
11.3

Driving forces for change: Qantas and profits

Qantas chief executive Alan Joyce says the airline will resist the temptation to add more capacity into its domestic network, after continued restraint from Australia's two domestic carriers helped the airline to achieve a record half-year profit.

Qantas achieved a 14% increase in net profit. Mr Joyce said there was room for further fare increases if growth in the economy supported more corporate travel.

The carrier will cut another 1% of capacity out of its domestic network in 2018 to ensure it could absorb the rising cost of fuel, and Mr Joyce said he saw no need to add more flights in the short term.

Total domestic capacity across the country fell by 0.9% during the first half of the 2018 financial year, reflecting a halt to the competition between Qantas and Virgin.

However, its international business was not as successful, and conditions remained difficult with earnings falling 5.5% due to increasing fuel costs and more competition.

New routes to San Francisco and New York via Los Angeles, and the non-stop service from Perth to London as well as cost savings would improve Qantas International's returns next financial year, the airline said.

Qantas' fuel bill – its single biggest cost – grew by $58 million to $1.54 billion in six months and could be as high $3.24 billion for the year.

Qantas also confirmed it would take delivery of the first of 18 Airbus A320 aircraft by the end of 2022 to start renewing its Jetstar fleet.

The new plane has a longer range than other small, single-aisle aircraft and could be used to fly domestic routes during the day before flying from Melbourne and Sydney to Bali at night, freeing up Jetstar's 787 Dreamliners to fly to other destinations such as Vietnam, China, Thailand and Hawaii.

(Source: Based on Patrick Hatch, 'Qantas vows to keep seat numbers down, fares up as fuel costs rise', *The Age*, 22 February 2018.)

CONTINUED ITEM

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ANALYSIS

1 Explain why profit is a driving force for change in a business.
2 Outline how economic conditions have impacted on the performance and plans of Qantas.
3 Qantas is planning for the introduction of new planes. Identify how this might impact on profitability.

Reduction in costs

All businesses focus on reducing costs and operating expenses, as this will often support the generation of profit even if revenue or sales cannot be increased. Costs and the pressure to reduce these can also lead to changes in a business. This is often a main driver for change and one of the quickest ways to improve profitability and business performance. Costs in areas such as purchasing, production, sales and marketing, finance and administration can all impact on a business. Specific examples of cost cutting can include employing staff part time rather than full time, outsourcing some tasks, and reviewing contracts, insurance and loans to see if there are cheaper options. Revising supply agreements and ordering in bulk can also assist a business in reducing costs.



Figure 11.10 Cutting costs is an efficient method of improving profitability.

ACTIVITY 11.4

Thang and Emma have run Fun Photo Booths for five years. The business provides photo booths for weddings, twenty-first birthday parties and other events. It is a successful business with a growing number of functions, as the reputation of the business has spread.
Over the last six months, a new business has moved into the area and has started a marketing campaign that is offering packages well below other businesses such as Thang and Emma's. Both are concerned that this might lead to reduced revenue and profit.

1 Describe how cost cutting can act as a driving force for change.
2 Outline two recommendations or ideas for Thang and Emma's business so it can retain customers and compete with the new business.



Figure 11.11 A photo booth business

Globalisation

Globalisation can be defined as the process of increasing interdependence between countries. It involves the growing integration of businesses and economies with all enterprises competing with each other in the world economy. Borders between countries are broken down with the development of a global economy. Globalisation also describes the increasing merging and interdependence of national economies and of the international scope and availability of markets, distribution systems, capital, labour and technology.

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Globalisation has developed and has been influenced by a number of key drivers, including:

- the growth in trade between Australia and the rest of the world over the past 25 years
- free trade agreements have opened up countries. Australia, for example, has recently signed agreements with Japan, China, the United States and South Korea.
- development of the internet and electronic communication means there are no boundaries when accessing customers
- the flow of people and the migration of skilled workers has changed the workplace
- the growth of trade among developing countries has opened up opportunities for businesses across the world.

Figure 11.12 Globalisation



ACTIVITY 11.5

Using the annual reports and internet sites of businesses, answer the following questions. Visit the websites of the following companies to complete this activity:

- Wesfarmers
- BHP
- Nestlé
- Google.

1 Describe the main activities undertaken by the business.
2 Outline the structure, country of origin, the countries the business has investments and subsidiaries in, and any statements about ethics and standards.
3 Explain the company's policies related to local investment, local resources, labour, training and the environment.
4 Present your findings on the impact of the business on trade within a country and also worldwide. This may be done as a PowerPoint or Prezi presentation or as a poster.

Globalisation can act as a driving force on all types and sizes of business, and this can lead to a number of advantages or benefits. Globalisation can act as a driving force in a number of ways, including:

- giving increased access to markets around the world (greater scope for sales and markets)
- providing opportunity for customers to improve their standard of living through increased access to goods and services
- providing the potential for faster business growth, as companies can develop more trading relationships with other countries
- providing opportunity for businesses to take advantage of economies of scale (where a business reaches a stage where it uses its resources or inputs at optimal efficiency).

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CASE STUDY
11.4

Driving forces for change: 2XU and globalisation

Founded in Melbourne in 2005, 2XU is the global leader in sports compression and high-performance apparel. 2XU has 26 retail and outlet stores in Australia and operates in more than 70 overseas markets via 34 retail stores and more than 4000 wholesale outlets. The company employs more than 300 staff worldwide.

Its apparel is used by a number of world champion athletes and many sporting teams, including hockey teams, basketball teams and football teams across the world. Hockey Australia and 2XU have a contract, and 2XU supplies the compression-wear for a number of teams. The deal means that Australia's national hockey teams, the Kookaburras and the Hockeyroos, will continue to benefit from the compression garments, which will aid in their game preparation, performance and recovery. 2XU's Chief Executive Officer, Paul Higgins, is delighted that Australia's premium compression wear brand will continue to support Australia's national hockey teams.

2XU is the official compression partner of leading sports organisations, including the Australian Institute of Sport and Australian Football League, and the compression brand of choice for the world's top athletes and sports teams, including 29 out of 30 NBA teams, 80% of NFL teams and the US Navy SEALs. Lifestyle influencers, including Kanye West, Pippa Middleton, Victoria Beckham and Sofia Vergara, are also fans of the brand.

2XU has also expanded the business into Asia through a joint venture with major Chinese fashion retailer GXG. Fuelled by China's unprecedented growth in the gym and fitness industry, the agreement will see 2XU retail its world-leading compression wear and apparel to more than one billion Chinese consumers. Additional apparel lines will be designed by 2XU exclusively for the China market.

The Australian-based sportswear brand will announce plans to open up to 50 retail stores throughout mainland China in the next three years, in addition to its online and wholesale presence.

2XU CEO Paul Higgins said the joint venture with GXG represented a significant move for the business.

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'Today marks the start of another exciting chapter for 2XU. The company was started in Melbourne just 12 years ago and to now be partnering with one of the world's biggest fashion retailers to formally launch 2XU China is a real milestone,' he said.

'2XU first entered Asia in 2008 with a wholesale presence in Hong Kong and Singapore, and is now present in 13 markets across the Asia Pacific region with plans to grow our retail presence from 22 to 50 stores in the next 12 months and to 100 in the next three years.'

For Australian-based 2XU, with a strong heritage in running and a rapidly-expanding presence in the high intensity training market, the move into China comes at the right time.

2XU is currently available in mainland China via concept stores in seven major cities: Beijing, Shanghai, Shenzhen, Guangzhou, Zhengzhou, Guiyang and Changsha. Beyond mainland China, 2XU is present in 10 markets via retail and wholesale channels: Hong Kong, Singapore, Malaysia, Indonesia, the Philippines, Thailand, Vietnam, Taiwan, South Korea and Japan.

The agreement with GXG, one of China's leading retail businesses with more than 2000 stores in market, will see dedicated 2XU Performance Centres open in major Chinese cities from early 2019.

2XU has also been announced as the naming rights sponsor of Victoria's premier triathlon series. 2XU sponsors a number of the world's leading triathletes. Daniela Ryf, Terenzo Bozzone and Cameron Brown all train and compete in 2XU.

ANALYSIS

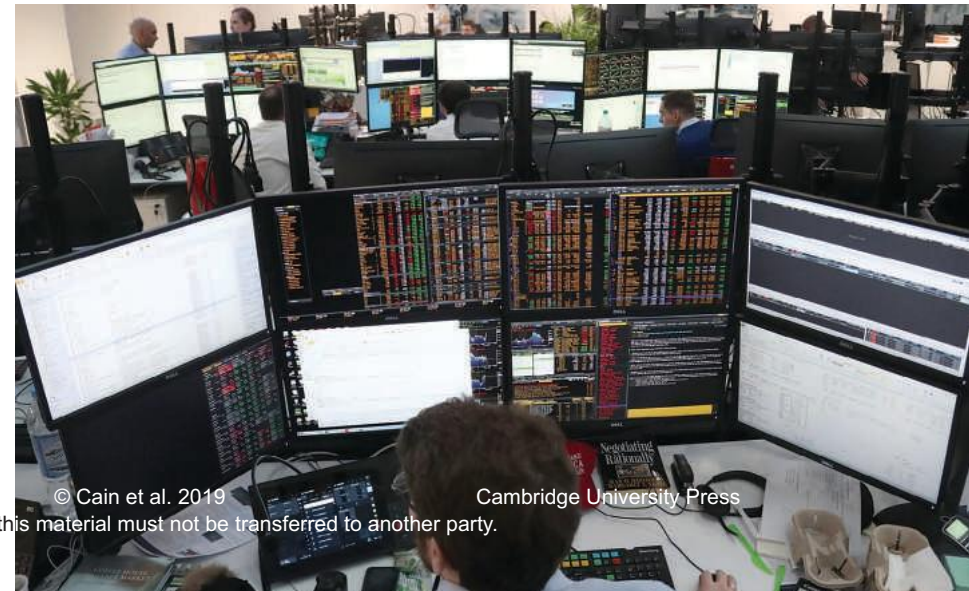
1 Explain how globalisation has become a significant driving force for change over the past few decades.
2 Discuss how globalisation can impact on a business.
3 2XU is growing as a global business. Identify the opportunities the business has taken and the challenges it might face in the world market.

Technology

Technology has an impact on businesses, whether they are small, medium or large. Technology is now part of our everyday lives and is often taken for granted by businesses and customers. Technology impacts on all areas of a business and is a major driver of change.

Areas of a business that may be impacted by technology are outlined in Table 11.1 over the page.

Figure 11.13 Technology has become an everyday element of business.



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Table 11.1 Technology as a driving force

Stakeholder/factor	Technology
Management	A particular skill set is required, such as the ability to problem-solve, analyse data and communicate with a range of different people, and these may need to be developed through training and education.
Corporate culture	May change due to staff coming into the business with a specific skill set centred on utilising technology, or there may be resistance to changes to work patterns and jobs.
Employees	All staff, regardless of their job, are using technology as part of their everyday working life. Software, applications, email, access to the internet and mobile phones are a normal part of work and social life for the majority of people. This can lead to changes in the workplace; staff need to be trained to use the appropriate technology, work–life balance has been affected and staff can work from home, the car or in a restaurant.
Production of goods and delivery of services	Technology has changed the way many businesses produce and deliver services to customers. Changes in operations have led to increased efficiencies, fewer faults and larger-scale production operations. Services can be delivered efficiently and customers can pre-order or have services adapted to their particular needs. Domino's Pizza, for example, has introduced a GPS app that allows customers to track the delivery of their pizza. McDonald's has an app that allows customers to pre-order their food.
Customers	Customers expect businesses to have and use the latest technology to ensure it is efficient and quick. Retail stores need to have a website, and successful ones are developing and expanding the use of social media such as Facebook, and many customers are shopping online.
Policies and practices	Technology can drive change in many aspects of a business, including the need to change policies and protocols for the acceptable use of emails and social media, cyberbullying and privacy. Operations management also needs to change to incorporate the use of new technologies and production techniques.

Many businesses are developing as online businesses only. Examples include:

- Hotels.com is a website for booking hotel rooms online and by telephone. The company was founded in 1991 and has 85 websites in 34 languages, and lists over 325 000 hotels in approximately 19 000 locations.
- Webjet Limited is a travel booking website offering flights, hotels, holiday packages, cruises, car hire, travel insurance and travel deals. The company has operations in Australia, New Zealand, North America, Singapore and Hong Kong.
- Airbnb is an American company that operates an online marketplace and hospitality service for people to lease or rent short-term lodging, including holiday cottages, apartments, homestays and hostel beds. It was founded in California in 2008.
- Airtasker operates online by offering users the chance to outsource menial tasks such as picking up dry cleaning or performing household chores. The site has been used for tasks as diverse as paying someone to stand in a six-hour queue for a Game of Thrones exhibition, or by a Sydney surgeon who used Airtasker to find someone to fly to the United States and pick up an engagement ring.

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CASE STUDY
11.5

Driving forces for change: technology

PART 1: TELENAV IN-CAR ADVERTISING SOFTWARE

Imagine you are driving home from work wondering what you are going to eat for dinner. As you sit at the traffic lights, a special offer at the local pizza shop comes up on your dashboard screen.

Are you annoyed that your car is trying to sell you something, or pleasantly persuaded? Telenav, a company developing in-car advertising software, believes that you will not mind, and car companies are looking for ways to increase revenue and profit and are hoping this idea takes off.

Carmakers have been installing wireless connections in vehicles and collecting data for a long time. The volume of software and sensors in new vehicles, combined with artificial intelligence that can sift through data at ever-quickening speeds, means new services and revenue streams are quickly emerging. Car makers are considering whether they can take advantage of this. Analysts consider that driving behaviour and your location has value not unlike internet search activity. Carmakers are also hoping that they can sell this aggregated information to businesses for marketing purposes.

The potential to share data – aggregate and personalised – with third parties represents the biggest opportunity, a Ford spokesperson stated. However, it has been said that customers will have the chance to opt out of this service.

Some prospective businesses interested in using the data include financial businesses and analysts looking at trunk (car boot) sensor data to see where a person has been shopping. Banks may want to know if you stopped driving to work, since the loss of jobs in aggregate could mean an imminent downturn. Credit card companies might want to offer you a loan if they know your car has broken down.

The pop-up car ads could generate an average of US$30 annually per vehicle, to be split between Telenav and the automaker. Because of the long production cycles of the industry, it would be about three years before the ads will show up in new models.

CONTINUED ITEM

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The kinds of car-data tools in play today are on a much smaller scale. General Motors, which pioneered the connected car with its OnStar concierge service, sent a software update to millions of cars, introducing an ecommerce system that lets drivers order coffee or make restaurant reservations while driving, to the annoyance of some safety advocates.

(Source: Based on 'The car of the future will sell your data', *The Age*, 26 February 2018.)

PART 2: COULD DRIVERLESS CARS HELP REVIVE THE AUSTRALIAN AUTOMOTIVE INDUSTRY?

The race to market for widespread driverless cars has started, but it is unlikely to be introduced in the short term. Key stakeholders, including the automotive industry, governments and the public, need to consider the impacts of possible driverless cars.

Given the recent decline in Australia's car manufacturing industry there is also some hope driverless cars could see the creation of new skilled jobs in Australia.

Dr Brett Dale, chief executive officer at Motor Trades Association of Queensland, has stated that the automotive industry is only now coming to realise that the emergence of the technology is imminent. The evolution of the technology is appearing more of a revolution to some.



Figure 11.14
Driverless cars may lead to many changes in the automotive industry.

A second chance for Australian car industry?

While it is possible autonomous cars will be entirely imported from overseas, some see autonomous vehicles as providing a potential resurgence in a car-based industry in Australia.

The question of maintaining and servicing autonomous vehicles is also unresolved. There are predictions that in the future 95% of US car miles will be by on-demand autonomous electric vehicles owned by fleets, not individuals, and this alone will determine the need for a reinvention of industry.

The Artificial Intelligence components may even require a new workforce that is closely aligned to software engineering rather than mechanical engineering. Industry is currently working with government in an attempt to pre-empt these requirements.

The first adopters

City centres offer a high enough revenue base that companies can install additional infrastructure including cameras and sensors, as well as centralised computing resources to supplement what is already on the cars.

Beyond just driverless cars

While much of the discussion has revolved around personal driverless vehicles, the interest in autonomous or semi-autonomous freight trucks is also growing.

Shaping the future of driverless cars

There is both optimism and fear regarding the introduction of technologies like autonomous vehicles and the artificial intelligence that will drive them. Consumers need

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to be assured that this is an evolving technology that is already prevalent to some degree, and that complete autonomy is only the refinement of existing applications in vehicles.

Smartphones and their use have changed the way in which consumers embrace new technology. More often consumers upgrade their technology equipment well before its end of product life. This is the conditioning that has consumers waiting for no one.

(Source: Based on Michael Milford, 'Driverless cars could create new jobs in a welcome boost to Australia's motor industry', *The Conversation* website, 7 February 2018.)

ANALYSIS

1 Propose why technology has such a large impact on businesses and acts as a driving force for change.
2 Explain the possible future of driverless cars across the world. Outline how technology is driving changes in this area.
3 Discuss how the technology used in motor vehicles can be used by other businesses and industries.

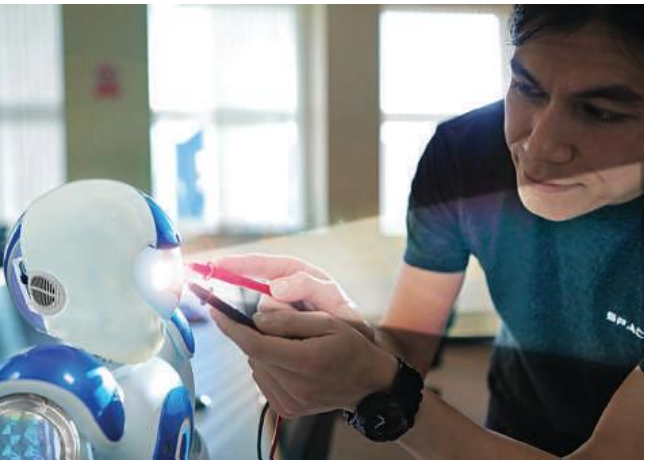


Figure 11.15 Innovation is a major driving force for change.

Figure 11.16 Innovation includes implementing new ideas.



Innovation

Innovation can be defined as the introduction of new things or methods into a business. If a business fails to innovate, it is likely to be left behind. There is a focus on innovation in businesses across the world and it is a major driving force for change. Being able to innovate and develop new ways of thinking and doing business will give a business a competitive edge. Often small and medium-sized businesses cannot compete against large businesses and multinational corporations. Being able to innovate will allow such businesses to compete on a global scale.

innovation generally refers to changing or creating more effective processes, products and ideas, and can increase the likelihood of a business succeeding

Innovation does not always mean inventing; it also means modifying the business model and adapting to changes in the environment to deliver better products or services. Successful innovation should be an in-built part of a business strategy. Businesses that innovate create more efficient work processes and have better productivity and performance. This could mean implementing new ideas, creating dynamic products or improving existing services. Innovation can be a catalyst for the growth and success of a business, and help the business adapt and grow in the marketplace.

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Key steps towards business innovation include:

- Conduct an analysis of the market environment, customers' wants and needs, and competitors. Be open to new ideas and adaptive to change.
- Develop a strategic, responsive plan, which includes innovation as a key business process across the entire business.
- Leadership – train and empower employees to think innovatively. Inspirational leadership and motivation is what drives innovation in business.
- Connect with customers and employees to generate ideas for improving processes, products and services both internally and externally.
- Seek advice. Utilise available resources, business advisers, grants and assistance to drive innovation in your business.

(Source: Based on 'Innovation', Australian Government, Business website, 31 August 2018.)



CASE STUDY 11.6

Driving forces for change: Karen Sheldon Catering and innovation

Karen Sheldon Catering has over 40 years of business experience throughout the Northern Territory. The restaurant was established in the 1980s and was famous for fresh food served in the middle of the desert. In 2008 the business set up a Future Stars Indigenous Employment Program and the Karen Sheldon Training division, which is committed to helping to close the gap on Indigenous economic disadvantage.

The business worked with the federal government and received support from the University of Queensland on a project to extend the shelf life of Indigenous food such as Kakadu plums. The two bodies worked on improving the shelf life and nutritional value of frozen food products by using natural additives and plant extracts to replace artificial preservatives and other chemical additives to prevent the oxidation of food.

The project was equally as exciting for university staff, who determined the superior antimicrobial and antioxidant properties of native plant extracts would be suitable as a replacement for chemical preservatives and additives.

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Kakadu plums, in particular, were found to be excellent functional ingredients in frozen food preparations and extended the shelf life by up to 18–24 months, at frozen storage temperatures. Davidson plums have similar qualities. The properties of the Kakadu plum have also been used to improve the shelf life and colour retention of prawns.

The business's frozen foods meals are available through independent grocers in Darwin and Alice Springs, as well as Karen Sheldon Catering's cafe at Parliament House in Darwin.



Figure 11.17 Karen Sheldon Catering has been producing pre-packaged meals for wholesale suppliers since early 2015. Another Incubator Project, it gives Indigenous participants the opportunity to develop work-ready skills.

At the moment, raw Kakadu plums need to be sent interstate to be made into a puree and freeze dried. The potential of bush foods as unearthed by the project has Karen Sheldon Catering directors excited about further opportunities for Northern Territory businesses. Karen Sheldon Catering, Indigenous businesses, other likeminded local businesses and social enterprise groups will continue to discuss the possibility of setting up a processing plant in Darwin for Australian bush food.

(Source: Based on 'Our Story', Karen Sheldon Catering website; and 'Karen Sheldon Catering – serving up innovation', Australian Government, Business website, 9 September 2016.)

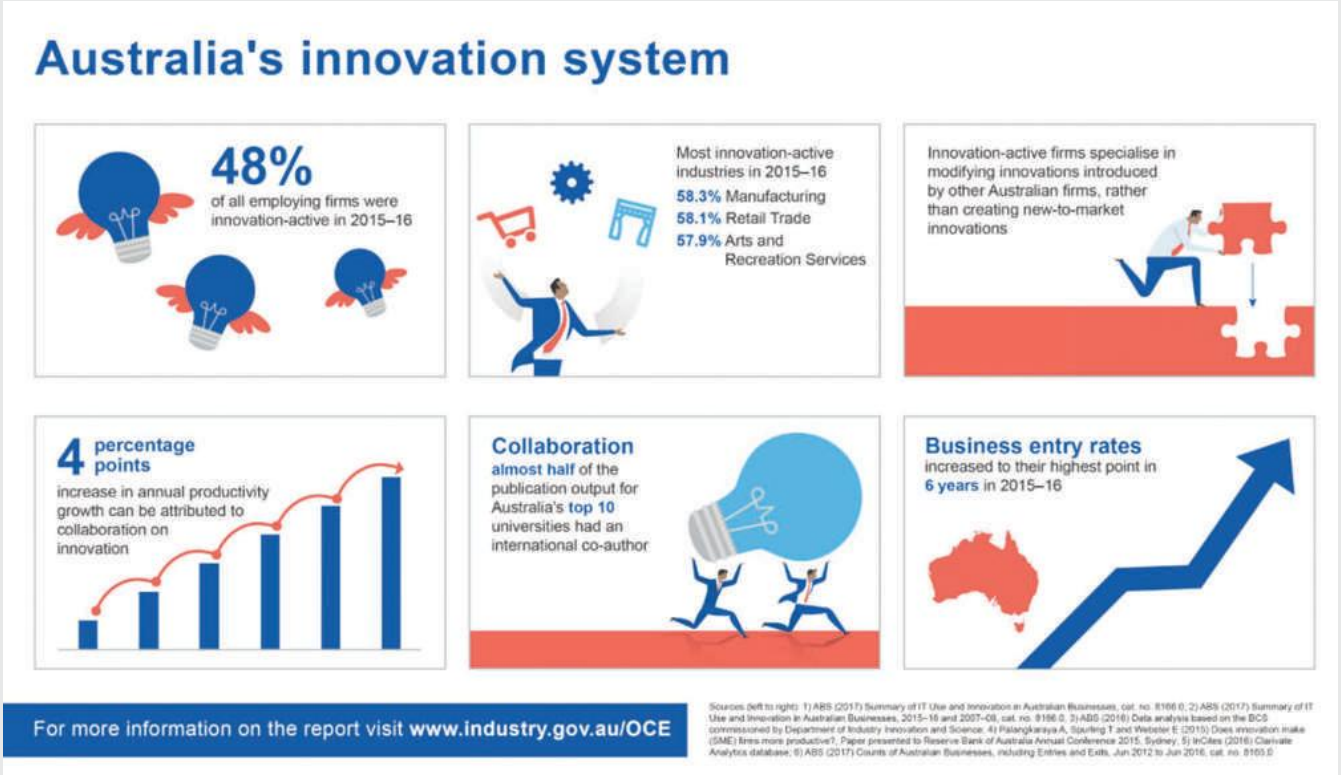


Figure 11.18 The federal government has programs to support innovation in Australia.

CONTINUED ITEM

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ANALYSIS

1 Karen Sheldon Catering received support from the federal government to expand the business. Describe the assistance the business received and how it supported innovation.
2 Explain why such innovations are an important driving force for change.
3 Discuss why state and federal governments implement programs to support businesses to innovate and grow.

Societal attitudes

Society is moving at a fast pace, changes are occurring and all businesses and society as a whole have to adapt to these changing attitudes. Changes in societal attitudes include modifications in opinions, values and lifestyles. Social change has gone ahead at a rapid rate in Australia. Changes in the demographic make-up of the population have impacted on society. The ageing of the workforce and general population has led to changes such as increased demand for health services, lifestyle changes such as 'downsizing' houses and the increased need for investment advice, all of which have led to the growth of new industries. Many people are working longer or transitioning to retirement through part-time work or more flexible hours. People over 55, for example, are increasingly turning to social media and calling platforms to connect with friends and family, providing another avenue for businesses to gain customers.



Figure 11.19 Changing societal attitudes mean that flexible working arrangements can be required.

The increased participation of women in the workforce has also led to changes in businesses. More than half of women with children are in the workforce on a full-time or part-time basis. This has created a need for increased child-care facilities, more flexibility in work hours and job sharing, and has increased the demand for service businesses such as cleaning and home help.

Other changes in attitudes that can drive changes in businesses include the changing family make-up – dual-income households, fewer children, single-person households – and changing attitudes to work and what constitutes work; for example, starting up a business, working from home, changing jobs and careers, increased mobility with people moving towns, states and countries, and job sharing. The workforce is also more educated than it was before, and this impacts on people's expectations regarding the type of job they will get and their opportunities for advancement. Migration has led to many people moving around the world for work. Businesses have to be aware of the different cultural and social needs of a diverse workforce. Changes may centre on how communication is exchanged, the type of language used and the policies introduced into the workplace.

All of these changes mean businesses need to re-examine how the workforce is managed and make changes where needed.

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CASE STUDY
11.7

Driving forces for change: societal attitudes

THE MILLENNIALS

Millennials have been transforming the workplace for the past decade or so. Some of the predictions of how the millennials will impact on the workforce include:

- **They'll set new standards of leadership.** Millennial leaders will prioritise values, ethics, flexibility and feedback, and while they'll likely be more timid than previous generations, they may also hold stronger convictions. Either way, they're about to define a new generation of leadership and influence.
- **They'll start preparing for Generation Z.** Millennials are getting older. Though definitions of the next generation (tentatively referred to as Generation Z) vary, most demographers describe it as starting between the mid-1990s and mid-2000s. They are ready to enter the workplace. Older millennials will start noting the key differences of the generation about to replace them, and will start preparing to address those differences with new approaches.
- **They'll push harder for diversity and inclusion.** Millennials feel strongly about diversity and inclusion. They are the most diverse generation ever seen. As leaders they are more likely to introduce and support diversity and inclusion programs and incentives.
- **They'll settle down.** Currently millennials are seen as unable to commit to an employer, and likely to swap jobs. As they grow older, they may be ready to settle down and start showing employer loyalty.
- **They'll face the dilemma of automation.** Technological sophistication continues developing at an exponential rate, and more automated solutions are going to be available. Questions might revolve around whether millennials embrace technology and automation or try to restrict and regulate it. Conflicting behaviour of millennials may lead to a polarised workforce.

ANALYSIS

1 Outline how societal attitudes can act as a driving force for change in a business.
2 Millennials, as a group, have a different attitude to work. Discuss how this will impact on the workplace and how businesses operate in the future.
3 'It is becoming increasingly complex for businesses to adapt and respond to changes in society.' Discuss this statement in terms of managing the changing needs of employees.

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11.4 Restraining forces for change in a business

There are a number of different forces on a business that can inhibit or stop change from occurring. According to Lewin's Force Field Analysis theory, the chance of change being successfully implemented is basically one in three. If businesses come up against these forces, either internally or externally, this may mean that the change will not be implemented and the performance of the business is adversely affected. There are a number of restraining forces on a business: these include managers, employees, time, organisational inertia, legislation and financial considerations involved in implementing changes.



Figure 11.20
Managers are crucial in driving or resisting change.

Managers

Managers can act as a crucial driving force and also a restraining force when change is being introduced. In some instances, a manager may be a blocker or may stop change from occurring. It may be that senior management of a business introduces a change that is not successful due to middle or front-line managers refusing to implement it or failing to actively support it (passive resistance). Employees resist change and may be scared, and managers may feel the same way if it threatens their current position, power or role.

Managers may also resist change because they do not have the skills and experience to deal with the process or may be concerned about possible resistance from others in the business. If decisions have been made by the senior managers and the middle or lower levels of management have had no input, they are likely to resist change in the same way that employees would.

ACTIVITY 11.6

Harvey Jones is the newly appointed sales manager for Excellent Adventures. The business offers small-group eco-adventure activities around Victoria. Over the past five years, it has built up a number of regular clients who enjoy the unique experiences offered.

Harvey has decided that the business needs to increase sales and has decided to offer large-group tours to places such as Phillip Island, the Great Ocean Road and the wineries of the Yarra Valley. He believes that linking in with some of the larger tour companies will mean more customers.

He told employees about the changes in a newsletter. The changes will come in within six weeks.

Some of the other managers in the business found out at the same time as employees and are concerned that it will change the core focus of the business and the type of clients they cater for. Many employees have been asking questions about what it might mean for their jobs, and the managers do not have the answers.

1 Define restraining forces.
2 Analyse how Harvey's decision and the managers' reaction could be seen as a restraining force for change.
3 Predict whether the change is likely to be successful. Provide reasons for your answer.
4 Discuss how the managers could act as a restraining force.

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Employees



Figure 11.21 Employees can take time to adapt to change.

Staff in a business are often the difference or competitive edge for one business over another. While many staff in a business may be happy to embrace changes that are being introduced, others are likely to resist the changes suggested by management. Employees who do not feel part of the business or who do not feel appreciated will usually make change difficult to introduce and will resist. Fear of the unknown, including change, is a natural reaction, and businesses need to ensure that they have developed strategies and tactics that will allow change to be successfully implemented. If the changes are not embraced and accepted, it is likely that staff will move back to their previous work practices as soon as possible.

For change to be successful, it is important to consider its effect on people. Staff may resist the change when moving to a new, unfamiliar situation or altered state. They may also feel a loss of personal identity, be afraid of failing and feel disorientated about where the change is leading them. There are a number of emotional stages of change for people, and the more a business accepts and understands this, the easier the change process will be. It is reasonable for people to be 'unreasonable' about change. Many employees will find change difficult and move backwards and forwards between supporting and opposing change.

If change is going to be successful, it is important that employee resistance to change is overcome. Fear of change is a natural reaction for many people. They feel threatened and out of their comfort zone. If the change is aimed at the employees or the work and tasks they do, the reaction is likely to be negative and there may be resentment and widespread resistance. As part of the process, a business must encourage adaptability and trust, and allow employees to be involved in the process and make suggestions about how change can be implemented. To overcome resistance, managers must be prepared to take on board ideas and feedback provided by staff, although sometimes resistance will be met regardless of the process followed.



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CASE STUDY
11.8

Restraining forces for change: reducing employee resistance to change

Resistance to change is a natural reaction when employees are asked to change. Change is uncomfortable and requires new ways of thinking and doing, so for many people it is easy to stay with what they already know.

Any kind of change can mean that employees become anxious and lose their sense of security and the future is unknown. Therefore it is not surprising that many employees resist change.

Resistance to change is best viewed as a normal human reaction when a person is asked to change the way they do things. Even the most cooperative, supportive employees may experience resistance. If change is introduced with the assumption that employees will co-operate and support change, it is more likely to be successful. Communication should take place and, where possible, employees should be given the chance to provide input and feedback.

There are a number of ways to manage resistance to change. These include:

- Own the changes and plan how the change will be implemented. Give the employees the opportunity to provide feedback, but ensure your plan includes how to proceed even if the employee suggestions are not accepted.
- Once the decision is made, it is important for employees to work within the change; anything less is disrespectful and destructive to work teams.
- Communicating ideas, feedback and opinions is important. Employees will usually accept changes if they believe that managers have listened to them and have been honest.

One of the key factors in reducing resistance to change is to implement change in an environment in which there is widespread belief that a change is needed. Inform the employees about what they can and cannot affect. Benefits to the group, the department, and the organisation should be stressed, too. But nothing is more important to an individual employee than to know the positive impact on their own career or job.

Additionally, employees must feel that the time, energy, commitment and focus necessary to implement the change are compensated equally by the benefits they will attain from making the change.

If a business and managers are able to create a business-wide feedback and improvement loop, it might assist in overcoming resistance.

(Source: Based on Susan M Heathfield, 'How to reduce employee resistance to change', *The Balance Careers* website, 14 January 2018.)

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ANALYSIS

1 Discuss how employees can act as a driving and restraining force for change in a business.
2 Outline the three most important things a business should do to support employees in the change process.

Time

Businesses that have not planned or have not foreseen change in their industry, or in business conditions, may find that they are unable to respond quickly to any change. A business may find that lack of time will impact adversely and stop the business from making the necessary changes. Conditions in an industry can change quickly, so a business may not have a large lead-in time to implement a change. If competitors are moving ahead quickly, a business also needs to respond quickly. Time is a scarce resource, and if a business lags behind its competitors, time can become a restraining force on a business.



CASE STUDY **11.9**

Restraining forces for change: wasting time and resources

Below are eight common ways that businesses suffer in terms of the wastage of time and resources.

1 FAILING TO UPDATE OUTDATED PROCESSES

Businesses should invest in technology that improves processes and makes them more efficient.

CONTINUED ITEM

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2 OVER-COMMUNICATING

Businesses should consider the form of communication that is the most effective for a particular situation. Overuse of emails may mean that messages are not read or are overlooked. Other social networks may be more appropriate to use.

3 MAINTAINING LEGACY SYSTEMS

If an existing way of doing things or an established system does not work, a business needs to review this and find a more efficient system.

4 DECISION-MAKING HAMPERED BY DATA

Not having access to the right data can lead to managers making poor decisions, or taking too long to come to a conclusion.



Figure 11.22 Good time management is essential for the overall success of a business.

5 LACK OF COLLABORATION

People within a business need to discuss, collaborate and communicate with each other. If people and teams do not share information, they may end up working in isolation, and expertise and ideas are siloed and not utilised.

6 FAILURE TO OUTSOURCE

A failure to outsource can cost a business in time, money and expertise. The right outsourcing can save time and reduce costs.

7 NOT AUTOMATING AD HOC PROCESSES

Ad hoc processes plague businesses, with informal ways of working causing problems. It is important to look at ways to streamline and automate these wherever possible.

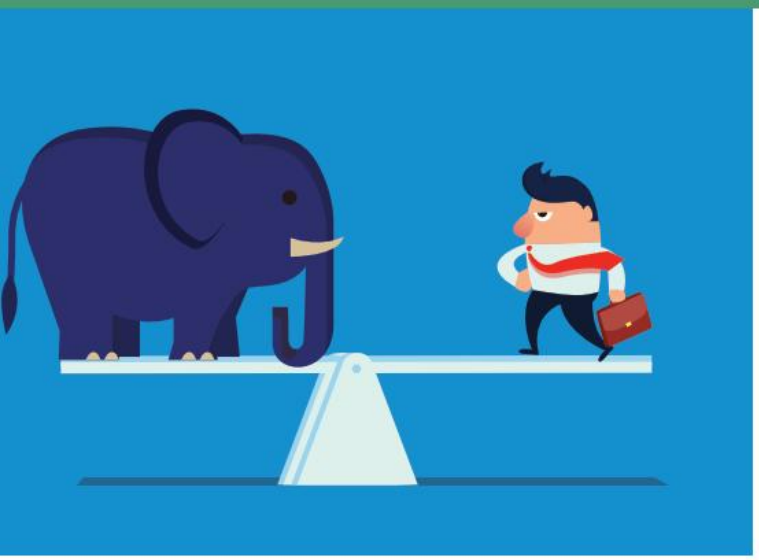
8 THE WRONG KIND OF MEETING

Meetings often seem like a good idea, but too many times poor planning and an inability to set agendas can make them a waste of time. Also, face-to-face meetings can cost people a lot of time. Cut out the frivolous elements and ensure that meetings have a clear agenda, so that staff can prepare properly and you can get through the important points.

ANALYSIS

1. Explain why time is an important resource that is not always measured.
2. Outline how time can act as a restraining force for change.
3. Identify four key points from the case study. How could these points or suggestions assist a business?

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Organisational inertia

Businesses that are stable with little change over time are less likely to respond to changes quickly or in a positive way. An established business with a long history and traditions may find it more difficult to implement lasting change. Some businesses are very conservative and the management style, corporate culture and policies may be staid and make change problematic.

Figure 11.23 Organisational inertia makes it difficult for a business to succeed.

Organisational inertia is the tendency of a mature business to continue on its current trajectory. This inertia can be described as being made up of two elements – resource rigidity and routine rigidity. Resource rigidity stems from an unwillingness to invest, while routine rigidity stems from an inability to change the patterns and logic that underlie this. While resource rigidity relates to the motivation to respond, routine rigidity relates to the structure of that response.

organisational inertia the lack of ability of a business to react to internal and external pressures for change, as it tends to continue on its well-entrenched way

If a business is bogged down by organisational inertia, it is difficult for the business to succeed and sometimes even to survive.

There are a number of suggestions as to how inertia can be overcome, including changing resources and routines. One study by Gilbert in 2005 concluded that if there is an immediate threat to a business, managers might be able to overcome resource rigidity; however, sometimes the perception of an immediate threat means that people follow routines even more closely, leading to further inertia. (See CG Gilbert, 'Unbundling the structure of inertia: resource versus routine rigidity', *Academy of Management Journal*, vol. 48, no. 5, 1 October 2005, pp. 741–63.)



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CASE STUDY
11.10

Restraining forces for change: organisational inertia, Kodak and Blockbuster

Businesses must overcome organisational inertia as well as developing and investing in innovation and new products.

Many young people would not know that Blockbuster had a website before Netflix, was the first to rent movies (DVDs) through its website, started to experiment with streaming films and shows, and unfortunately also went bankrupt.

Similarly, Kodak was a large and successful global company. In 1975, the business developed the first digital camera, which it launched in 1991. Apple brought out one in 1994. In 2001, Kodak's film sales declined and it spent money on a marketing campaign designed to keep people on film cameras rather than digital. Kodak continued to lose market share and in 2012 the company was bankrupt.

So, while Blockbuster and Kodak were able to innovate and be the first to the market with new products, they were not successful in the long term, and the question is why? Blockbuster and Kodak both suffered from organisational inertia. Both businesses had great employees, money and the capacity to innovate and develop new products. However, neither was able to make the necessary changes in a timely manner.

Organisational inertia can be caused by:

- *A successful past.* The mindset becomes one of 'if it ain't broke, don't fix it'.
- *Silos and office politics.* Traditional business structures may mean that a team or department is working in isolation from others in the business. Strong team bonds may lead to more resistance to change.
- *Focus on the core and the short term.* There is a need to focus on the 'core business' and deliver results in the short and medium term. Kodak focused on profits from photographic film and Blockbuster stuck with revenue from 'late fees'. Neither business focused on their core purpose or had a clear focus and direction for the future.
- *Low situational awareness.* It is important that while businesses plan for the future they also focus on the present situation so they understand the current scenario and have a clear idea about their priorities.

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The Blockbuster and Kodak examples serve as an alert. They did experiments and mastered the technology that years later would be adopted by millions of people. Their failures should remind businesses that inertia is something real and that it can immobilise even the innovator and market leader.

ANALYSIS

1 Explain the concept of organisational inertia.
2 Describe how inertia can act as a restraining force on a business.
3 Explain why Blockbuster and Kodak were two successful and innovative businesses that ended up bankrupt.

Legislation

While legislation can act as a driving force for change (see above), it can also be a restraining force on a business. If a business finds that it has to manage and adjust to a change in the law that is unexpected, expensive or difficult to implement, it will be harder for that business to respond positively. The lack of a law may also impact on a business. Many consumers now shop online, and in Australia laws were introduced in July 2018 to have GST applied to some sales from overseas retailers. Many retailers had pressured the government to introduce this, as without the laws it was difficult for Australian retailers to compete with online businesses that were not liable to pay the GST on sales. New laws covering use and storage of data also have an impact on the policies and processes of a business.

Other changes in legislation or new laws that can impact on a business are: changes in smoking regulations, for example, smoking in restaurants and outdoor areas; and licensing arrangements. While a business has no choice but to comply with the new laws, these can act as a restraining force as a business may need to make changes to staffing, policies and processes and the changes may add to the cost of doing business.



Figure 11.24 Smoking regulations can impact on the processes of a business.

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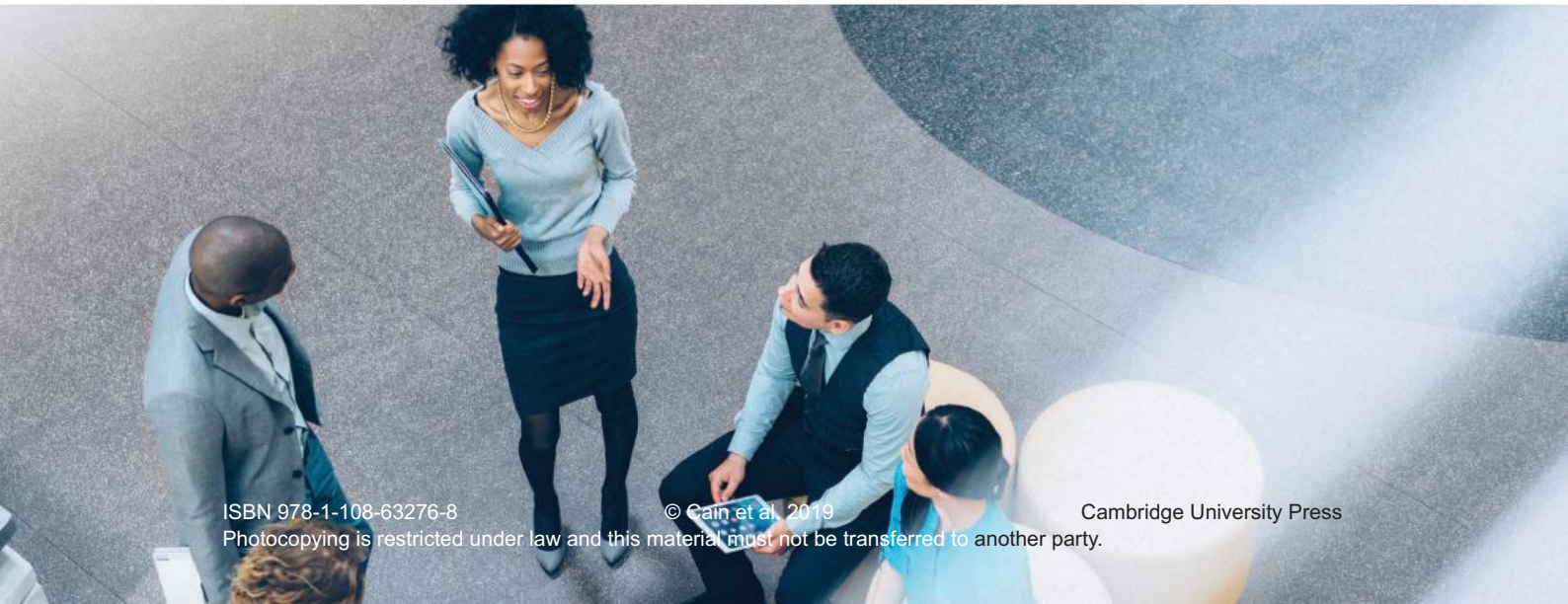
CASE STUDY
11.11

Restraining forces for change: non-compliance to planning permits

A Lower Plenty restaurant was forced to close part of its business after breaching a planning permit. The new open areas in the restaurant did not comply with the issued planning permit, as it was only allowed 150 people on the premises. The restaurant decided to close until it could comply with all of the permit requirements. Some of the neighbours and local residents stated that they were subjected to noise and disruption.

ANALYSIS

1 Describe how legislation can be a restraining force on a business.
2 Outline two different laws that may impact on a business.
3 Explain how planning permits can cause change in a business.



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Financial considerations

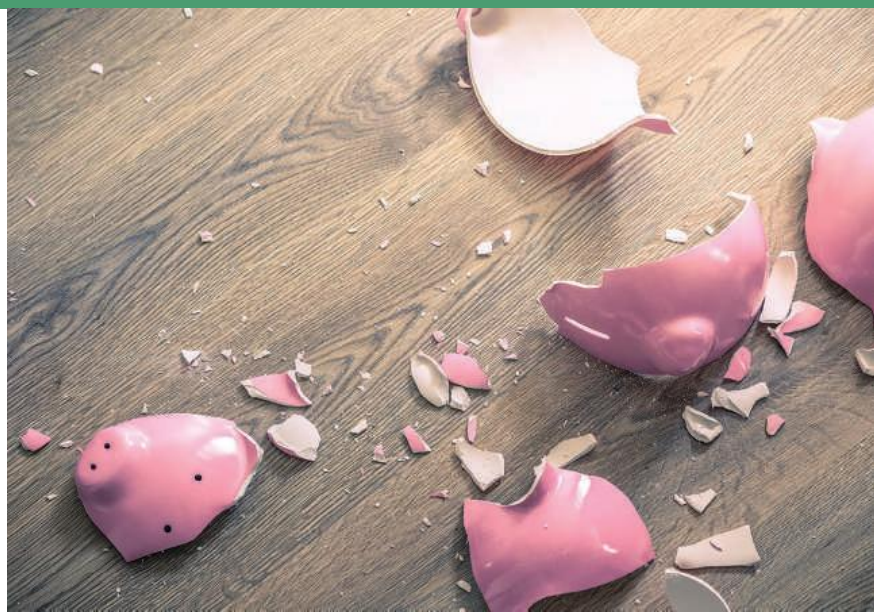


Figure 11.25 A common cause of failure for small businesses is lack of finance.

Financial considerations can act as a restraining force for change on businesses. Lack of access to finance can be an inhibitor for many small businesses. While interest rates are relatively low, there is still a cost involved and some financial institutions may be reluctant to lend money without a great deal of security. For many small businesses, one of the main reasons for failure is lack of finance and inadequate record keeping. If a business wishes to expand and does not have the funds already in the business, it must access finance externally, and the cost is a consideration.

Large businesses also need to take into account the financial cost of making changes. Sometimes the cost of a change may be substantial or the cost of expansion may mean that the business has to look at how the funds can be accessed. The inability to obtain necessary funds will be a restraining force on the business.

ACTIVITY 11.7

Sheena and Ahmed own a clothing store in Eltham. They have located another possible store in the nearby suburb of Heidelberg. The store is available to purchase. Sheena and Ahmed want to borrow the money from a bank. They have calculated that they would need to borrow around $250 000.

1 Explain how a lack of access to finance can be a restraining force on a business, particularly a small business.
2 Visit the websites of at least two banks. Determine the interest rate and repayments on a $250 000 loan over 20 years.
3 Identify the type of security a business would need to have to access finance and borrow money.

SAC AND EXAM TIPS – linked to key skills

Force-field analysis is important as it allows a business to determine whether change might be possible.
It is important to understand and identify all driving forces.
Managers, employees and legislation can act as both driving and restraining forces for change.

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Chapter summary

- The pace of change has increased and is far-reaching and unpredictable.
- Businesses need to be prepared for change, adopt a proactive response, be flexible and develop plans to ensure they are able to meet the challenges the change presents.
- Change can be defined as the process of taking the existing business, altering it and establishing a new or modified form.
- Lewin's Force Field Analysis theory identifies driving and restraining forces for change.
- Driving forces push change in a particular direction and support the proposed change or objective.
- Driving forces can include managers, employees, competitors, legislation, pursuit of profit, reduction in costs, globalisation, technology, innovation and societal attitudes.
- Restraining forces are those forces that restrain or reduce the driving force and block or hinder change.
- Restraining forces can include managers, employees, time, organisational inertia, legislation and financial considerations.
- Change will only occur if driving forces are greater than restraining forces.

Chapter summary tasks

1 Define the following terms:
   a societal attitudes
   b organisational inertia.
2 Describe Lewin's Force Field Analysis theory.
3 Explain how business change may occur.
4 Distinguish between driving and restraining forces for change.
5 Describe how employees may act as a driving and a restraining force for change.
6 Explain how restraining forces can hinder change in a business.
7 Complete the following table.

Driving force for change	How the factor can be a driving force
Managers	
Employees	
Competitors	
Legislation	
Pursuit of profit	
Reduction in costs	
Globalisation	
Technology	
Innovation	
Societal attitudes	

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8 Outline why it is important for managers and/or owners of a business to work with employees to ensure that change is successfully implemented.

9 Complete the following table.

Restraining force for change	How the factor can be a restraining force
Managers	
Employees	
Time	
Organisational inertia	
Legislation	
Financial considerations	

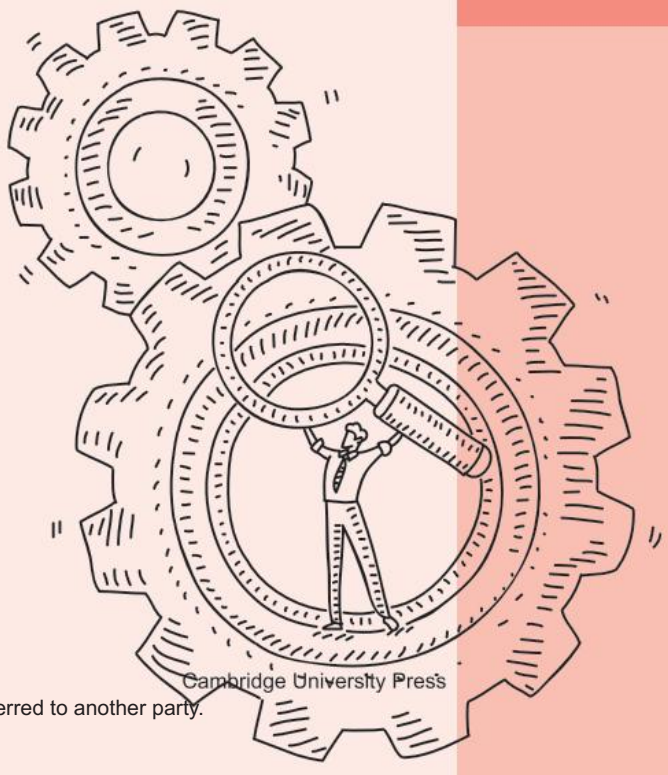
10 Change can have a major impact on a business. Discuss the possible forces for change in the business environment.

Examination preparation

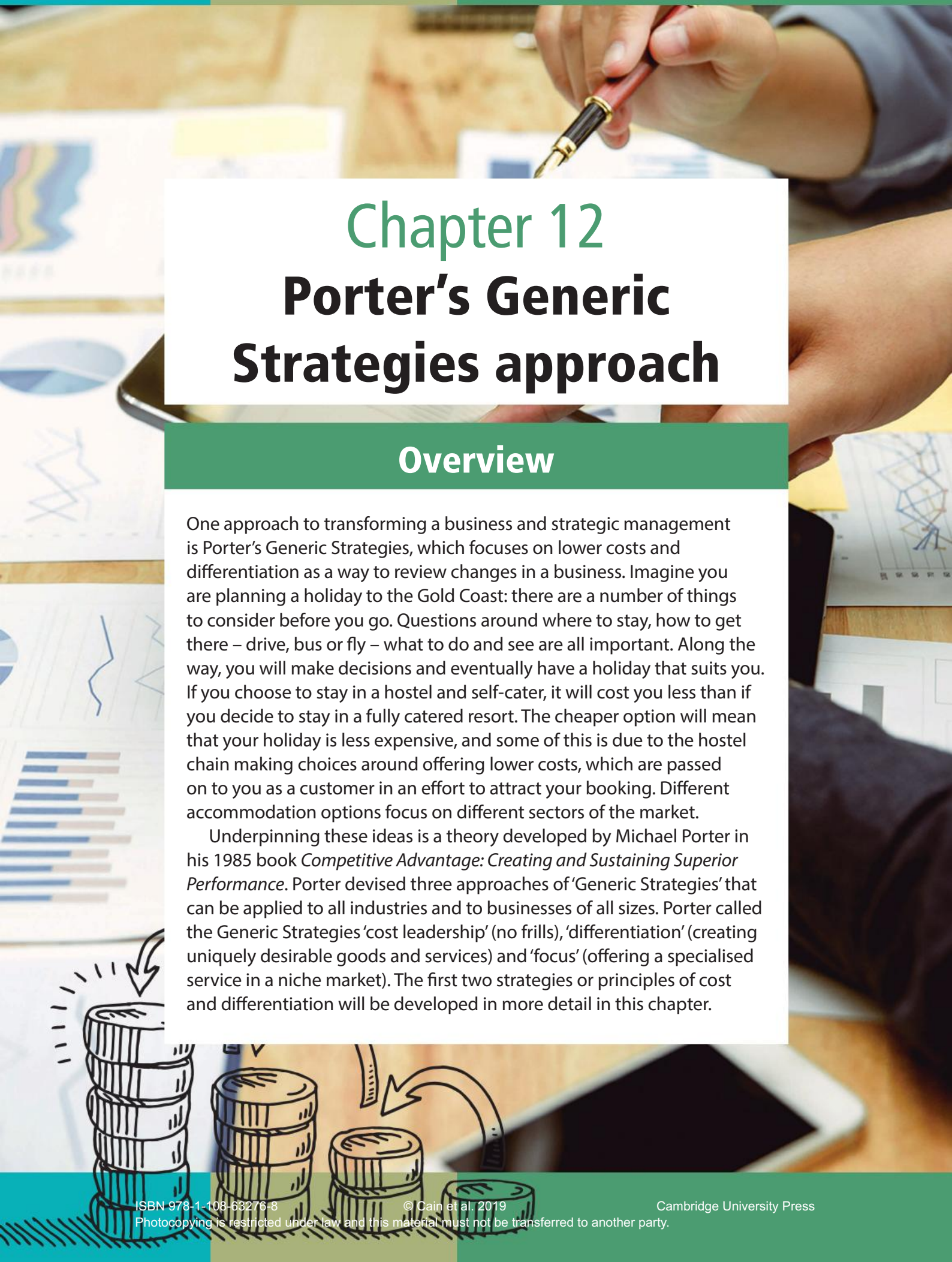
ABP Accounting and Financial Services announced a major change to its financial services department. Penelope Miles, the newly appointed chief executive officer, announced the changes at a meeting of all staff. 'All employees will need to be trained in a number of different tasks, work as part of a team and focus on providing a complete service to clients. ABP is focusing on improving its corporate culture and wants to increase the quality of its services,' she stated at the meeting.

The business issued a statement to say that the changes would be introduced within two months. The workforce would also be reduced by 15% after the introduction of a training course and new integrated finance systems. A survey by the workplace unions found that 67% of staff did not understand the changes and were afraid that their jobs would disappear during the next 12 months.

1 **Define** the concept of change. **(1 mark)**
2 **Identify** and **explain** one driving force impacting on ABP Accounting and Financial Services. **(3 marks)**
3 **Describe** how employees at ABP Accounting and Financial Services could act as a restraining force on the proposed changes. **(4 marks)**
4 **Discuss** Lewin's Force Field Analysis and how it can be used as a means to manage change in a business. **(6 marks)**



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Chapter 12
Porter's Generic Strategies approach

Overview

One approach to transforming a business and strategic management is Porter's Generic Strategies, which focuses on lower costs and differentiation as a way to review changes in a business. Imagine you are planning a holiday to the Gold Coast: there are a number of things to consider before you go. Questions around where to stay, how to get there – drive, bus or fly – what to do and see are all important. Along the way, you will make decisions and eventually have a holiday that suits you. If you choose to stay in a hostel and self-cater, it will cost you less than if you decide to stay in a fully catered resort. The cheaper option will mean that your holiday is less expensive, and some of this is due to the hostel chain making choices around offering lower costs, which are passed on to you as a customer in an effort to attract your booking. Different accommodation options focus on different sectors of the market.

Underpinning these ideas is a theory developed by Michael Porter in his 1985 book *Competitive Advantage: Creating and Sustaining Superior Performance*. Porter devised three approaches of 'Generic Strategies' that can be applied to all industries and to businesses of all sizes. Porter called the Generic Strategies 'cost leadership' (no frills), 'differentiation' (creating uniquely desirable goods and services) and 'focus' (offering a specialised service in a niche market). The first two strategies or principles of cost and differentiation will be developed in more detail in this chapter.

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Key terms

- cost leadership strategy
- differentiation
- five force analysis
- Porter's Generic Strategies approach

Key knowledge

You will be introduced to two approaches to strategic management. You will learn about:

- the two key approaches, lower cost and differentiation, to strategic management by Porter's Generic Strategies (1985).

What's ahead

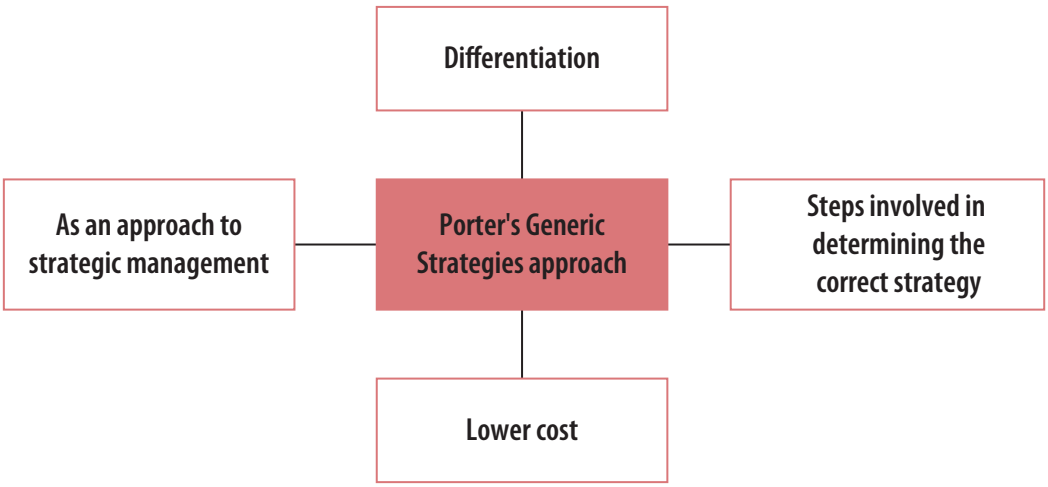


Figure 12.1 The two key principles of Porter's Generic Strategies approach are the lower cost strategy and the differentiation strategy.

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12.1 Key principles of Porter's Generic Strategies approach

Porter's Generic Strategies approach a framework used to outline the three major strategic options open to businesses that wish to achieve a sustainable competitive advantage

In 1979, Michael Porter developed a *framework* that he used to outline the three major strategic options open to businesses that wish to achieve a sustainable competitive advantage. He published his ideas in 1985. Each of these approaches needs to be considered within the context of:

- **competitive advantages**, which establish whether the products are differentiated in any way, or if they are the lowest cost producer in the industry
- **competitive scope** of the market to determine if the business is to target a wide market or if it should focus on a very narrow niche market.

The two key principles of **Porter's Generic Strategies approach** that will be examined are the lower cost strategy (also known as cost leadership) and the differentiation strategy.

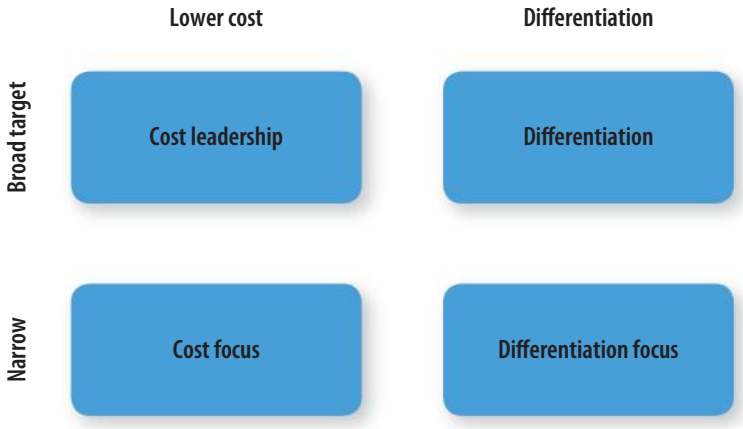


Figure 12.2 Generic Strategies approach

Businesses need to decide whether they are going to pursue cost leadership or differentiation; once an approach has been determined, it should be the main, but not the only, strategy. It is important that there are also other considerations, such as a business not concentrating on only one segment of a market.

There are a number of steps involved when choosing which approach the business is going to concentrate on. Porter warns that a business should make a considered decision. Different approaches appeal to different people and segments of the market. Cost leadership requires a focus on internal processes and procedures, whereas differentiation demands an external focus aimed at capturing segments of a market.



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Three steps to determine which generic approach to focus on

To determine which generic approach a business is going to focus on, a business should work through the following.

Step 1: Carry out a SWOT analysis

Carry out a SWOT analysis (strengths, weaknesses, opportunities and threats) for each strategy. All businesses should carry this out at regular intervals, as it allows a business to gauge its current position and the impact of any future changes it is considering.

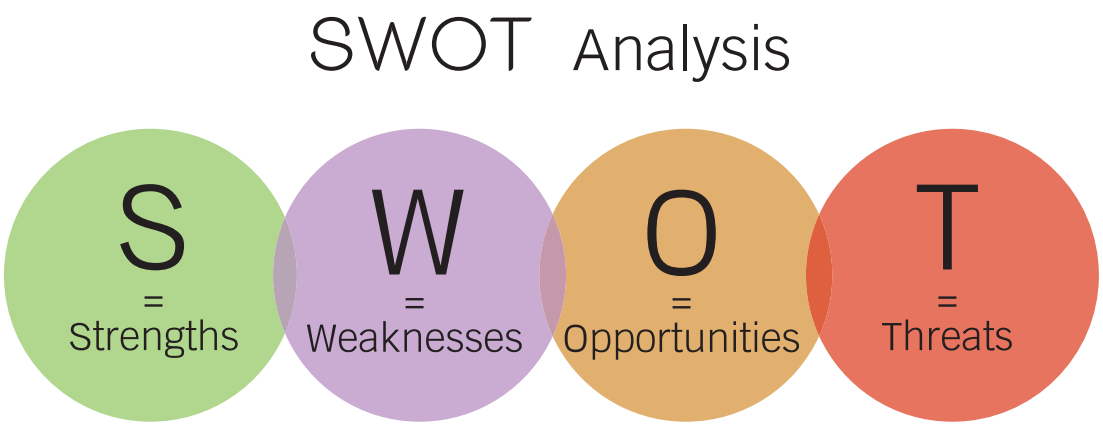


Figure 12.3 SWOT analysis

Step 2: Porter's five force analysis

Use the **five force analysis** to understand the nature of the industry or business sector. Porter's five force analysis or tool is a way to understand where power lies in a business situation. If a business and its managers understand this, they can take advantage of it. The tool is usually used to identify whether new products, services or businesses have the potential to be profitable. It assumes that there are five important forces that determine competitive power. These are:

five force analysis a tool that focuses on five important determinants of competitive power – supplier power, buyer power, competitive rivalry, threat of substitution and the threat of new entry

1. **Supplier power** – A business should assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, uniqueness of the product and how many suppliers are in the industry. The more a business needs help from suppliers, the more power a supplier has.
2. **Buyer power** – This looks at how easy it is for buyers to drive down prices. It is driven by the number of buyers, the importance of each individual buyer and the cost to them of switching from the business's product to another. If there are a few powerful buyers, the power lies with them, not the business.
3. **Competitive rivalry** – This area focuses on the number and capability of competitors. If there are many competitors with equally attractive products and services, the business will have limited power as suppliers and customers can go elsewhere. If the product is unique, the business has a great deal of power.
4. **Threat of substitution** – This is affected by the ability of customers to find a product or service similar to the one provided by the business. If substitution is easy, power and influence is reduced.

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5 **Threat of new entry** – A business's influence and power is affected by the ability of other businesses entering the same market and competing. If there are few economies of scale in place or little protection of key products and ideas, then new competitors can quickly enter the market and take away customers.

(Source: Based on Michael E Porter, 'How competitive forces shape strategy', March 1979.
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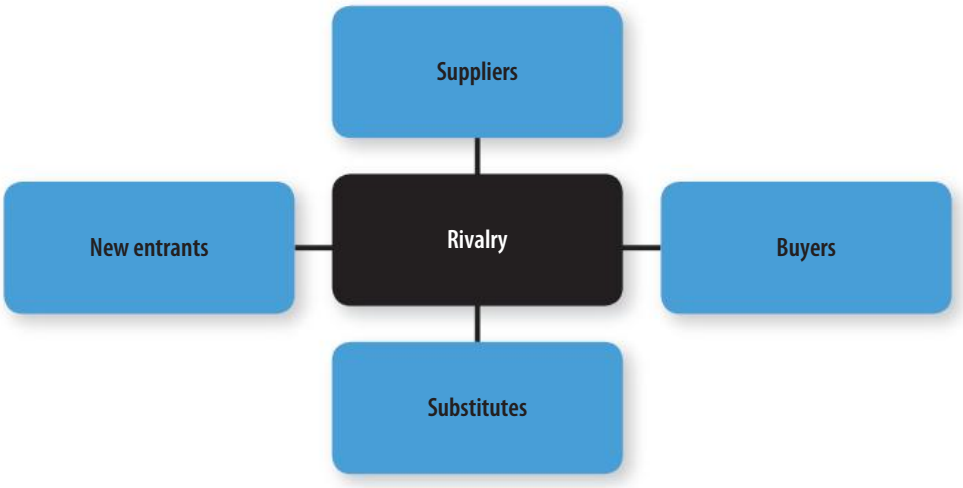


Figure 12.4 Five force analysis



CASE STUDY **12.1**

Porter's Generic Strategies approach: Costco's competitive advantage

Costco Wholesale Corporation operates an international chain of membership warehouses that carry quality, brand-name merchandise at lower prices than conventional wholesale or retail sources. The business is designed to provide small and medium businesses with lower cost goods for resale. Individuals may also purchase products. Categories of goods and products include groceries, confectionary, appliances, television and media, automotive supplies, tyres, toys, hardware, sporting goods, jewellery, watches, cameras, books, housewares, apparel, health and beauty aids, tobacco, furniture, office supplies and office equipment.

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Costco also offers a range of private label goods designed to be as good as or better than many of the top quality brands.

According to Jim Sinegal, the company's co-founder, Costco is able to offer lower prices and better value by eliminating virtually all the frills and costs historically associated with conventional wholesalers and retailers, including salespeople, fancy buildings, delivery, billing and accounts receivable. 'We run a tight operation with extremely low overhead, which enables us to pass on dramatic savings to our members.'

Costco is open only to members, and customers pay an annual fee.

Costco has branches and warehouses in a number of countries, including the United States, Puerto Rico, Canada, United Kingdom, Taiwan, Korea, Japan, Australia, Spain, Iceland and France.

Figure 12.5 Costco focuses on keeping costs down to attract customers.



ANALYSIS

1 Discuss why Costco is so successful around the world.
2 Identify how Costco attracts its personal and business customers.
3 Costco focuses on keeping costs to a minimum. Explain how the business supplements its revenue.
4 In late 2017, Amazon started operating in Australia. Analyse the possible impact of Amazon on Costco and other retailers in this market segment.



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Step 3: Compare the SWOT analysis with the results of the five force analysis



When the two analyses are compared, a business should be considering the following:

- Reduce or manage supplier power.
- Reduce or manage buyer/customer power.
- Come out on top of the competitive rivalry.
- Reduce or eliminate the threat of substitution.
- Reduce or eliminate the threat of new entry.

A business should select the generic strategy that provides the strongest set of options.

Figure 12.6 Completing analyses allows business managers to make informed decisions.

ACTIVITY 12.1

Eli and Jonah are considering expanding their social media and marketing business. The business has been established for five years and has built up a strong customer base. Eli and Jonah have completed an analysis and believe that their new application, which will allow businesses to contact potential customers, will be in high demand.

Identify other considerations Eli and Jonah would have to contemplate when making a decision about expanding.

12.2 Porter's Generic Strategies approach to strategic management

Porter's generic approaches are ways of gaining a competitive advantage or edge over other businesses in the same industry or market segment.

Cost leadership strategy

In cost leadership, a business sets out to become the low-cost producer. The sources of cost advantage are varied and depend on the structure of the industry. Sources or reasons may include the pursuit of economies of scale, new technology and preferential access to raw materials. A low-cost producer must find and exploit all sources of cost advantage. If a business can achieve and sustain overall cost leadership, it will be an above-average performer in its industry, provided it can command prices at or near the industry average.

cost leadership strategy a strategy that allows a business to achieve a competitive edge by reducing production or delivery costs

There are two ways to do this within a **cost leadership strategy**:

1. Increasing profits by reducing costs and at the same time charging similar prices to competitors.
2. Increasing market share through charging lower prices but still making a profit due to savings made in reducing costs and other expenses.

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The cost leadership strategy is exactly that – it involves being the leader in terms of cost in the industry and gaining market share by appealing to price-conscious customers. Simply being among the lowest-cost producers is not good enough, as a business leaves itself vulnerable to other low-cost producers who may undercut its prices and therefore block any attempt to increase market share. To succeed in offering the lowest price while still achieving profitability, the business needs to also operate at a lower cost than competitors.

There are three main ways to achieve this:

1 **Asset utilisation:** This means being able to use the resources of the business efficiently. This might mean a restaurant having a large number of customers through in a number of sittings on one night or an airline that turns around flights quickly, thereby making greater use of its fleet of aircraft. In manufacturing it involves the production of high volumes of output; the business tries to make the most of economies of scale and resource use. IKEA, the Swedish furniture manufacturer, revolutionised the furniture industry by offering cheap but stylish furniture. IKEA is able to keep its prices low by sourcing its products and by offering a basic level of service. Customers have to collect the furniture in the warehouse and take it home and assemble it themselves, thus reducing costs.
2 **Low direct and indirect operating costs:** This is achieved by offering high volumes of standardised products, offering basic 'no-frills' products and limiting the customisation and personalisation of service. Production costs are kept low by using fewer parts, using

Figure 12.7 Businesses that achieve cost leadership become above-average performers in their industry.



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standard components and limiting the number of models produced to make sure there are larger production runs. Other operating costs are kept low by locating premises in low-rent areas and by establishing a culture where everyone looks at keeping costs low. Maintaining this strategy requires continuous focus on cost reductions. Promotional strategies centre on highlighting low price and value for money. Henry Ford, for example, created an assembly-line approach to making cars, which meant he was able to reduce cost per unit and gain market share. Technology and the efficient use of software and other processes can also provide a business with cost savings.

3 **Control over all departments or groups of the business:** This approach involves checking and reviewing all areas of the business – finance, operations, supply chain management, marketing and information technology. Among other things, the review would look at buying parts and resources in bulk or working with suppliers to push for the best prices possible. Cost savings may also be developed through using inventory systems such as Just In Time where stock levels are kept to a minimum. Other areas where costs may be reduced or minimised are those such as preferential access to materials and components or integrating supply chains into the business.

Cost leadership strategies are usually viable for large businesses that are able to take advantage of economies of scale, large production volumes and large market share. Small businesses can be cost focused but are unlikely to be cost leaders even if they are able to keep operating costs low.

Some businesses when they first start up might offer a cheaper product or service as a result of innovation within the business. For example, low-cost airline Tigerair took market share from larger airlines by offering basic, no-frills services at lower prices. As Tigerair grew and gained market share, the larger airlines such as Jetstar and Virgin also started to offer cheaper flights to retain market share.

A cost leadership strategy may have the disadvantage of lower customer loyalty, as price-sensitive customers will swap brands with little hesitation. A reputation as a cost leader may mean that some customers also associate this with poor or cheap quality. This may mean it is difficult for a business to rebrand in the future.

Figure 12.8 IKEA keeps prices low by selling unassembled products.



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CASE STUDY
12.2

Porter's Generic Strategies approach: JB Hi-Fi and cost leadership

JB Hi-Fi is Australia's largest consumer electronics goods retailer. JB Hi-Fi was founded in the 1970s and specialised in vinyl records and home hi-fi equipment. Over the years, JB Hi-Fi has greatly expanded to become the JB Hi-Fi Group. It diversified its business from predominantly selling music CDs, and is now a retailer for a wide range of consumer electronics and accessories including video games, Ultra HD Blu-rays, Blu-rays, DVDs, equipment such as computers, white goods, gaming consoles, cameras and security equipment. It also sells computer accessories, drones and musical instruments. The JB Hi-Fi Group holds a significant market share in many of its product categories.

In 2006 it expanded its stores into New Zealand. The company, which is listed on the ASX, purchased The Good Guys chain of businesses in 2016. In January 2018, it made the Top 250 global retailers list for the first time (ranked 218th). That same year, JB Hi-Fi claimed to be the seventh largest electronics retailer worldwide, in terms of sales. According to Smart Company Australia, JB Hi-Fi has also ranked within the Top Ten Internet Based Retailers in Australia since at least 2015. The JB Hi-Fi Group also provides information technology and consulting services to small and medium-sized businesses through JB Hi-Fi Solutions.



Figure 12.9 JB is a cost leader in the electronics retail market.

According to the Annual Report of September 2018, the JB Hi-Fi Group own 311 retail stores in Australia and New Zealand, with 193 JB Hi-Fi stores in Australia, 15 in New Zealand, and 103 The Good Guys stores in Australia.

ANALYSIS

1 Explain the concept of cost leadership as an expansion strategy.
2 Identify the three ways a business can obtain cost leadership.
3 Describe how JB Hi-Fi has been able to succeed in the competitive domestic market.

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CASE STUDY 12.3

Porter's Generic Strategies approach: Lush's low-cost cosmetics

Maintaining strong ethics has resulted in healthy growth for Lush, demonstrating that attracting customers within a sustainable business model can be successful.

As the business was founded by animal and environmental activists, campaigning on such issues and minimising environmental impact have been major drivers since the business launched.

Lush supports charities and NFPs [not-for-profit organisations] with its store windows acting like billboards on many of the world's busiest streets.

Through managerial involvement, Lush aims to stay tapped into its valued customer opinions. 'We make sure we have store managers, who have the most contact with customers and staff, in the room when we're making big decisions about what issues to campaign on,' Peta Granger, director, advises.

This has seen Lush move from buying fair traded ingredients to developing supportive partnerships with the communities who produce them: 'We started to set aside two per cent of all the money we spend on buying packaging and raw materials each year into the Sustainable Lush Fund, or Slush Fund.'

Lush has also been able to combine this with cost leadership through a number of strategies, including:

- An international reach
- Advocates for ethical buying
- The branding is simple
- Massive cult brand following
- The business understands their customers and appeal to the girl who 'believes in what they believe'
- The business continually offers free samples and in-store trials in nearly everything.

(Source: Based on Paula Towers, 'Retailer Awards series: Lush Cosmetics', *Inside Retail* website, 10 November 2016.)

ANALYSIS

1 Describe how Lush has been able to develop a successful business using low-cost strategies.
2 Visit the Lush website and describe some of the products and projects the business is involved with.

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Differentiation approach

differentiation emphasises the difference between a particular product/service and those that are similar by developing the attributes that customers find appealing

While price is a central consideration when a business is trying to attract customers, **differentiation** is another important approach a business can use to establish itself and grow. In a differentiation approach, a business selects one or more attributes that customers in the market consider important. If the business is able to do this, it is rewarded as it can charge a premium price for its products and services. Differentiation can be defined as an approach or method used to develop the uniqueness of the product or service and its attractiveness in order to attract and keep customers. Differentiation can be based on a number of different factors, including product durability and use, support and after-sales service and brand image, which allows a business to create an ideal picture and connections with customers to build long-term loyalty to the brand and the products. Businesses that are able to differentiate to meet customer needs are able to charge premium prices, as the cost is not an important consideration.

To implement a differentiation strategy, a business should ensure that:

- it develops effective marketing and promotion strategies – define and emphasise the benefits of the brand
- it delivers high-quality products
- there is a focus on ongoing research, development and innovation.



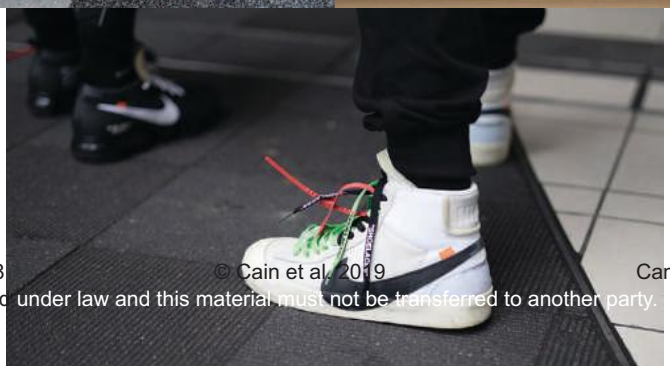
Figure 12.10 Differentiation is a strategy used to develop the uniqueness of the product or service.

Examples of businesses that have successfully used a differentiation strategy include BMW, Apple, Porsche, Rolex and Nike, which are known for their particular brand and quality products and service.

Figure 12.11 BMW, Apple and Nike are known for brand quality.







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Figure 12.12
Disney Pixar has an established brand that customers recognise.

A differentiation approach is appropriate when the target customer segment or market is not price-sensitive, where the market is competitive and where customers have specific needs that are not being met or addressed as well as they could be. The business will also have the resources and capabilities to satisfy customer needs in ways that other businesses cannot copy. This may include intellectual property, unique technical expertise, talented employees and innovative processes.

Differentiation is successful when a business is able to achieve a premium price for its product or service, gains increased revenue per unit or the customers' loyalty. Successful brand management also results in a perceived uniqueness that supports sales of the product or service. This means that customers will buy the product or service even if it is the same as a competitor's. There are a number of businesses that have been able to gain market share through differentiation from their competitors. Apple is known for its software, simple product design and innovative products. BMW is known as the 'ultimate driving machine' and for the quality of its motor vehicles. Nike is a strong brand that has positioned itself with top athletes in a range of sports. Its products are seen by consumers to be of high value with exclusive features. Qantas is known for its safety record, and its reliability and safety record are a main selling point. Singapore Airlines differentiates itself by offering premium services at a practical price. It was the first to introduce many services such as hot meals and scented towels and has a young fleet of planes. Fashion brands rely heavily on this type of differentiation.

Differentiation strategies are easier for large businesses to implement and more difficult for small businesses, as a small business may not have the resources or the influence in a market. In the majority of instances, a large business has more power to influence a market and develop differentiation strategies.

ACTIVITY 12.2

1 Identify a brand or business that uses a differentiation strategy and recall one of its recent advertisements.
2 Describe the various elements of the advertisement, such as length, content, tone and target audience, and explain how the advertisement reflects the business's differentiation approach.



Figure 12.13
Singapore Airlines differentiates itself with premium services at a reasonable price.

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The impact of Porter's Generic Strategies

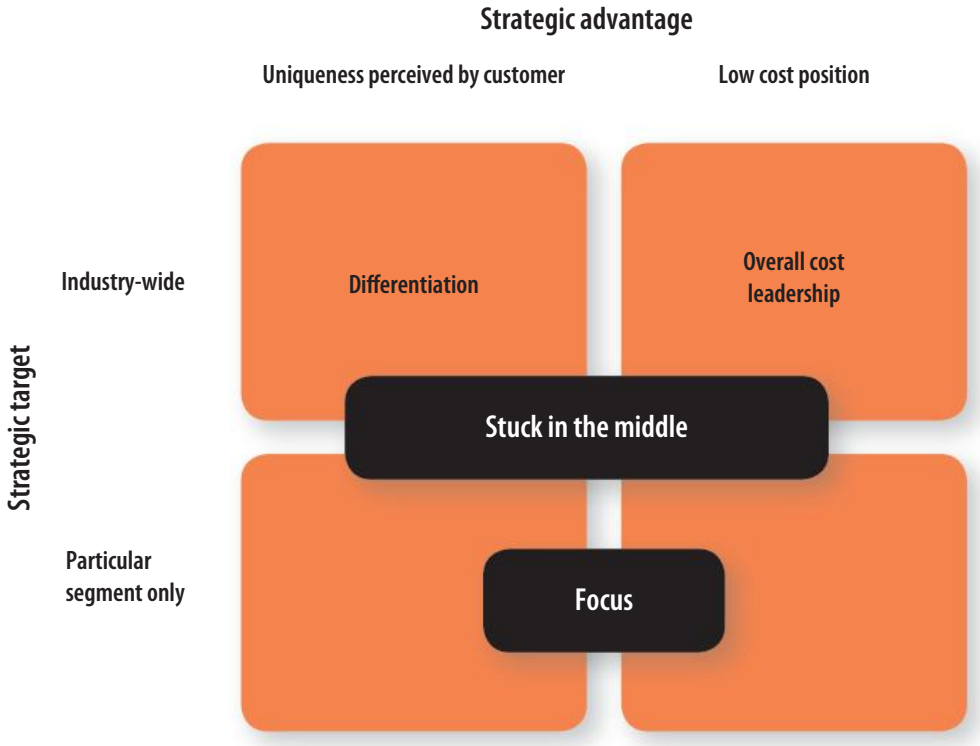


Figure 12.14 Porter's Generic Strategies

(Source: Michael Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, Free Press, New York, 1980.)

Empirical research on the profit impact of these marketing strategies indicates that businesses with a high market share are often profitable, as are many businesses with low market share. Those in the 'middle' with moderate market share were often the least profitable and did not have a viable generic strategy.

Porter stressed that only one approach should be used and that failure to do so would result in a 'stuck in the middle' scenario. He stated that if a business follows more than one strategy it will lose focus, although this has been questioned by some commentators. It has been argued that some businesses have entered the market as a niche player and gradually expanded.

For a business to be able to successfully innovate, it needs to be able to clearly identify the key differentiators over other products. This might include reviewing questions such as:

- Is the product distinctive?
- Can success be measured against competitors?
- Is it relevant to the core business?
- Is it clear at all levels of the business?

Figure 12.15 Businesses that control a high market share of their product are often profitable.



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CASE STUDY
12.4

Porter's Generic Strategies approach: differentiation

PART 1: LUXURY BRANDS THRIVE IN A TOUGH RETAIL MARKET

Four Pillars Gin, a small distillery based in the Yarra Valley, has grown rapidly in four years and sells in Australian and global markets. It is a luxury brand, with its gin range selling for between $75 and $100 a bottle. The brand has partnered with other established luxury brands, such as the Marriott Group and Duty Free shops at key airports. Around 90 000 people pass through the distillery each year.

Bird and Knoll is another small business that has found a niche in the luxury market. It sells neck scarves for as much as $335 each and has had a large number of sales since it was launched in 2014. The two founders have secured a place in a number of high-end boutiques and resorts, which stock their products. A distribution deal with Qantas has also been successful. The business uses premium fabrics and smaller pattern runs to keep its scarves exclusive.



Figure 12.16 Some small businesses have been able to tap into the luxury market.

Research has shown that Australian luxury retailers have not suffered from a weaker retail environment and have continued to grow. Much of the sales have been driven by tourists, particularly those from Asia.

PART 2: 2XU AND PREMIUM SPORTSWEAR

2XU sportswear is worn by many sportspeople, politicians and actors. Co-founder Jamie Hunt says the brand is successful because it has focused on a specific niche. Hunt argues that the business is successful because it focuses on high performance sport not the fashion sector. The business now has a turnover of more than $100 million each year.

The business focused on making world-leading products and has used the latest technology to make its products.

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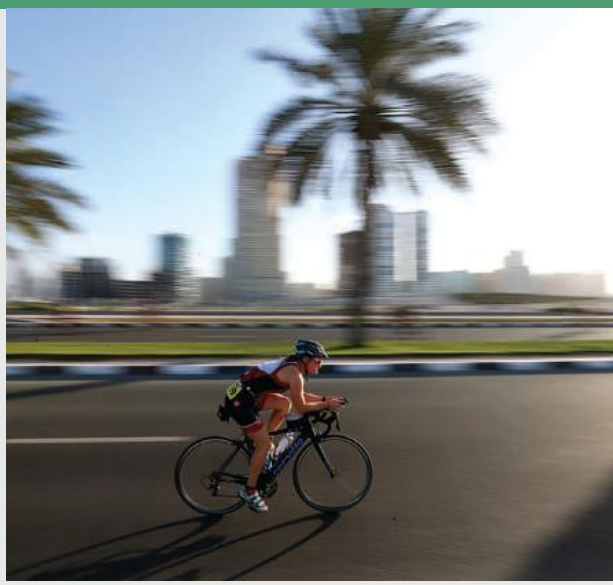


Figure 12.17 2XU has been able to create a successful global business.

Industry analysts Ibisworld say market growth is being supported by rising demand for premium, high-quality sportswear that is fashionable yet functional.

As a former champion triathlete with a ranking of third in the ITU world triathlon series rankings, Hunt led 2XU's initial focus on triathlon. The business targeted other sports rather than running shoes. They realised that the product had potential.

All three 2XU founders brought their own skills, which Hunt says complemented each other.

While 2XU is based in Melbourne, Hunt and his co-founders were global in their ambitions from the outset. That focus has paid off, with export now making up 75 per cent of 2XU's business.

Ibisworld reports that as consumers have become more comfortable wearing sports attire in non-exercise settings, they are generally more willing to purchase high-quality sportswear they can wear around the house and while running errands.

(Source: Based on Cara Waters, '"Own that niche": How a former triathlete created $100m business 2XU', *The Age*, 2 April 2018.)

ANALYSIS

1 Explain the relationship between differentiation and market share.
2 Outline why businesses try to use differentiation as a means to grow their business.
3 Explain how Four Pillars Gin, Bird and Knoll and 2XU have been able to build successful businesses by differentiating their products.
4 Complete some research and investigate other businesses that have been successful in using a differentiation approach. (Examples that could be considered are Porsche and Chanel.)

Porter's Generic Strategies as an approach to strategic management

A vital question is how does a generic strategy assist in the transformation of a business? If a business is starting from scratch, an important consideration is whether the business will follow a low cost or a differentiation strategy to ensure success. Porter argues that a business has to follow one strategy or the other. It is more likely that a large business will be able to successfully develop a course of action, as it will have more power and influence than a small business.

SAC AND EXAM TIPS – linked to key skills

Porter's Generic Strategies approach argues that a business should use either a cost leadership or a differentiation strategy.

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Chapter summary

- Porter's Generic Strategies focus on low cost and differentiation. Both strategies allow a business to change to achieve a competitive advantage.
- Cost leadership centres on 'no frills' and pricing.
- Differentiation focuses on creating uniquely desirable goods and services.
- Businesses that use these approaches concentrate either on particular niche markets or put their effort into developing specific low-cost products.
- A business should only focus on one strategy.
- Different strategies suit different businesses.
- There are three steps to determine which generic strategy to focus on. These are:
  - SWOT analysis
  - five force analysis – supplier power, buyer power, competitive rivalry, threat of substitution and threat of new entry
  - comparing the outcomes of SWOT analysis and five force analysis.
- Cost leadership strategy is a course of action that allows a business to achieve a corporate edge by decreasing production or delivery costs, thereby increasing its profits.
- Differentiation is a strategy where a business selects one or more attributes that customers consider important and, by delivering a product to satisfy these, is able to charge a higher price.

Chapter summary tasks

1 Outline Porter's Generic Strategies of low cost and differentiation.
2 Explain why businesses need to decide whether they are going to pursue a cost leadership or a differentiation strategy.
3 Discuss why it is recommended that a business only focuses on one strategy.
4 Outline the steps used to determine which generic strategy a business should focus on.
5 Explain why a business could use the five force analysis.
6 Explain why competitive rivalry is an important area for a business to focus on.
7 Describe how a business can use a differentiation strategy to increase market share.
8 Explain how a business can use a cost leadership strategy to increase sales.
9 Identify two examples of a business that uses differentiation as a strategy.

Examination preparation

1 **Compare** the concepts of cost leadership and differentiation approaches as a way to increase market share. **(4 marks)**
2 **Discuss** how Porter's Generic Strategies can be used to support the transformation of a business. **(6 marks)**



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Part 2
Area of Study 2
IMPLEMENTING CHANGE

VIDEO SUPPORT
Assessment advice for this Area of Study is available in the Interactive Textbook

Outcome 2

On completion of this unit the student 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.

To achieve this outcome the student will draw on key knowledge (listed at the start of each chapter) and key skills outlined in Area of Study 2.

Key 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: VCAA, *VCE Business Management Study Design 2017–2021*, p. 22.)

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Chapter 13
Leadership and strategies to respond to KPIs

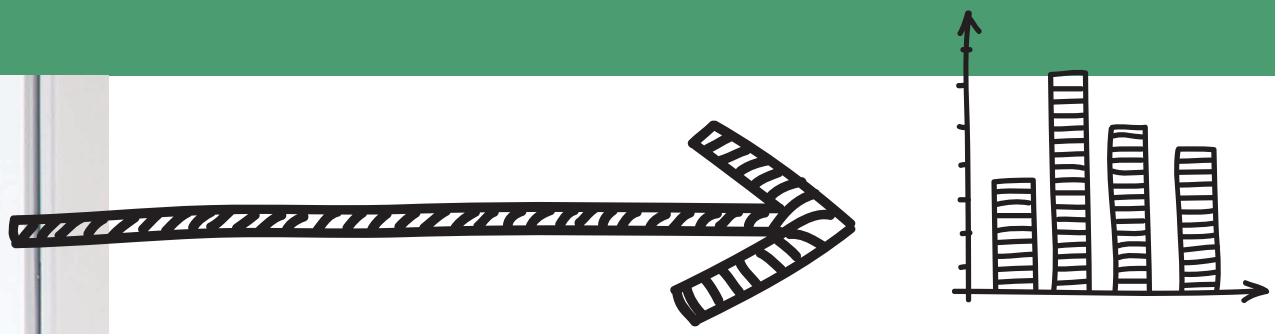
Overview

You will learn about the importance of leadership and how change is managed in businesses. You will also learn about the main management strategies that can be used in response to key performance indicators (KPIs) and other information and data gathered by a business. The main strategies covered will focus on training and motivating staff, adapting and changing the management styles and management skills used in a business.

The chapter will also examine how to harness and invest in new technologies that will assist the business in changing, how to optimise and further improve operations by focusing on quality, cost cutting, lean production techniques, and how to redeploy resources, including raw materials and labour, within the business. Strategies will differ for each business, as each faces a unique set of challenges, and this will be reflected in the KPIs for that entity.

All businesses, regardless of their size, need to continually look at ways to further develop and expand. Businesses will seek opportunities in a range of ways, such as moving into global and domestic markets, and developing new and emerging markets that have not been explored. They will also allocate resources and energy, such as time, to researching and developing new ideas, and either cultivating or taking advantage of new technologies.

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Key terms

- lean production
- redeployment of resources
- redeployment of staff
- strategies

Key knowledge

You will examine the importance of leadership during changes, and how management can implement strategies to respond to changes in data such as key performance indicators. You will learn about:

- the importance of leadership in change management
- management strategies to respond to key performance indicators, including staff training, staff motivation, change in management styles or management skills, increased investment in technology, improving quality in production, cost cutting, initiating lean production techniques and redeployment of resources (natural, labour and capital).

What's ahead

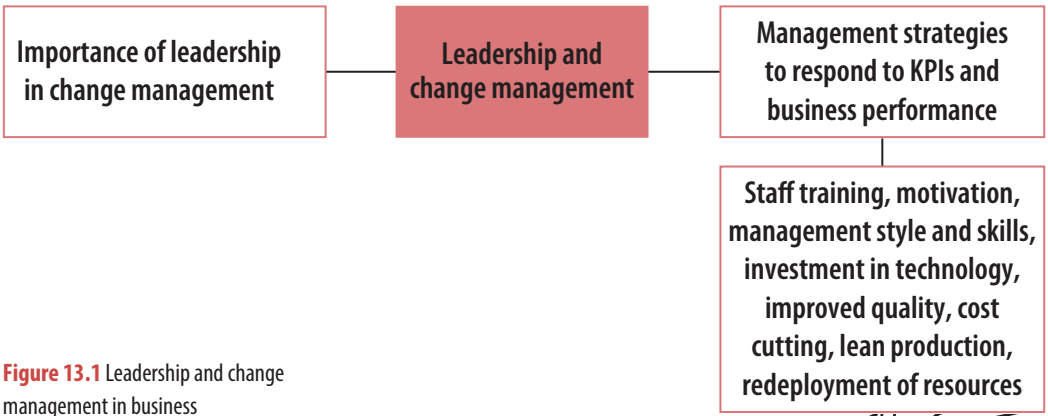


Figure 13.1 Leadership and change management in business



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13.1 The importance of leadership in change management

Managers and leaders play a vital role in the successful implementation of change and transformation in a business. Leadership is important when managing a business through periods of change, decline or growth.

In the current period of great change and uncertainty for businesses, the role of the leader is of utmost importance, and leaders at all levels of a business play a vital part in the change process. In the more 'traditional' approaches to change management, the role of the leader was often overlooked. Senior management simply announced a change when employees had already concluded that something was going on. Often the focus and the mindset of the managers was on the long term rather than on how change could be introduced in the short to medium term, and there was little consultation, evaluation or review.

strategies methods and plans that are implemented to develop and grow a business and to meet business objectives

If leaders do not have the skills to articulate strategy or **strategies**, implement changes effectively and keep all stakeholders, including employees, informed about decisions impacting on them, the introduction of a change can lead to a situation where employees and even middle and front-line managers become cynical and begin to resist the change.

For change to be successfully implemented and sustained, leaders need to focus on building relationships with employees, management, shareholders and external stakeholders. By cultivating teamwork, coaching and mentoring, encouraging diversity, developing talent within the organisation and having open communication, business transformation is more likely to be successful.

Figure 13.2 Business leaders need to communicate changes to their employees.



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Small and medium businesses might find the change process even more difficult. If change needs to occur quickly and is far reaching, this may cause stress for employees who may already be carrying out a range of different tasks and duties. When change occurs in a small business, the owner/manager needs to try to ensure all changes are planned and implemented and may have to do this by themselves. This can be problematic, as change needs to take place while the business is still operating. There may not be an opportunity to change in stages or to review effectively as the changes take place. A small business might have to respond quickly to a change that has been thrust upon it, because it may have little influence over something that has occurred in the industry it is involved in.



Figure 13.3 Small businesses must ensure that change is well organised.

ACTIVITY 13.1

Part 1

Read the quotes in the table below and choose four to reflect on. Describe what you believe the statements mean in relation to leadership.

Table 13.1 Some quotes on leadership from notable individuals

Quote	Author
Change will not come if we wait for some other person or some other time. We are the ones we've been waiting for. We are the change that we seek.	Barack Obama
People don't resist change. They resist being changed!	Peter Senge
The world hates change, yet it is the only thing that has brought progress.	Charles Kettering
The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday's logic.	Peter Drucker
There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.	Niccolo Machiavelli
The rate of change is not going to slow down anytime soon. If anything, competition in most industries will probably speed up even more in the next few decades.	John P Kotter
Change is the law of life and those who look only to the past or present are certain to miss the future.	John F Kennedy

CONTINUED ITEM

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Our dilemma is that we hate change and love it at the same time. What we really want is for things to remain the same but get better.	Sydney J Harris
Your success in life isn't based on your ability to simply change. It is based on your ability to change faster than your competition, customers and business.	Mark Sanborn
Change is hard because people overestimate the value of what they have and underestimate the value of what they may gain by giving that up.	James Belasco and Ralph Stayer
If you always do what you've always done, you'll always get what you've always got.	Anonymous
Only the wisest and stupidest of men never change.	Confucius
If you want to make enemies, try to change something.	Woodrow Wilson
When a mature and able manager feels bored, he should seriously consider changing jobs, changing companies – or simply retiring. It is not fair to anyone for half a leader to hold a full-time leadership job.	James L Hayes
Everybody has accepted by now that change is unavoidable. But that still implies that change is like death and taxes – it should be postponed as long as possible and no change would be vastly preferable. But in a period of upheaval, such as the one we are living in, change is the norm.	Peter Drucker
Every generation needs a new revolution.	Thomas Jefferson
I'll go anywhere as long as it's forward.	David Livingstone

Part 2

Read the extracts from communications of the new CEO of Davidsons, a major retail group, and answer the questions that follow.

Extract: Staff newsletter

New to Davidsons!
CEO Lydia Shaw is pleased to announce a restructure of the retailing divisions. From next January, all staff will be involved in a new customer training program called 'Serve Right'. Training will take place after hours and all employees will be tested at the end of the program. Any employees who do not complete the program are not guaranteed a position. Further details will be posted on the staff noticeboard.

Extract: Minutes from a senior management meeting

It is noted in the minutes that Ms Shaw has introduced a new training program for all staff. In addition to the 'Serve Right' program, all team leaders and senior managers will be required to complete two further courses, which will assist in managing the new program.

Extract: Media release

The customer is our business!
Davidsons is pleased to announce a new focus on quality and customer service. All employees will complete a new course to develop customer service skills. 'Our customers have always been our number one priority,' stated Lydia Shaw, CEO, 'we are simply making this a formal policy. It is an exciting phase in the business's move to become a world-class retailer'.

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Extract: Note to the Retail and Distributive Workers Union, from Ms Shaw

There may be some reduction in staff numbers due to the new program. Retrenchments will begin immediately. Any staff who do not satisfactorily complete the new 'Serve Right' program will no longer be required.

1 Describe how the change has been introduced into the business.
2 Explain how Lydia Shaw, the CEO, has implemented the change into the business.
3 Predict whether the change is likely to be successful, providing reasons for your response.
4 'Leaders play a significant role in the introduction and implementation of any change.' Discuss this statement.



Figure 13.4 Changes to leadership and management in major companies are newsworthy events.



CASE STUDY
13.1

The role of leadership in implementing change: Coca-Cola

The Coca-Cola company was founded in the late 1800s and is now valued at more than US$180 billion. The business has continued to change over time. In the 1980s, for example, Pepsi targeted the soft drink market and tried to take away market share from Coca-Cola. A number of changes were made to the Coke formula before a return to the original formula. Coca-Cola has continually tried to adapt in response to customer preferences.

Coca-Cola has expanded its business and sells more than sweetened beverages. It now sells more than 500 brands to customers in over 200 countries. Some if its brands (e.g. DASANI, vitaminwater and Evian) are considered healthy drinks.

ANALYSIS

1 Describe the role of leadership in the change management process.
2 Explain why it is important for a business such as Coca-Cola to ensure it changes as its customers' preferences and its competitors change.

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13.2 Management strategies to respond to KPIs and other business trends and data

The need to review KPIs

Managers and owners of businesses need to examine and determine which KPIs need to be tracked and reviewed to allow the business to make sound decisions. In practice, a business or manager might decide which KPIs are the most important to closely monitor. If a small business, for example, wishes to track and review sales, it may need to examine:

- which categories or products (or services) are selling well
- which products have the best profit margins
- the performance of sales staff or sales teams.

A wide range of KPIs need to be examined and monitored. A small business owner/manager may find it more difficult, as sometimes KPIs and particularly financial data may not be available until tax returns and reports have been completed by the business's accountant. (See Chapter 10 for further information on specific KPIs.)

If a business monitors and tracks performance over a number of years, this allows the business to establish useful trends and patterns that can be followed and reviewed, and also provides the business with a solid foundation to make any necessary changes and adjustments in the future. A manager or business owner needs to take the following considerations into account when establishing data and looking for trends:

- Determine what performance data or KPIs are going to be analysed and compared over time.
- Apply a threshold – at what stage is a variation in a KPI over time worth noting? This might include setting a target; for example, if market share increases or decreases by more than 10% then it would be investigated.
- Investigate the variation and try to determine the reasons for it – this helps to plan for the future.

Businesses can also use a management information system to make sure any analysis of KPIs is meaningful. This might involve a system of record keeping and processes in place to record information accurately. Where relevant, the gathered information should be shared with other members of the team or employees.

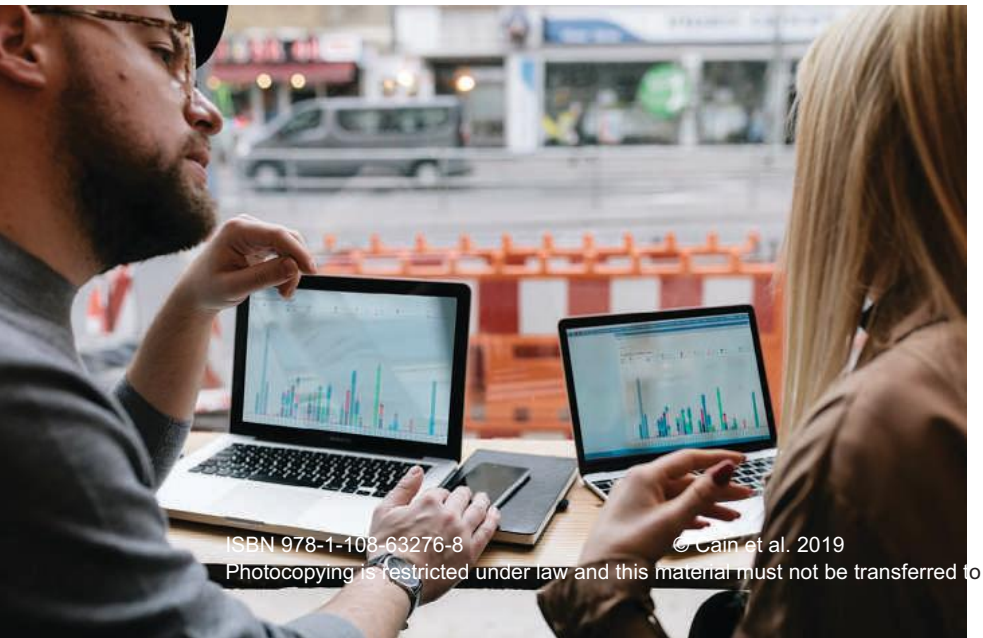


Figure 13.5 Good record keeping and data analysis are important for tracking KPIs.

The analysis of KPIs and other data can be carried out in a number of ways, including completing financial calculations, looking at ratios, creating tables and graphs of information. For example, if staff absenteeism is seen to be reducing over one year, this is usually seen as a good sign for a business and the reasons can be analysed. If other

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KPIs are also examined (for example, staff turnover, which has increased), it may be that one or two employees have left and this has had an impact on staff absenteeism generally. It may not necessarily be a positive outcome.

In order to implement change successfully, management must develop a number of different strategies to respond to data, business trends and KPIs. If management is not able to react to the data and information it has gathered, it is likely that the business will not succeed in the long term. By understanding, responding to and even pre-empting data changes, businesses will be able to grow and improve over time. It is important for a business, regardless of its size, to make sure it is not left behind and has the information to allow it to plan as far ahead as possible.



CASE STUDY
13.2

Management strategies to respond to KPIs, trends and data: Carman's Muesli and the need to review KPIs

In the early 1990s, Carman's was a small homemade muesli operation in Malvern, selling to local shops and cafes. Now it's a business with a turnover of more than $100 million a year, responsible for about 255 jobs; 35 at head office at Cheltenham, the rest indirectly through outsourced manufacturing. The brand has a 17.5 per cent share of Australia's snack bar market, second behind Nestlé, according to IRI MarketEdge supermarket data, and 4.4 per cent of the breakfast cereal market, a share that retail expert Stephen Kulmar says will grow as more people switch to porridge in the mornings.

Carolyn Creswell had a part-time job helping make muesli once a week while she studied history and sociology at Monash University. When the owners decided to sell the business, she purchased it for $1000 when she was 18. She has been the sole owner for the past 20 years.

She has decided to expand into China where there is a growing demand for imported foods and premium brands and she sees it as an exciting opportunity.

Carman's already exports to 32 countries, but cracking China would propel it into the big league. She is confident it will reach the shelves in China shortly.

The opportunity in China is great, but so are the risks. Changes to government regulations and changing consumer behaviour make it a difficult market to break into. The business

CONTINUED ITEM

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Figure 13.6 Some businesses are looking at ways to expand into the lucrative Chinese market.

has spent a large amount of money and over 12 months preparing for the move.

The launch range, including nut bars, protein bars, oat slices, muesli and clusters, with a focus on berries, will be sold in 536 stores within six months. Creswell and her team will hire local staff, visit stockists and research other businesses.

Hong Kong-based business consultant Geoff Raby, an economist and former Australian ambassador to China, says the 'clean, green' reputation of Australian food has huge appeal for the increasingly cashed-up Chinese, but the great risk is the bureaucracy changing the rules. 'Regulation can change overnight, without any industry consultation,' he says. 'If there's an area that seems unregulated, or lightly regulated, it probably means that it's soon to be regulated.'

(Source: Based on Caitlin Fitzsimmons, 'Muesli queen Carolyn Creswell is taking Carman's to China', *The Age*, 3 August 2017.)

ANALYSIS

1 Outline why businesses continually look at ways to expand or diversify their business.
2 Carman's has spent time researching and looking at ways to expand the business. Discuss why a successful business would take such a risk.
3 Explain why a business needs to look at trends and data before making major decisions.

A number of KPIs may provide a business with information about its employees and other aspects of the business. All KPIs will relate to areas within the business and, while some will focus on a particular area or department, indicators are often interrelated and one or two management strategies may impact on a range of areas. Strategies will be explained under a number of headings:

- Staff training and development
- Staff motivation
- Management styles and management skills
- Increased investment in technology
- Improving quality in production
- How businesses can cut costs
- Introduction of lean production techniques
- Redeployment of resources.

Staff training and development

Staff are extremely important for the success or otherwise of a business. If managers or owners examine employee-based KPIs, such as the level of staff turnover, the number of staff training days, the number of workplace accidents, the number of staff complaints about bullying or

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grievances, and the number of industrial disputes, these would all give an indication of how satisfied employees are. Managers could combine this information with the results of a staff satisfaction survey and KPIs on productivity and rate of productivity growth to formulate business strategies.

If the level of staff turnover is higher than the average for a particular industry or increases over time, this may be an indication that staff are not happy. If staff absenteeism is high or has increased, it may also indicate that staff may not be enjoying work and are not committed to the success of the business.

If staff are content and happy with working conditions and the workplace, then they are an asset to the business. This would be reflected in the KPIs and an astute business will work on ensuring this continues. Some businesses are recognised as 'Employers of Choice', which gives an indication of employee satisfaction. Such businesses are able to attract and retain their qualified and experienced staff.

In order to ensure staff are working productively, management need to develop a range of strategies. These can include:

- revisiting job descriptions and job specifications to ensure that the jobs are interesting and fulfil the needs of the business and the staff
- ensuring all employees have access to training and development so that they can contribute and also develop career paths for staff
- completing staff surveys to ensure they understand the needs of staff and respond to any concerns
- completing regular performance reviews and appraisals to identify any training needs and individual requirements
- completing exit interviews with employees who are leaving the business to see if there are any trends or common concerns that are causing staff to leave
- ensuring employee relations within the business are cordial and that there is a process to deal with complaints and grievances
- developing policies that ensure employees are treated equally and that any concerns and complaints about harassment and bullying are dealt with quickly and effectively.

Focusing on staff (employee) training and, more importantly, development of skills and talents for the future will ensure managers and a business have the best possible person in a position. Businesses that focus on ensuring that their staff are trained and skilled will often find that KPIs on staff turnover, absenteeism and productivity will be positive and the level of staff satisfaction highlighted through surveys will be high. If data indicates that there are concerns with the skill level of staff, then managers must look at ways to improve the type and amount of training provided.



Figure 13.7 Training and development are important for all employees.

Employees not only need to gain technical skills for their current jobs and workplace, but also need to have the opportunity to be innovative and help the business to look for new and better ways of doing things into the future. Google and Virgin, for example, encourage their staff to be innovative and take risks, ensuring that their businesses continually refine and improve their products and services.

A major benefit of training is that it also provides a formalised method to improve the knowledge and skill base of employees. It provides skill

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development and support beyond the current job of the employee. It also allows a business to address any weaknesses that may stop employees and the business from improving its performance. A training and development program also means that employees doing similar jobs can receive the same training to ensure that practices and processes are consistent. Employees who have undertaken training may also feel more confident, which means that they can perform their jobs more effectively.

Training is the process of providing staff with the knowledge or skills required to do a particular job. It can include a range of different activities such as on-the-job training to learn a new software package or how to maintain a new piece of equipment. Development usually refers to preparing employees, perhaps at management level, for longer-term careers and advancement opportunities. Development usually has a more general focus and may be targeted at a more generic skills set that managers and team leaders may need. For example, development could focus on improving communication skills. It can include coaching and mentoring within the workplace, on-the-job training or short courses undertaken at work through to university and TAFE courses in management and leadership (see Chapter 5 for further information).

Staff or employees who feel that they have access to training and development will also be more likely to be motivated and contribute positively to the business. Businesses are able to increase the efficiency of their employees by providing them with skills training and on-the-job experience. Higher efficiency will assist the business to achieve its KPIs in a range of areas such as productivity and quality of service and products, and will improve staff motivation.

Many businesses recognise and understand the importance of training and development as a means to keep and upskill high-performing employees. At Rebel Sport, employees are encouraged to participate in various certificate courses such as Certificate III in Retail and Certificate IV in Retail Management. The Reject Shop offers leadership development programs for all levels across its business, including the Retail Leaders Development Program (RLDP), which provides support for staff wanting to move into a management role. The company also offers an induction program and a Certificate II in Transport and Distribution Warehousing. Flight Centre offers university graduates a leadership program that covers retail sales, leadership and business management and the business retail model as well as a Certificate III in Tourism.

Figure 13.8 The Reject Shop offers leadership development programs to its employees.



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ACTIVITY 13.2

Career and workplace learning programs

Workplace learning and development programs empower people to gain new skills and grow professionally. Employees are more likely to be engaged at work when companies offer learning and development opportunities. There are many ways to make learning and development programs successful.

Examples of successful businesses include:

- Pixar: Pixar University offers training and optional classes for different disciplines. Pixar President Ed Catmull says, 'Pixar University helps reinforce the mind-set that we're all learning and it's fun to learn together'.
- Airbnb: Fireside Chats are one way that Airbnb shows its dedication to learning. These internal events bring in industry leaders who share their insights on a certain topic.
- Etsy: People are empowered to learn from others at all different levels within the company. At 'Etsy School', employees both teach and learn in classes on a wide range of topics such as tap dancing or how to navigate a difficult conversation. The Etsy Learning and Development team helps people find a focus for their career development.
- Allianz: Allianz provides a range of opportunities for staff to increase their skills and capabilities. Lunchtime career sessions, mentoring and coaching, study assistance and training and leadership programs are available for staff.

1 Distinguish between training and development.
2 Explain why a business should focus on training employees.
3 Discuss why the businesses described above place an emphasis on training and career development.
4 Ask members of your class or your teacher to investigate what type of training they have completed.

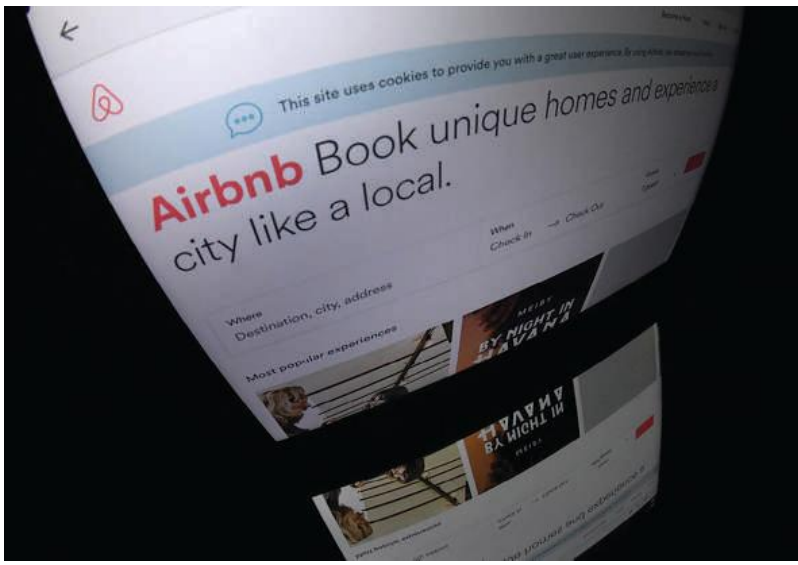


Figure 13.9 Development is an important process for employees to progress in their careers, and companies like Airbnb are dedicated to helping their employees develop.

Staff motivation

Staff who are happy at work and are motivated to complete their tasks contribute in a positive way. A business can look at KPIs such as the rate of productivity growth and productivity levels, the level of staff absenteeism and staff turnover, which often give an indication of the levels of staff motivation. Regular surveys that focus on motivation and how employees are feeling in regard to the business, their job and their workplace will also give some indication of how motivated employees are. Managers should take such surveys seriously, as the results provide information and data that can be used to bring in changes to improve or sustain staff motivation. Many of the Employers of Choice are those businesses that value and support their staff in a range of ways. The Australian Business Award for Employer of Choice recognises organisations that have developed leading workplaces that maximise the full potential of their workforce through practices that demonstrate effective recruitment, engagement and retention.

Employer of Choice award winners include Mantra and Xref.

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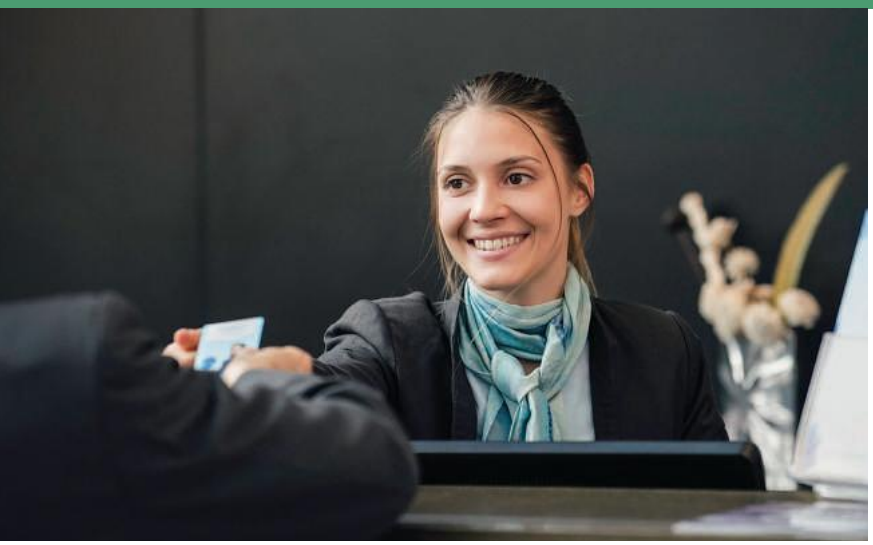


Figure 13.10 Mantra Hotels has high levels of employee satisfaction.

Mantra (large business)

Mantra completes regular staff surveys and has an employee engagement score of 86% and a lower-than-industry staff turnover. Team members have advised that their fellow colleagues are what they value the most about their company.

In a recent team member survey, Mantra team members summed up Mantra's corporate culture perfectly in three words – fun, friendly and challenging. Mantra believes its core values and philosophy are key attributes of its success.

Xref (business with 1 to 99 employees)

Xref is an online, fully automated employment reference checking software that helps companies collect more meaningful candidate insights, faster than phone-based methods.

The business recognises all employees as individuals. The business looks at ways to understand the personal preferences of each staff member.

The culture is seen as open, honest, hard-working and fun with a team of 50 very like-minded individuals who each want to work hard but enjoy the satisfaction that comes from making clients happy, as well as the reward of helping to grow the business. The business operates across five countries in three continents but, in terms of the level of communication and support, the employees are all close to each other.

ACTIVITY 13.3

1 Go to the Australian Business Awards website and check the list of the latest Employer of Choice award winners. Choose two businesses and outline what they do for staff.
2 Assess the impact on staff motivation when businesses introduce the types of programs and conditions outlined.

Keeping staff motivated will ensure that they attend work and that productivity levels are high (see Chapter 4 for further information). Strategies to keep staff or employees positive or to improve motivation levels could include:

- Employee recognition and rewards. This can include financial rewards such as commission or a bonus, or some kind of gift or a trip, movie tickets and so on. Recognition can also be non-financial and can include public and private recognition of the work completed by an employee or provision of awards such as 'Employee of the Month', which recognises the work of staff.
- A formal and systematic performance management or appraisal system. Any program that provides an opportunity for staff to set goals and reflect on their performance will usually allow staff to recognise what they have achieved and what support they need to improve, and can be powerful. Sharing this with managers, other employees who they work with or their team leader is even more influential, as it provides public acknowledgement of the work completed and an opportunity for an employee to set goals and targets.

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- Policies to support a safe workplace will also assist in keeping employees motivated. Policies and processes should be in place and actively pursued in a range of areas such as occupational health and safety, equal opportunity, anti-discrimination and anti-bullying.
- Managers in a business should examine the job descriptions, tasks and skills required for the role. Sometimes staff can feel underappreciated and bored if jobs do not offer a chance to learn new skills or experience some variety. A more skilled workforce also provides the business with employees who could take on different roles and tasks when required.



Figure 13.11 Motivating staff can lead to outstanding performance in business.

Management styles and management skills

There are a number of different aspects to management, and some of these can be reflected in the management styles and skills used by managers (see Chapter 3 for further information on management styles and skills).

The management style used by leaders can have an influence on the performance of a business. In most contemporary businesses, there is an expectation that employees will be involved in decision-making and two-way communication will take place. Therefore, most businesses tend to use a participative or consultative management style in most instances. In those circumstances where there is a deadline, a serious incident or an inexperienced workforce, managers might use an autocratic or persuasive style. The style a manager should adopt depends on the situation and the context of the business. It is important for managers to understand the situation and then to make a conscious decision about the most suitable style to use.

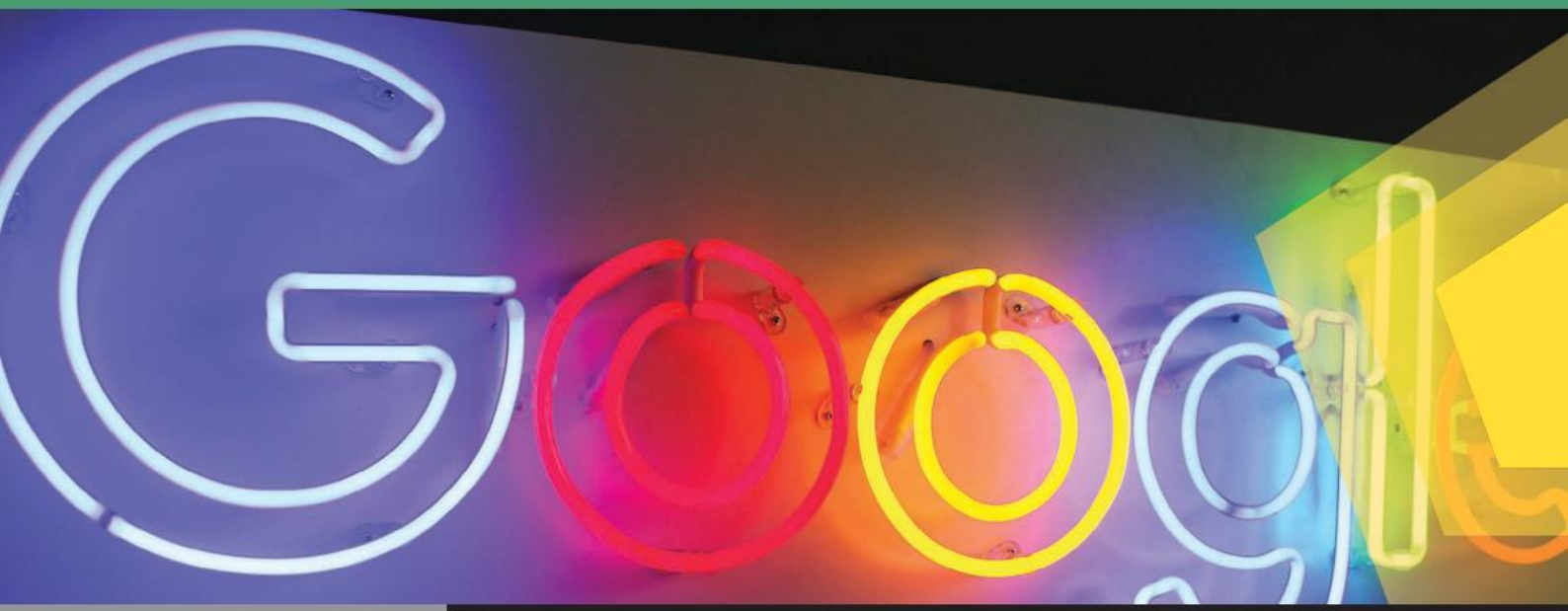
There is a difference between leading and managing. 'Managers do things right. Leaders do the right things.' Many people take on both roles in a business. As a leader, a manager must be able to be a change agent to ensure that change is successfully implemented and must have a range of management skills to do so. Managers need to be aware of the employees they are managing in the change process. This may mean having to manage employees across a range of ages and generations. Using participative and consultative management styles may assist managers in gaining information from others and ensure employees are clear about the issues and data. If the manager is faced with an urgent matter requiring a decision to be made quickly, the manager may change their management style and use a persuasive or autocratic style.

Managers also need to use a range of different management skills in response to trends in KPIs and survey data. If KPIs indicate issues with profit, sales or market share, then the skills required by the manager include increased communication with a range of stakeholders and departments, decision-making so that the business can ensure sales and profits are increasing, and interpersonal skills to ensure all staff understand the requirements.

Trends in KPI and survey data may also highlight the need for the manager to improve their skills in order for the business to improve performance. KPIs such as staff absenteeism, staff turnover and productivity are impacted on by a range of issues; however, the way managers work with and treat employees might be one factor.

In most contemporary workplaces, staff want to be involved in decision-making and expect to be able to communicate freely with managers. Managers are expected to communicate with staff both individually and in groups, delegate tasks, have high levels of emotional intelligence and be able to mentor and coach subordinates.

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CASE STUDY
13.3

Management strategies to respond to KPIs, trends and data: management style and the workplace culture of Google

Google has grown a lot since it opened in 1998, but still maintains a small company feel.

At lunchtime, almost everyone eats in the office café, sitting at whatever table has an opening and enjoying conversations with Googlers from different teams. There is a commitment to innovation which depends on everyone being comfortable sharing ideas and opinions. Every employee is a hands-on contributor. All employees are encouraged to pose questions directly to the managers.

The business is aggressive in its hiring and favours ability over experience and the business reflects cultural diversity and its global audience.

The corporate headquarters and workspaces include:

- Local expressions of each location, from a mural in Buenos Aires to ski gondolas in Zurich, showcasing each office's region and personality.
- Bicycles or scooters for efficient travel between meetings; dogs; lava lamps; massage chairs; large inflatable balls.
- Googlers sharing cubes, yurts and huddle rooms – and very few solo offices.
- Laptops everywhere – standard issue for mobile coding, email on the go and note-taking.
- Foosball, pool tables, volleyball courts, assorted video games, pianos, ping pong tables, and gyms that offer yoga and dance classes.
- Employee groups for all interests, like meditation, film, wine tasting and salsa dancing.
- Healthy lunches and dinners for all staff at a variety of cafés.
- Break rooms packed with a variety of snacks and drinks to keep Googlers going.

(Source: Based on information on Google website.)

ANALYSIS

1 Outline why Google has established the style it has.
2 Discuss what other businesses can learn from Google.
3 Describe how the management style used can influence the performance of a business.
4 Explain why Google has been successful in developing a positive corporate culture.

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Increased investment in technology

Technology is a major driver of change in any business. KPIs such as the level of wastage, number of accidents and rates of productivity growth can all be impacted on by the technology used. If a business is in an industry that has hazardous or physical work, then technology may mean that some of these jobs and processes may be completed by a machine instead of a human, thus improving employee safety. The level of waste may also be reduced if management can introduce strategies such as the use of machinery, cutting lists and materials schedules, and computer-aided design (CAD) to assist in the operations process. Reduction in wastage of materials can reduce costs and increase productivity.

Technology may also assist in the sales areas. The use of online shopping and websites in retail businesses, for example, may be assisted by technology and can lead to increased market share and sales. Many businesses allocate resources to develop technology to assist in the success of a business.

The internet and technology have provided a range of opportunities for businesses to develop and change. KPIs such as sales and market share may indicate that a business should change the focus or product make-up due to changes in technology. Australia Post, for example, has had to make changes in response to data and trends around the decline in mail deliveries and the rise of online shopping. This trend has had a significant impact on many areas of the business.

Businesses use technology in all aspects of their activities, including record keeping, file management, production processes, communication processes and reaching customers. If businesses don't keep up to date with technology and continually upgrade and streamline their operations, they will lose a competitive advantage. While upgrading technology continually can be a cost to a business, most do not have any other option.

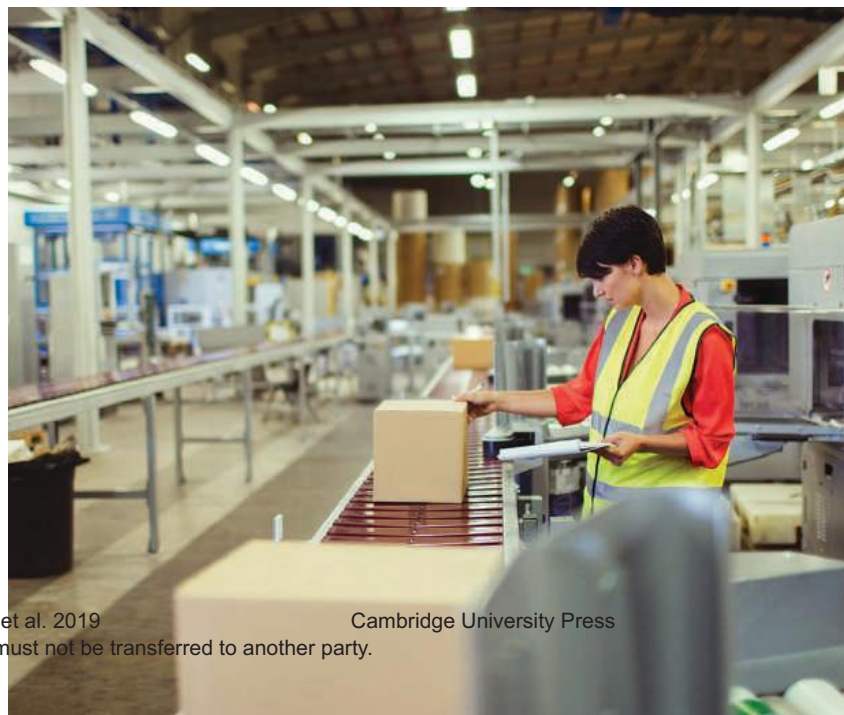
There are a number of benefits for a business that chooses to implement technology, including:

- improvements in communication speed and reach
- small businesses can compete with larger ones, as they have the same access to technology and can quickly respond
- ability to store and share information quickly using fewer resources
- e-learning and other online resources can enable employees to access training
- automation means that some repetitive and dangerous tasks and jobs have been made redundant.



Figure 13.12 Technology can allow staff to work together productively.

Figure 13.13 Technology can improve productivity and efficiency and can allow staff to work together productively.



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CASE STUDY 13.4

Management strategies to respond to KPIs, trends and data: investment in technology

FIVE POWERFUL USES OF TECHNOLOGY IN BUSINESS TODAY

The use of technology in business today helps to create less costly, environment and customer friendly solutions. Digital marketing, cloud computing, machine learning, robots, internet, blockchain and artificial intelligence all are part of this.

1 Instant problem-solving solutions

Technology is playing an important role, as it allows businesses to study problems and possible solutions through data analysis and business intelligence applications. The speed and complexity of the data that can be analysed allow businesses to make accurate predictions and seek out possible alternatives. Problems can also be overcome through the use of artificial intelligence integrated applications.

2 Easiest and fastest methods to connect with the customers

Once marketing was challenging for small businesses and could be costly. However, the use of internet applications, website builders, CMS, e-commerce stores, social media websites and search engine optimisation provides new platforms and features for small business owners, start-ups and entrepreneurs.

The use of technology has created new ways to communicate with clients. AI chatbots, CRM tools, forums, social media pages, videoconferencing and calls are making the life of business owners easier than in the past.

3 Improving the quality of living standards of humans

Technology assists a business to create and produce top-quality goods and services to the public. Technology and robotics allow dangerous and difficult tasks to be performed safely.

4 Creating a virtual world

Technology allows a business to create more virtual sources for deployment and storage, reducing the stress and cost of running a business. Businesses are integrating cloud computing for business to create, run business applications, store and access big data, pay based on

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usages, auto-scaling and automatic maintenance and management of hardware, servers, applications and up-to-date technology without installation of anything on physical location.

5 Online degree programs, online employee training and education programs

Innovation and investment in technology have allowed for the development of virtual classrooms, smart classes, videoconferencing, data visualisations, online training and degree programs.

(Source: Based on Vijay Sharma, '5 powerful uses of technology in business today', Klient Solutech website, 25 December 2017.)



Figure 13.14 Technology is used in all aspects of businesses.



Figure 13.15 Businesses are using apps to innovate how they reach and interact with customers.

ANALYSIS

1 Outline the main advantages of using information technology in a business.
2 Describe how information technology allows a small business to compete with larger businesses.
3 Identify at least one app that a business has set up.
4 Visit the website of either Domino's Pizza or Groove Train. Identify how the business is using technology to interact with its customers.

Improving quality in production

Businesses care about quality because quality can be clearly linked to profit and business success. There are numerous examples of businesses that had good ideas or inventions but failed due to lack of actual or perceived quality. On the other hand, there are also many examples of businesses applying quality improvement strategies to achieve cost savings.

Improving quality in production has a number of potential benefits for a business, including:

- reducing cost of wasted resources in terms of materials used and time spent
- improving productivity by increasing the rate of production efficiency in resource use
- eliminating or reducing the number of faulty products

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- reducing inspection and testing time for finished products
- reducing the level of inventory maintained by the business – both raw materials and finished goods
- producing higher quality products, which may command higher prices because of the perceived quality and reliability.

Quality can be managed on a number of levels (see Chapter 8 on optimising operations) and should be a high priority for any business. In order to maintain or improve the quality of its products, a business needs to monitor its KPIs and other relevant data such as level of wastage, rate of productivity growth and the number of customer complaints. Quality of product and service are vital to the success and sustainability of a business regardless of its size.

Strategies to improve quality in production could include practices such as:

- ensuring top management's commitment to quality and embedding quality in the goals and priorities of the business
- implementing quality control at all stages of production
- implementing quality assurance
- Total Quality Management throughout the whole business
- regular reviews of the production or operations process
- lean production techniques
- benchmarking against world's best practice and industry best practice
- standardising components used in production, thereby reducing inventory
- use of common production techniques and processes to reduce re-tooling time and effort and simplifying production schedules, thereby reducing possibility of errors and rejects
- use of standardised processes allowing employees to increase their familiarity and experience and enabling them to produce consistent quality, also reducing level of wastage and rejects
- training managers and employees in quality principles.

A business can use KPIs to build on quality systems and continue to improve. There are a number of ways to improve quality, including:

- using the appropriate KPIs to measure the production or delivery of a service
- focusing on the processes used in the business
- scheduling regular meetings to discuss any issues that may have occurred to ensure they are dealt with quickly. Over time, this should ensure that processes and systems are strengthened.
- focusing on the product or service to ensure that the quality is the best possible
- making sure that all teams involved in the processes are aware of the performance data and that their input is sought regarding suggestions and improvements.

Quality example – Bamstone

Bamstone is an Australian, family-owned and operated business.

With a reputation for superior customer service and the production of highest quality natural stone products, we have been paving Australia and the world in Bamstone Bluestone for more than four decades.

Today, we are Australia's largest stone processing facility.

Bamstone supplies natural Australian Bluestone products to commercial and domestic markets in the form of paving, capping, cladding, pool edging, cobble stones, kerbing and channelling in Australia and overseas.

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We also produce unique artisan-created stone furniture – no two pieces are alike!

Beyond this, we restore and reproduce a myriad of other bluestone products and features to order and we also process Australian granites.

Our premium quality Australian Bluestone is quarried and sourced from a volcanic flow that runs from inland Mount Rouse at Penshurst to the sea at Port Fairy in south-western Victoria.

The local Bluestone has withstood the elements and the constant motion of the Southern Ocean washing against the shores here for thousands of years – proof that Port Fairy Bluestone is the highest quality in the world.

Our Australian Bluestone stands the test of time. Past. Present. Future.

Some of Bamstone's recent projects and innovations include:

- Approximately 40% of Bamstone's factory will now be supplied by green energy after recent instalment of over 100 kilowatts of solar panels on the factory's roof space. The installation is just one aspect of the company's three-stage green energy program commitment.
- Bamstone is delighted to have supplied our Australian Bluestone to yet another Gold Medal and Best in Show winning garden at the 2017 Melbourne International Flower and Garden Show! This win means we have had the privilege of working with a successful Best in Show winning team for four consecutive years!
- Bamstone has been selected as the core supplier of quality Bluestone paving for the Warrnambool City Centre Renewal project. The 15 million CBD renewal will take place throughout 2017 and 2018 in the commercial shopping district of Liebig Street. The end result will be a city centre that is vibrant and attractive, with more pedestrian and cycle-friendly areas.
- Bamstone's winning garden from the 2016 Melbourne International Garden Show appeared on the cover of *Outdoor Design & Living*, Issue 33.

(Source: Based on 'About', Bamstone website.)

Figure 13.16 Bamstone has received several awards for its high-quality designs.



Figure 13.17 Bamstone has an established reputation for excellence.



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CASE STUDY
13.5

Management strategies to respond to KPIs, trends and data: Bombardier Transportation and quality production

Bombardier is the world's leading manufacturer of both planes and trains, with 60 production and engineering sites in 27 countries. Throughout the world, the business employs 69 500 staff. It develops products for a range of industries, including aerospace, through designs and manufacturing. The business has a number of areas, including business aircraft, commercial aircraft, aerostructures and engineering and aircraft services and training. In addition, it manufactures rail vehicles, develops transportation systems and provides vehicle refurbishment and modernisation.

One of the business's engineers was named the young manufacturer of the year in Victoria by Business Victoria. Anne Koopmann started with Bombardier Transportation in Berlin, Germany, as a Global Graduate Trainee and moved to Australia in 2012 as a Methods Engineer. She is currently the Head of Quality and LEAN in Australia. Her achievements at the Dandenong plant include savings of over $2.4 million, production hour savings of 6000 hours on a key light rail project and successfully reducing manufacturing throughput time by 20% on rolling stock vehicles.



Figure 13.18 Trams are used all over the world.

ANALYSIS

1 Define the concept of quality in a business.
2 Explain why quality improvement is an important strategy for a business.
3 Discuss why organisations such as Business Victoria recognise excellent examples of manufacturing and quality in the state.

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Cost cutting

While many businesses look at ways to develop managers and employees, integrate technology and improve the quality of a product, they may also look at strategies to cut costs as a means to improve effectiveness and perhaps improve profit. Cutting costs is a quick way to respond to some KPIs.

A business can cut costs by:

- reducing, reviewing and cutting all non-essential costs. This may mean a full review of all of the costs of the business with the goal of trying to reduce or eliminate some expenses.
- controlling and monitoring cash flow in a business. It is important for all businesses to look at their cash flow to ensure that enough is flowing in and out of the business in a timely manner. This may mean that contracts are made with suppliers to gain as much time as possible to pay for materials, hence reducing the need for costly finance or bank overdrafts.
- exploring the possibility of incentives and discounts for early payment of invoices
- getting advice from an expert. If there is an issue with the service or production in a business, it may be necessary to hire an external consultant to look at the processes and service delivery in the business. There may be bottlenecks at certain times of the week, which can be planned for. If a business is in retail, for example, there may be key times when extra staff are needed. This can be controlled if rosters are completed with this in mind, while also reducing some of the expenses and costs involved in the process.
- selling assets to raise funds. It may be determined that some machinery is not required or could be leased rather than purchased; this will also assist a business in reducing costs.
- making employees redundant, or outsourcing some parts of the process to other businesses in Australia and overseas. Many businesses now source their parts and materials from suppliers who may be based in other countries. Others use services such as call centres that are based in lower-cost overseas locations.
- reducing energy costs by utilising renewable energy. This may be achieved by installing solar panels, or using other cheaper sources of renewable energy.
- using tank water to reduce water obtained from the mains supply of water companies.

If a business is able to monitor a range of KPIs such as wastage, productivity and the rate of productivity growth, profit and cash flow, then it can make informed decisions about where savings can be made. Often, in a business looking at cost cutting, reducing employees is one of the first strategies when expenses need to be reduced.

Figure 13.19 Businesses sometimes need to make drastic changes to cut costs.



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CASE STUDY 13.6

Management strategies to respond to KPIs, trends and data: cutting costs by planning before discounting

Discounts, loyalty offers and bulk buy pricing are common business practices, and can help a business:

- move stock
- attract new customers
- reach sales targets during a slow sales period.

It is important, however, that a business plans before it starts cutting prices to ensure that it is able to still make a profit. Before cutting prices in the hope of drumming up sales, a business should do some planning to make sure it will still make a profit for the extra orders coming in.

To effectively cut costs, a business needs to:

- know the current profit margin, mark-up and break-even point
- prepare a marketing plan to encourage new customers and bring other customers back
- find out what competitors are offering and their pricing
- review other options to promote sales without lowering prices
- decide how long the sales price will be offered.

Other ways to increase sales and reduce costs include offering a free wrapping or shipping service, which may encourage more sales, bundling products or offers or offering discounts for larger orders.

Discounting benefits can include:

- attracting new customers without a large marketing campaign – businesses can also take the opportunity to sign new customers up to their newsletter
- encouraging undecided customers to purchase goods – especially if the discount has a limited time offer
- clearing last season's stock – or out-dated models
- free advertising on sales websites
- new sales from inactive customers.

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Auldstone Cellars is a boutique winery in Taminick that markets many different wines. Owners Michael and Nancy Reid have learned what their top discounting methods are through customer research and analysing sales.

Their wine blend Kelly's Red is a separate label from their premium varieties and is made from the excess grapes of the harvest. Kelly's Red sells for $6 per bottle, compared to $25 per bottle for their premium reds.

Auldstone Cellars' loyalty club rewards good high-end customers for their patronage by offering 15–20% discounts. The larger the order, the greater the discount. Since discounting, 200 members of the loyalty club spend $300 per year on average.

Auldstone Cellars sells direct to retail outlets, offering discounts of 10% based on sales of two or more dozen bottles. It does impact on cash flow, with payment terms of 90 days common. Small specialised retail outlets are preferred to volume supermarkets.

The business's discounting works because it caters to its target market. For Auldstone Cellars:

- discounting is best used when it rewards customers for loyalty
- discount labels help move excess wine that would be deemed as lower quality without adversely affecting the price of its premium wines
- discounting to move volume using 'end of year' sales techniques does not work for a boutique winery.

(Source: Based on 'Discount strategies' and 'How to discount for business growth', Australian Government, Business website.)

ANALYSIS

1 Justify why a business would need to cut costs as a management strategy.
2 Describe three ways a business could cut costs.
3 Explain how a small business such as Auldstone Cellars uses price discounting as a way to attract customers and increase its business.

Introduction of lean production techniques

lean production a range of measures that aim to reduce costs, reduce waste and increase efficiency in production, such as minimising inventory and maximising flow

Many businesses will examine ways to introduce **lean production** techniques as a means to reduce costs, increase efficiencies and remain competitive and responsive to their customers and the market. KPIs such as market share, sales, profit and productivity all provide a business with data to allow it to look at different ways to be more competitive. One method to respond to KPIs and the business's situation is to implement lean production techniques, which are based on a number of considerations or ideas tailored to suit the needs of the business.

Lean production or lean management (see Chapter 8) is the term given to a range of measures traditionally used by Japanese businesses in an attempt to reduce waste and costs in production. Engineer Taiichi Ohno is credited with developing the principles of lean production after World War II. His philosophy, which focused on eliminating waste and empowering workers, reduced inventory and improved productivity. Instead of maintaining resources in anticipation of what might be required for future manufacturing, as Henry Ford did with his production line, the management team at Toyota built partnerships with suppliers. Under the direction of Engineer Ohno, Toyota automobiles became made-to-order. By maximising the use of multiskilled employees, the company was able to reduce the number of management levels

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and use resources in a flexible manner. Because the company was able to make changes quickly, it was often able to respond faster to market demands than its competitors.

Many industries, including software development, have adopted the principles of lean production. The 10 rules of lean production are:

1. Eliminate waste.
2. Minimise inventory.
3. Maximise flow.
4. Pull production from customer demand.
5. Meet customer requirements.
6. Do it right the first time.
7. Empower workers.
8. Design for rapid changeover.
9. Partner with suppliers.
10. Create a culture of continuous improvement (Kaizen).

There are a number of strategies a business can use when implementing lean production techniques. These are discussed below.



Figure 13.20 Being efficient with time will bring down costs for businesses.

Just In Time

The implementation of a Just In Time (JIT) inventory management system aims to minimise the production time, production costs and the amount of stock or inventory held. Materials and components arrive at a factory when they are required, so few materials and components are stored on the premises. Raw materials and stock are ordered as they are required, which saves time and money. This strategy relies on good transport and logistics systems being in place.

Cell production

This method of manufacturing an item organises workers into 'cells' within the factory, with each cell comprising several workers who possess different skills. Each cell is independent and will usually produce a complete item.

This method of production is often combined with the Just In Time approach. If this approach is used, it may lead to an improvement in job satisfaction and motivation, and multiskilled employees may contribute to improved productivity.



Figure 13.21 By combining positive traits in the workplace, businesses can flourish.

Benchmarking

Benchmarking involves measuring the performance of a business against a competitor in the same market or the whole industry. Benchmarking a business will give insights into how well each aspect of the business is performing, allowing managers to discover in which areas they need improvements, and help them develop plans and strategies towards achieving those improvements.

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Benchmarking is best used as a tool to help a business evaluate opportunities for improvement. There are many benefits of benchmarking, which include:

- identifying and prioritising specific areas of opportunity
- identifying strengths and weaknesses of the business
- setting goals and performance expectations
- monitoring performance and effectively managing change
- understanding the competitors of the business in order to become more competitive.

Time-based management

Time is a very valuable resource and time-based management is concerned with reducing the length of time taken to produce the product while also aiming to reduce the lead time (the time lag between the customer placing an order and the business delivering the product). This approach will work if there are a number of other conditions in place, such as flexible production runs and staff who can rotate through different tasks.

A business that can develop and launch more products in a shorter time than its competitors will benefit because it can become the market leader, is able to charge premium prices and will be able to build brand loyalty as it is known as the leader in that market.

Lean production techniques are used for manufacturing and service industries. The techniques can be applied to any kind of process, as they are a way of looking at data to try to improve processes. The objective and premise of using lean production techniques is to transform all aspects of how a business operates. Womack and Jones, founders of Lean Enterprise Institute, recommend that managers using lean production techniques should focus on three areas or issues:

- purpose
- process
- people.

Some lean production techniques and ideas

Table 13.2 Lean techniques or tools

Lean tool	What is it?	How does it help?
5S	Organise the work area: • Sort • Set in order • Shine (clean up) • Standardise • Sustain (apply standards)	Eliminates waste from a poorly organised work area
Andon	Visual feedback system for the plant floor that indicates production status	Acts as a real-time communication tool so problems can be identified and instantly addressed
Bottleneck analysis	Which parts of the process limit overall performance?	Improves the system by strengthening the weakest link
Continuous flow	Manufacturing where work-in-process smoothly flows through production with minimal (or no) barriers between steps of the manufacturing process	Eliminates many forms of waste

CONTINUED ITEM

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Heijunka (level scheduling)	A form of production scheduling that purposely manufactures in much smaller batches by sequencing (mixing) product variants within the same process	Reduces lead times (since each product or variant is manufactured more frequently) and inventory (since batches are smaller)
Hoshin Kanri (policy deployment)	Align the goals of the company (strategy), with the plans of middle management (tactics) and the work performed on the plant floor (action)	Ensures that progress towards strategic goals is consistent and thorough
Kaizen (continuous improvement)	A strategy where employees work together proactively to achieve regular, incremental improvements in the manufacturing process	Combines the collective talents of a company to continually eliminate waste from manufacturing processes
Kanban (pull system)	A method of regulating the flow of goods within the factory and with outside suppliers and customers Based on automatic replenishment through signal cards that indicate when more goods are needed	Eliminates waste from inventory and overproduction Can eliminate the need for physical inventories
Overall equipment effectiveness (OEE)	Framework for measuring productivity loss for a given manufacturing process Three categories of loss are tracked: • availability (e.g. downtime) • performance (e.g. slow cycles) • quality (e.g. rejects)	Provides a benchmark/baseline and a means to track progress in eliminating waste from a manufacturing process
PDCA (Plan, Do, Check, Act)	An iterative methodology for implementing improvements: • Plan (establish plan and expected results) • Do (implement plan) • Check (verify expected results achieved) • Act (review and assess; do it again)	Applies a scientific approach to making improvements: • Plan (develop a hypothesis) • Do (run experiment) • Check (evaluate results) • Act (refine your experiment; try again)
Six big losses	Six categories of productivity loss that are almost universally experienced in manufacturing: • breakdowns • setup/adjustments • small stops • reduced speed • start-up rejects • production rejects	Provides a framework for attacking the most common causes of waste in manufacturing
Value stream mapping	A tool used to visually map the flow of production Shows the current and future state of processes in a way that highlights opportunities for improvement	Exposes waste in the current processes and provides a roadmap for improvement through the future state

(Source: Based on 'Top 25 Lean Tools', Lean Production website.)

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Redeployment of resources

If a business has found that it has high levels of waste or other inefficiencies within its operations, it may look at changing or expanding the business through the **redeployment of resources**. If the business has inefficiencies in the way resources are allocated and used, this will be reflected in KPIs such as the level of waste and productivity levels, which can be tracked over time. Allocating resources such as natural resources and materials, labour and capital can make a difference to the way outputs are produced. Gains in efficiency can be made when resources are allocated correctly.

The **redeployment of staff** can be defined as moving employees to a different job or sending them to work in a different place or division within a business. It often occurs when an employee's job is no longer required. While this process can be stressful for all involved, it does offer a business alternative strategies rather than making employees redundant.

Redeployment can take a number of forms, including moving employees to other sections of the business, reducing the number of agency workers and contractors, and looking at employee working hours and arrangements.

Redeploying staff may have a number of benefits for a business, including:

- keeping employees who already know the business and its corporate culture
- reducing the impact on staff morale due to fewer redundancies
- saving money by not having to provide redundancy packages
- avoiding adverse publicity that may result from redundancies.

Due to potential business change, there may be difficult decisions to make regarding staffing levels within any business. A business might need to make decisions about its staffing. If a position is made redundant, these tasks and duties are no longer required. When a position is made redundant, a person can be redeployed (given another job) or retrenched (lose their job and not be offered another one). The owners or managers of a business need to consider which skills and roles are still required when making decisions.

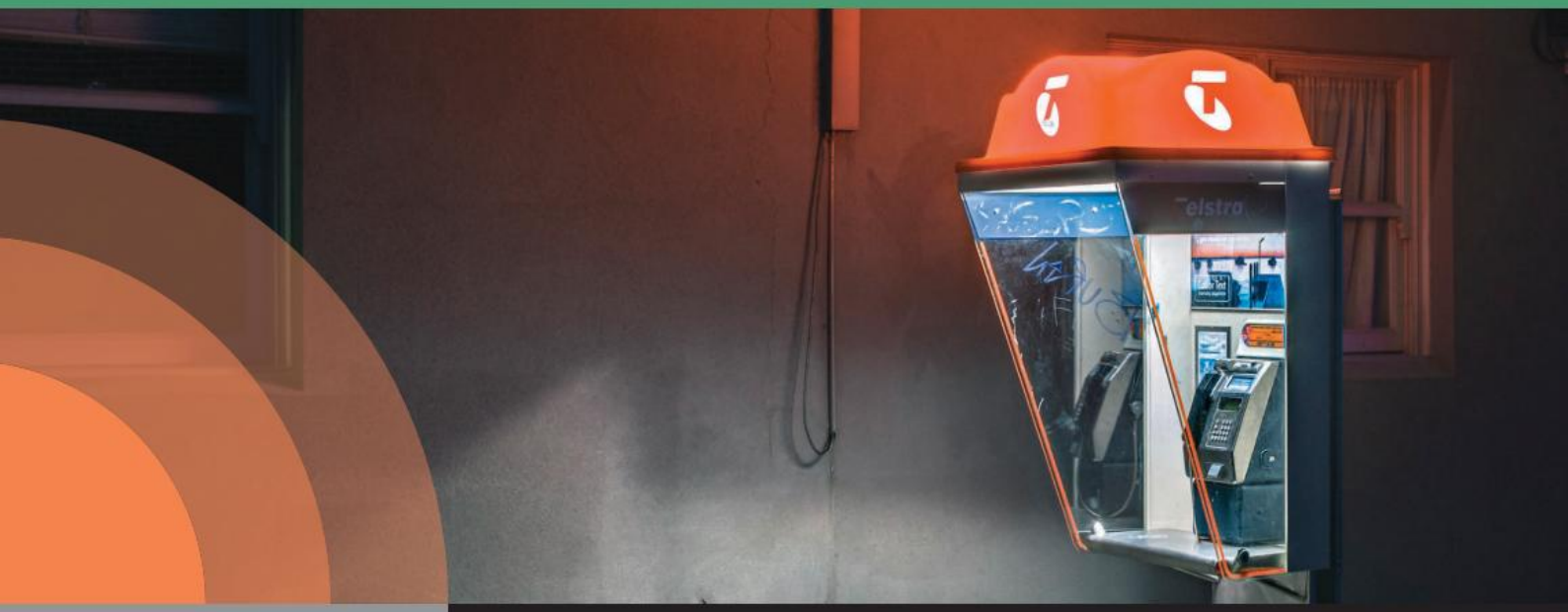
redeployment of resources process of relocating resources such as materials, equipment and labour to different departments, sites and countries in order to improve efficiency and productivity and reduce wastage

redeployment of staff process of moving employees from one area of a business to another, often as an alternative to termination of employment

Figure 13.22 Staff redeployment involves moving people between different jobs or locations.



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CASE STUDY
13.7

Management strategies to respond to KPIs, trends and data: Telstra and redeployment of staff

Telstra chief executive Andrew Penn blamed the National Broadband Network (NBN) for potential job cuts as the phone company attempts to transform itself into a tech business. A fall in net profit and a lower dividend to shareholders was announced and possible reducing and disappearing jobs in parts of the business were also flagged. Telstra is focusing on improving the efficiency and productivity of the business and is examining changes in the workforce.



Figure 13.23 Telstra is planning to redeploy some employees.

While traditional jobs may be reduced Telstra was creating jobs in new business areas such as cyber security and the Internet of Things which allows devices and appliances around the house to be controlled online. The business was investing in developing new skills for employees to assist them to move to other areas of the business such as the new 5G mobile network rollout.

Moody's vice president Ian Chitterer expected Telstra would maintain its leadership role in the mobile market due to its current market share, network coverage and mobile margins. The mobile market would likely grow because people had more mobile devices in their homes, he said in a market note.

(Source: Based on Jennifer Duke, 'Telstra flags job losses as profit, dividend falls', *The Age*, 15 February 2018.)

ANALYSIS

1 Distinguish between redeployment and retrenchment.
2 Describe two possible impacts on a business arising from a decision to redeploy staff.
3 Explain why Telstra is examining new business opportunities and redeployment of some of its employees.

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Redeployment of other resources

Sometimes a business will make decisions that mean that resources such as plant, equipment and raw materials will need to be relocated and moved between departments, sites and even countries. KPIs may indicate that there are inefficiencies with resource use as indicated in productivity rates, level of wastage and costs.

In response to its KPIs, a business may decide where particular stores or factories will be relocated to and will relocate its resources accordingly. Many businesses are now redeploying some of their activities to other countries to take advantage of cheaper labour costs or to gain access to other benefits and concessions in these countries.



CASE STUDY
13.8

Management strategies to respond to KPIs, trends and data: Myer and redeployment of resources

Myer has flagged more write-downs after the department store chain's sales fell by 6.5% during its key Stocktake Sale period in January. Total sales in the first half of 2018 were down 3.6% to $1719.6 million, down 3.0% on a comparable store sales basis.

There is going to be an ongoing focus on costs and this was evidenced by an announcement in January 2018 that flagged a number of redundancies and the closing of a number of Myer stores.

Speaking to *Inside Retail*, Hianyang Chan, senior research analyst at Euromonitor International, said despite efforts by the Myer board to make a leaner and more efficient retailer … challenging trading conditions for department stores – characterised by intense competition from digital channels making inroads into market share and subdued consumer sentiments – meant that total sales for the embattled retailer remained below expectations.

(Source: Based on Dimitri Sotiropoulos, 'From bad to worse for Myer', *Inside Retail* website, 9 February 2018.)

ANALYSIS

1 Outline why Myer will be closing a number of its stores.
2 Describe the types of considerations a business would need to take into account when relocating and changing some of its business functions.
3 Discuss how KPIs can impact on the deployment or redeployment of resources in a business.

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Overview and evaluation of management strategies to respond to KPIs

All businesses need to continually monitor and evaluate data and KPIs to ensure that they are using the correct strategies to allow them to respond appropriately. Table 13.3 sets out some of the strategies that might be suitable for each KPI a business will use and collect information on.

Table 13.3 Examples of management strategies to respond to key performance indicators

Key performance indicator	Strategies
Percentage of market share	• Selection, training and motivation of staff • Overall improvement in quality of production • Management skills such as decision-making and analysis
Net profit figures	• Lean production techniques • Technology improvements • Management skills, such as decision-making, interpersonal, communication • Economies of scale to maximise outputs for least amount of inputs • Sourcing of inputs from other suppliers and sources
Rate of productivity growth	• Technology improvements • Sourcing and quality of supplies • Redeployment of resources • Lean production techniques
Number of sales	• Employees – trained and motivated • Quality of product • Technology developments (e.g. online presence)
Rate of absenteeism	• Employees – motivated • Management styles and skills – more people focused • Technology improvements to create safer workplace
Level of staff turnover	• Management styles and skills • Employees trained and motivated • Technological development – creation or change in job roles
Level of wastage	• Lean production techniques • Quality management • Change in resources (e.g. solar, recycling) • Employees – trained to avoid wastage
Number of customer complaints	• Quality management – increased quality of output • Employees – skilled and motivated
Number of workplace accidents	• Investment in technology (e.g. robots) • Staff training in creating safe workplace environment • Management style and skills that reinforce safe workplace environment

It is crucial that managers and owners of businesses are also aware of the advantages and disadvantages of each management strategy as they transform the business. Some of the advantages and disadvantages are set out in Table 13.4.

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Table 13.4 Advantages and disadvantages of management strategies when implementing change in a business

Strategy	Advantages	Disadvantages
Staff training	Staff are highly skilled and able to complete any new roles or tasks. Motivation may rise as staff feel part of the change process and appreciate the extra opportunities.	Costs such as time and money may mean any staff training is a large cost to the business. Some staff may be trained and upskilled and leave the business.
Staff motivation	Staff are often the most important asset of a business. Increasing motivation levels will usually mean that productivity will also increase.	Implementing change can be stressful; staff may feel threatened by the change and therefore less motivated to complete new tasks.
Change in management styles	A move to a participative management style will usually mean staff are involved in the decision-making and are able to communicate their ideas and opinions. Group decisions usually take into account a range of views and therefore the decision is better.	A participative management style may not work, as some staff may not have the skills and experience to provide valuable input. Group decision-making may take more time and may still not lead to desirable outcomes in terms of the change required.
Change in management skills	Managers need to have a range of skills. Using communication, interpersonal, delegation and leading skills is vital if change or transformation is to be successful. Managers and leaders who can communicate and develop relationships with stakeholders are more likely to achieve change, as all affected understand and are involved.	Some managers may need time to develop these skills if they are to use them successfully in a change process. Clear communication, leading and delegating tasks may mean that the change process takes longer, as detailed planning should be completed.
Increased investment in technology	Investment in technology provides the business with the most efficient way to change processes and products. Technology often means the business has a competitive edge and can increase sales or percentage of market share.	Investing in technology can be expensive – cost of the technology itself and in training employees. Changes in technology are constant; this can be a major cost to the business, as technology can become obsolete quickly.
Improving quality in production	Any improvements in quality will usually mean less waste, more efficient use of resources and a high-quality product or service, which will attract and retain customers.	Quality can occur at many levels and be proactive or reactive. If a business wants to implement effective quality strategies, resources must be provided and the strategies should be implemented across the whole business.

CONTINUED ITEM

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Cost cutting	Cost cutting will usually mean that a business is able to increase profit, as operating and other expenses are reduced. Cost cutting allows a business to be more competitive.	Cost cutting often means a reduction in staff – which has implications as people lose their jobs. This may mean that those left in the business have more work to do in the same amount of time. Cost cutting may mean product or service quality declines.
Initiating lean production techniques	Lean production focuses on systems and improving processes and resource use. This will generally lead to improved quality, a reduction in the level of waste and reduced costs.	Lean production is an organisation-wide model. This means that every aspect of the business must be examined and constantly improved. Time, effort and money need to be provided for this to occur.
Redeployment of resources (natural, labour and capital)	Redeploying resources in the business may mean that they are used in a more efficient manner. Moving labour/staff to new areas and positions can improve efficiency and in many cases motivation. Natural resources may also be redeployed, and there is a focus on sustainability and renewable resources. Capital is a significant cost to the business and can improve the competitiveness of the business.	Redeploying any resource can be expensive; it may mean moving staff to different areas or locations or can lead to redundancies and is stressful for staff involved in a move. Redeploying natural resources can be expensive and supplier reliability may become an issue. Capital is a significant cost, and moving capital, for example, offshore may mean substantial costs to the business.



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ACTIVITY 13.4

Part 1

Emma Jackson is the General Manager at ED Consulting Services. The business provides an online tutoring service for secondary and university students, and student and teacher resource and revision packs. Emma has been given the following information and KPIs about the business for the last 12 months. She has asked you, as a business consultant, to provide some recommendations and advice, which will need to be presented to the other senior managers.

KPI	Current figures	12 months ago
Percentage of market share	29	30
Sales (000s)	150	140
Profit (000s)	99	98
Staff absenteeism	5	2
Number of customer complaints – per 100 sales	15	3

1 Using the information above, summarise the main findings or trends for the past six months.
2 Outline three management strategies to improve the performance of ED Consulting Services.

Part 2

Apply your knowledge to match each of the following KPIs and related objectives with one or more management strategies.

No.	Key performance indicator	Objective	Management strategy	KPI no.
1	Market share	To increase market share	Management are reviewing ways to recycle materials as part of the production process.	
2	Number of sales	To increase number of sales	Team leaders are reviewing job descriptions and tasks to ensure the role is in line with the qualifications required by the job holder.	
3	Level of staff turnover	To reduce the level of staff turnover	Management are examining expanding into overseas markets.	
4	Level of wastage	To reduce the level of wastage	The sales manager is preparing a training program for staff in retail sales.	
5	Number of workplace accidents	To reduce the number of workplace accidents	Management are offering incentives and a customer loyalty program to customers to purchase more products.	
6	Number of customer complaints	To reduce the number of customer complaints	The owner of a business is looking at improving the training given to new employees prior to them starting work on a construction site.	

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SAC AND EXAM TIPS – linked to key skills

There are a number of management strategies a business can use. It is important to be able to identify, explain and apply these strategies.
Identifying a strategy and some of the advantages and disadvantages of each strategy is important.

Chapter summary

- Managers and leaders play an important role in implementing change in a business.
- Businesses need to use KPIs, analyse trends seen in data relating to these and develop strategies to improve the performance of the business.
- To do this, they need to ensure:
  - information is collected
  - information is stored in a usable format
  - records are accurate
  - trends are analysed.
- Staff are an important asset and strategies must be put in place to respond to KPIs that highlight staff dissatisfaction.
- Management skills and styles can impact on the strategies used.
- Technology is a major driver for change, and strategies need to be developed to take advantage of new technologies.
- Quality is crucial to the success of a business, and strategies must be put in place to maintain or increase quality in the products or services of the business.
- Many businesses will try to cut costs in response to concerns about profit levels.
- Lean production allows a business to become more efficient.

Chapter summary tasks

1 Identify the attributes for effective leadership.
2 Explain why it is important to manage and respond to change in a business.
3 Outline why businesses need to monitor and evaluate KPIs and other data.
4 Describe how management skills and styles can influence the response of a business to change.
5 Outline how technology can cause changes in KPIs in a business.
6 Discuss the importance of quality in the production process.
7 Identify types of cost-cutting measures that a business can put in place in response to a decrease in profit.
8 Describe lean production and how it can be used in response to KPIs.
9 Define Kanban.
10 Explain why businesses look at redeploying employees and other resources.

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Examination preparation

Harvey Lane is the owner and manager of Harvey's Pet Care and Grooming. He has been in business for five years and has built up a large number of regular customers. He has been examining ways to expand the business. He has gathered the following information and presented it to you, his business consultant.

Some of the issues and concerns that have been highlighted include:

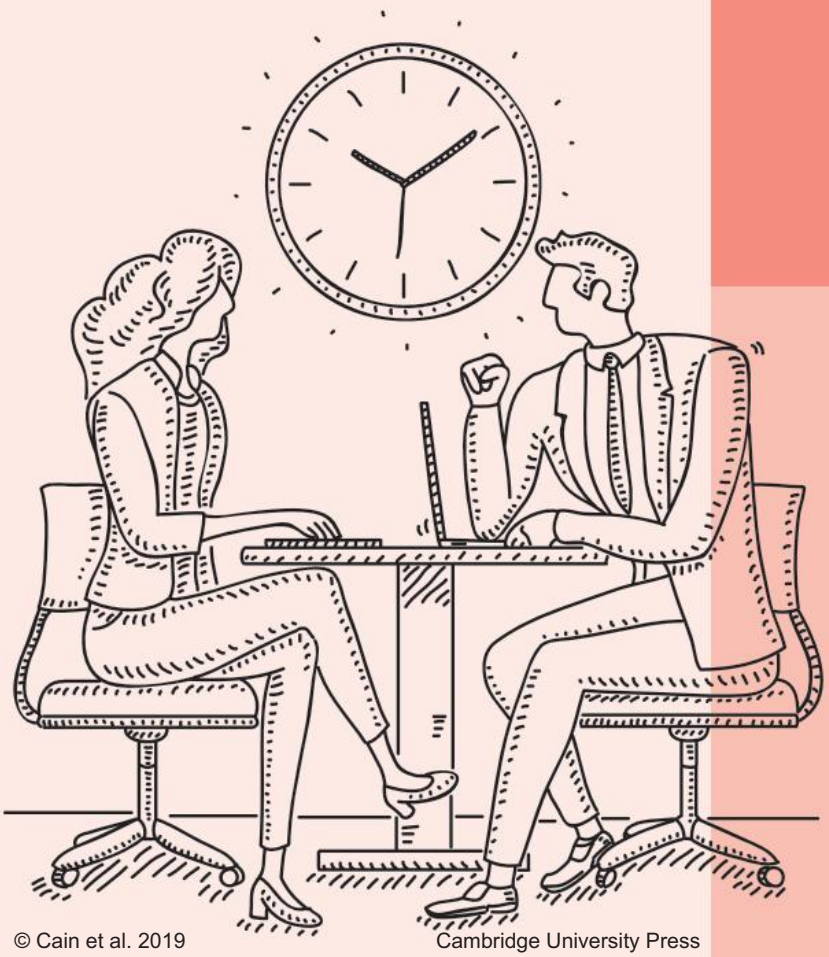
- The number of customers has not increased over the past year and three employees left six months ago.
- A new office manager, former Army Major Brenton Jones, was appointed 10 months ago.
- Some of the equipment is now five years old.
- Some staff have been taken out of the grooming area and placed in the retail store.

1 **Explain** why it is important for a business to continually monitor and review its performance. **(3 marks)**

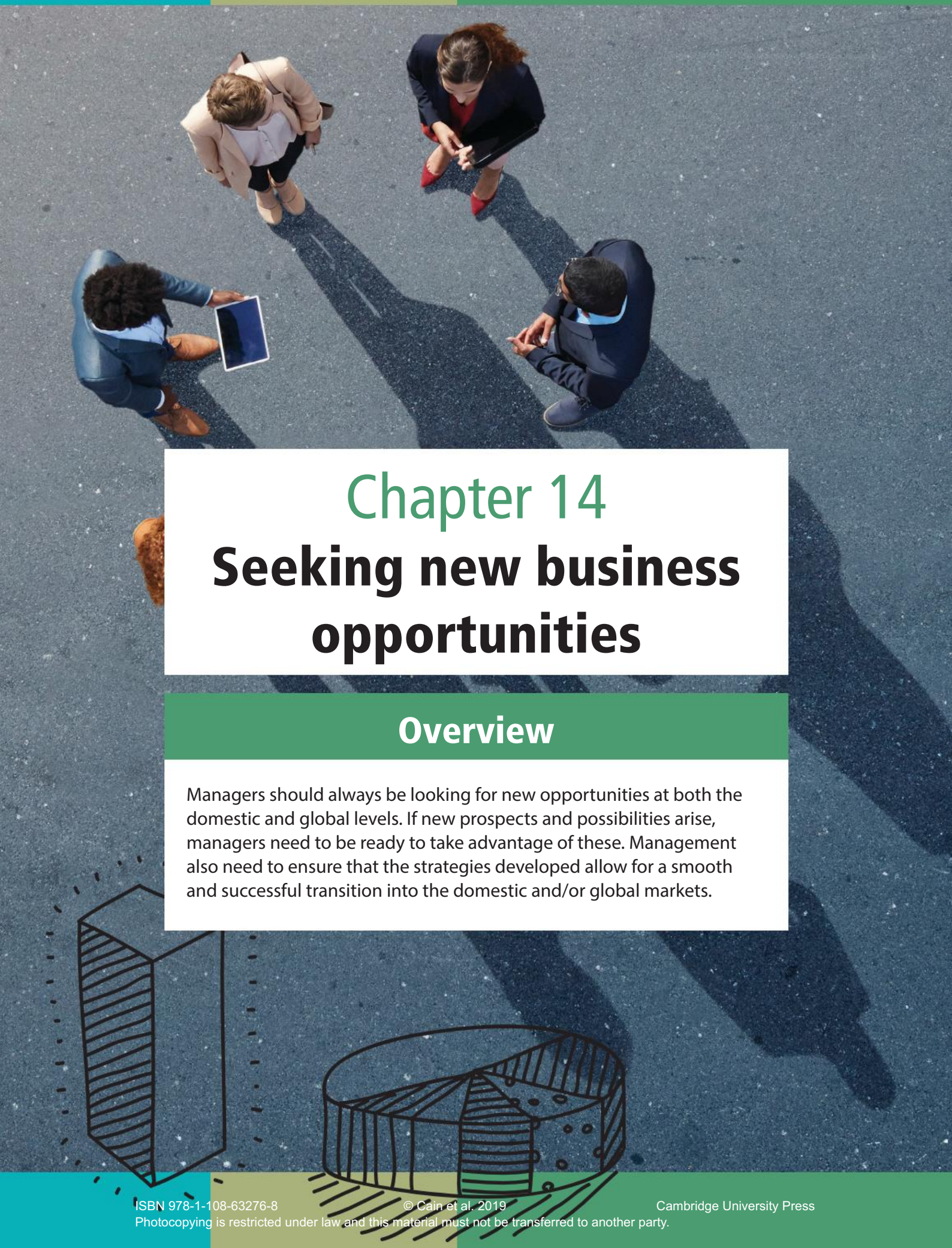
2 Using the information above, **identify** two possible issues that the business may be facing. **(4 marks)**

3 **Describe** how the strategies of a change in management style within the business and increased investment in technology could assist Harvey to overcome some of the issues raised. **(4 marks)**

4 'All businesses should ensure that they respond to KPIs and other data in a timely manner.' **Identify** and **discuss** how two management strategies may support a business in its objective to improve performance. **(6 marks)**



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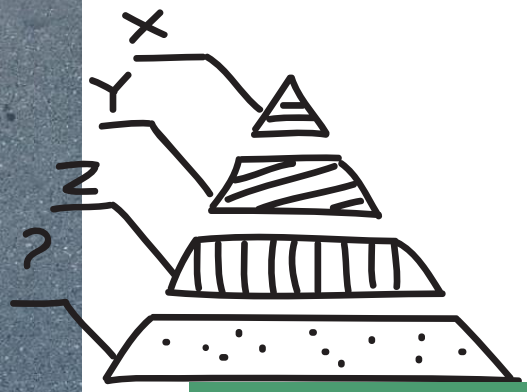


Chapter 14
Seeking new business opportunities

Overview

Managers should always be looking for new opportunities at both the domestic and global levels. If new prospects and possibilities arise, managers need to be ready to take advantage of these. Management also need to ensure that the strategies developed allow for a smooth and successful transition into the domestic and/or global markets.

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Key terms

- domestic market
- global market
- market niche

Key knowledge

You will examine the strategies used by business to consider new business opportunities. You will learn about:

- management strategies to seek new business opportunities, both domestically and globally.

What's ahead



Figure 14.1 Growing a business involves identifying new opportunities and offering products/services to suit.



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14.1 Management strategies to seek new business opportunities in global and domestic markets

domestic market refers to the supply and demand of goods and services within one country

global market refers to the supply and demand of goods and services in and between countries across the globe

market niche an area of a larger market that aims to satisfy a particular market need, often focused on a specific or unique product

All businesses seek out opportunities to develop and expand their business. This includes investigating or developing business opportunities in the **domestic** and **global markets**, through developing new products and services, finding a new market or **market niche**, researching and developing or improving a product or service, and taking advantage of the new technologies that are emerging.

Growth is generally positive for businesses, as it provides opportunities to develop and expand. Managers of a business also need to ensure that the growth in the business is monitored and adapted as the business transforms.

Businesses might decide to grow and seek new opportunities for a number of reasons, including:

- responding to strong competition
- to gain higher profit margins
- to attract new customers
- capitalising on business success
- to take advantage of a new opportunity or market.

Growing a business has a number of benefits – new opportunities can mean more customers, greater sales, more profit, and the ability to employ more staff.

Managers and business owners need to examine and find ways to develop and grow their business. Opportunities to expand can occur through strategies around the expansion of a current line of a product or service, entering new markets and taking steps to expand into different countries.

The Australian economy is continually developing and provides challenges for businesses as well as the chance to change and enter new markets. The economy has gone through a great deal of structural change over the past few decades, and businesses have had to adapt to remain successful. The Australian economy is mainly a service or tertiary-based economy and there has been a marked decline in manufacturing. The car manufacturing industry, for example, has now ceased, although there will still be the need for businesses to sell motor vehicles, service and provide spare parts for motor vehicles.



Figure 14.2 Developing a niche can help businesses to take advantage of certain markets.

Many Australian businesses have also been able to take advantage of the changes in the developing global economy. Even small businesses have been able to access customers and markets all over the world. Australian businesses and customers are able to purchase goods from anywhere in the world through online shopping, and they can also obtain quality products from global companies that have set up businesses within Australia.

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With the changes in the global economy, Australian businesses are now poised to take advantage of export opportunities. Since 2015, the value of the Australian dollar has declined, making it easier for Australian businesses to sell their products overseas as they become more price competitive. Australian businesses benefit by exporting as it:

- provides access to a larger pool of customers
- spreads the risk of the business across a range of customers
- reduces the dependence on the Australian market.

ACTIVITY 14.1

Perform some online research to answer the following questions.

1 Define what a service-based or tertiary economy is.
2 Describe what happens to the export market for Australian businesses when the value of the Australian dollar is high and continues to rise.
3 Manufacturing has been in decline in recent years in Australia. Research the area in which you live and identify what types of manufacturing industries once thrived.

14.2 Strategies to seek domestic and global opportunities

There are a number of strategies that businesses can use to take advantage of the opportunities in the domestic and global markets.

These strategies include:

- exporting products and services
- innovation
- developing a market niche
- research and development.

Strategy: exporting products and services

With the relatively low value of the Australian dollar and the advances made in technology and communications, many businesses of all sizes are looking to move into the export market and the global economy. There are a number of considerations a business will need to take into account before doing so, including:

- Which products is the business going to export?
- What are the strengths and weaknesses of the business?
- What are the target markets?
- What time frame is being considered?
- How much money will be needed?
- What regulations are involved?
- What import duties, taxes and other costs are involved in the target market?

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Businesses also need to complete market research to see how they are going to organise distribution channels, the types of buyers they are targeting, whether there are other established businesses in the same market to join with or compete with, and cultural and other demographic considerations.

When a business wishes to work in the global economy, it also needs to ensure it has a sound knowledge of which goods are prohibited and what quarantine and other laws it needs to consider.

The federal government and all state and territory governments provide support and advice for businesses looking to move into export markets. Recently introduced free trade agreements (FTAs) also provide support for businesses wanting to move into the global market.

The federal government has also provided programs to support businesses through access to an online portal, seminars, a grant program and training. Businesses in Australia often rely on intellectual property; this is another area that businesses need to consider to ensure that they protect their own intellectual property while also ensuring they don't infringe laws in other countries.



Figure 14.3 Australia's trade with the world

If a business wants to move into the global market, it needs to consider a number of factors and ensure that it has the correct requirements in place. Considerations include:

- the need for significant time and a strong commitment
- strength in the domestic market, as it provides a basis for a good exporting business
- a strong cash flow and enough capital to fund the venture and the resources necessary to cover the cost of any required product modifications or additional costs
- a strong business plan and an export plan.

Other considerations that need to be addressed include:

1 **Legal structure**
One of the first and most important steps will be to decide how to structure offshore operations. The legal structure chosen can have enduring tax and legal consequences, so it is fundamental to get it right.

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2 Taxation

Tax will be a significant consideration for any business expanding overseas. Direct taxes are typically levied on the profits or gains of an entity. Also, the business will need to be aware of compliance obligations in relation to the indirect taxation system.

3 Staffing

A business may consider relocating existing employees to the foreign country since they already have a detailed understanding of the business and its activities. On the other hand, they may lack local knowledge and it can be more expensive to relocate and remunerate compared to local hires.

(Source: Based on Tony Nunes, Kelly & Partners Chartered Accountants, 'Issues to consider when going global', Export Council of Australia, 7 September 2015.)



Figure 14.4 Businesses have factors to consider as they move into the global market.



CASE STUDY 14.1

Strategies to seek domestic and global opportunities: Superbee and honey export to China

Located in regional New South Wales, Superbee has been packaging home-grown honey for three generations. It is Australia's leading packer of pure honey and distributes to a range of customers in the food industry and multinational companies.

Superbee exports its range of local honey, gifts and supplements to more than 15 countries, including China, Singapore, Hong Kong, Vietnam, Indonesia and the United Arab Emirates. There has been a high demand for the products overseas, which has led to exporting being a key focus of the business's strategy.

CONTINUED ITEM

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Recently the business entered the Chinese market, as there has been a strong demand for premium Australian honey products and it has become the number one export market. A spokesperson for the business stated that the natural healing abilities of honey have helped drive demand. Since the China–Australia Free Trade Agreement (ChAFTA), the tariff (tax on imported goods) dropped from 15% to 3% and was eliminated in January 2019.

Sandra Hessel, Administrative Assistant and Export Manager, credits Superbee's success in China to attendance at trade shows and industry fairs, which she says has helped build sales and gain valuable contacts.

'Our Director Ross Christiansen, has been to various trade shows in China and Australia, including the popular Fine Food Australia event, which receives a lot of interest from distributors across Asia,' she says.

Exporting products to China hasn't always been easy for Superbee, with Hessel admitting the journey has been full of learning curves. Some of the challenges have been the amount of paperwork required and the logistics of exporting from rural NSW.

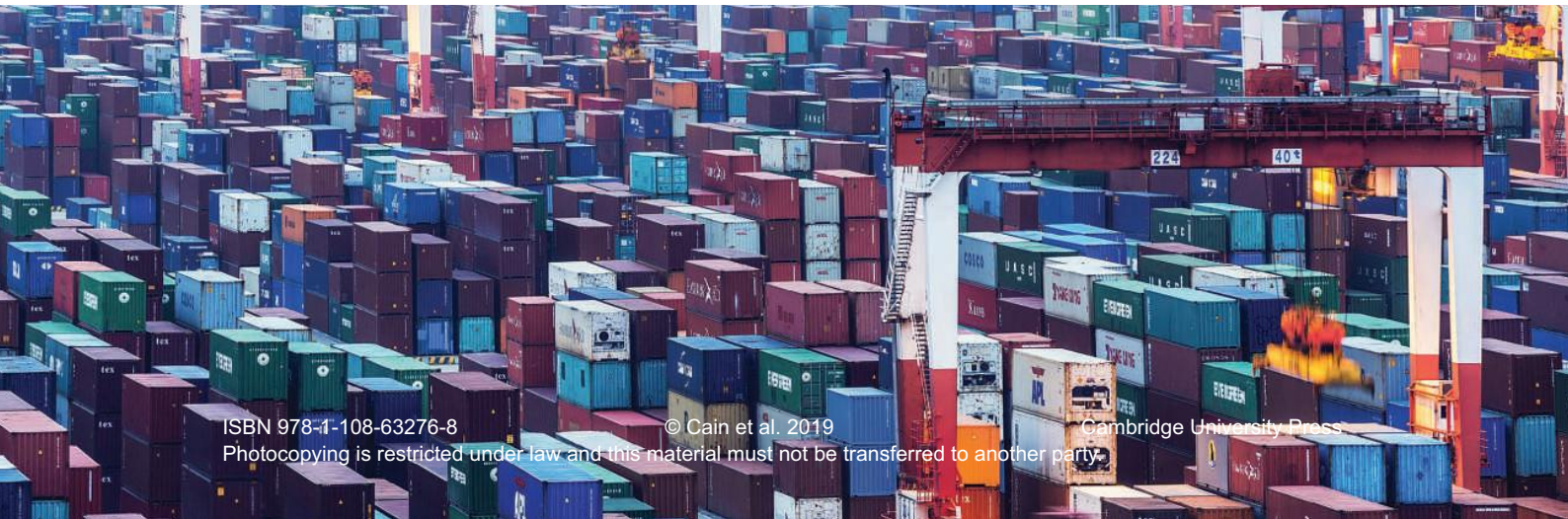
For those considering exporting, Hessel says having employees in your export country who are fluent in the language and can communicate with locals greatly benefits your business success.

'This really helps minimise the language and communication barrier when our Chinese customers prefer dealing with people who can speak their language.'

(Source: Based on 'Australian honey creates a buzz in China', Austrade website, March 2018.)

ANALYSIS

1 Describe how Superbee went about exporting its products to China.
2 Outline two of the issues or areas the business needed to develop so that it could export its products.
3 Visit one of the government websites (for example, Export Council or IP Australia) and outline some of the programs offered to support businesses. Explain why governments offer advice and support for businesses.
4 Research one other Free Trade Agreement (the Australian Trade and Investment Commission website is a good place to start) and discuss the benefits of this agreement for Australian businesses.



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Strategy: innovation



Figure 14.5
Innovation is about creating and implementing new ideas.

There are opportunities for people and businesses that are able to make the most of their chances and 'think outside the square'. This is an important strategy that allows people and businesses to seek new openings.

Innovation can be defined as an improvement or invention that enhances or extends a business and provides another product or service to the economy. It is also about creating and successfully applying new ideas to a business. Innovation can be seen as a way to seek and develop new business opportunities for Australian businesses and companies. It may be a major idea or it could be a series of smaller innovations, such as finding better or more efficient ways of working, producing a product, delivering a service or becoming more profitable.

Management strategies to support new ideas are critical, since innovation will provide the cutting edge and can be a key differentiator between one business and another. A management strategy centred on improving practices and reviewing how activities are completed will also assist the performance of a business.

Developing a culture of innovation in a business will allow it to follow through with ideas and provide the foundations for the success of the business in the long term. Innovation is centred on developing a unique selling point for a product or service and can be incremental or radical, and may be a breakthrough innovation that can change a whole sector of the economy. Another way to make the most of innovation is to be a design-led business. Innovation can come from a range of sources, including supporting staff who come up with potential improvements and ideas. This should become the culture of the business and part of the vision and mission statements. Other stakeholders may also be able to contribute to ideas and improvements. Customers, for example, can provide insights into service and offer ideas and suggestions for improvement.

To be innovative, businesses can implement strategies such as:

- researching the market and current customers to find what products or services they want and cannot access
- studying the market to determine any trends or potential trends and trying to target these
- calculating and reflecting on the amount of risk involved in innovating and minimising exposure to possible harm for the business
- examining what competitors are doing to see if there are any ways that their good practices can be adopted and built upon
- investing in research and development to enhance ideas and improvements
- learning from failures and looking at ways of ensuring that they do not happen again
- testing new ideas to ensure that they are viable and any potential problems are dealt with.

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CASE STUDY
14.2

Strategies to seek domestic and global opportunities: Australian firms and innovation

There are a number of different types of innovation. Australian firms tend to specialise in modifying innovations introduced by other Australian firms. This strategy requires firms to seek out existing innovations, absorb them, and make the required modifications before deploying them commercially. The ability of so many Australian firms to successfully execute this relatively simple strategy is arguably a strength of Australia's innovation system.

New to market innovation is generally more valuable since it involves a higher degree of novelty, which in turn reflects a higher degree of competence, sophistication and knowledge. In Australia, the estimated proportion of firms undertaking new to market product innovation is relatively low, ranking Australia 23rd of 31 OECD countries.

There are also other types of innovation. These include:

- New to market international innovators: These firms have introduced a product (good or service) and/or process innovation that is new to international markets.
- New to market domestic innovators: These firms have introduced one or more product innovations that are new to domestic markets only.
- International modifiers: These firms have introduced a modification in-house of one or more products or processes already available on international markets.
- Domestic modifiers: These firms have introduced a modification in-house of one or more products or processes that exist already on domestic markets.
- Adopters: These firms have adopted one or more products or processes that already exist internationally and domestically. Unlike modifiers, adopters do not develop products in-house, but acquire innovations from others without making modifications to them.

(Source: Based on Department of Industry, Innovation and Science, *Australian Innovation System Report 2017*, p. 14.)

EXAMPLE OF AN INNOVATOR – REDBUBBLE

The core concept centred on the internet and print-on-demand, but quickly evolved beyond the basic idea of printing customers' photos onto mugs or t-shirts. Now, Redbubble links over 400 000 independent visual artists with customers who can use those artists' designs on everyday products.

Artists upload designs to Redbubble's website, where customers select their favourite design and choose their product. The customer's order is then sent to a network of third-party fulfillers, one of whom will print the design onto the customer's chosen product (such as wall art, apparel, stationery, housewares or electronic accessories), and ship

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to the customer. Redbubble has created a three-sided marketplace by facilitating the exchange between the seller (the artist), the producer (the fulfiller) and the customer.

The development of print-on-demand, cut/print/sew and sublimation printing technologies has presented significant opportunities for the company. Redbubble had to work with its supplier network and negotiate operating agreements to ensure consistent quality and customer service. As Redbubble grew, management found that the scope for individual autonomy shrank, and new approaches were needed to standardise procedures without losing flexibility. As part of a change process that has taken three years, Redbubble has reorganised around decision groups with high levels of accountability.

In 2015–16 the US accounted for about 60 per cent of sales, Europe about 25 per cent and Australia less than 10 per cent. Redbubble's website started in English, and launched German, French and Spanish-language sites in 2016. This multilingualism reflects the international nature of Redbubble's artists.

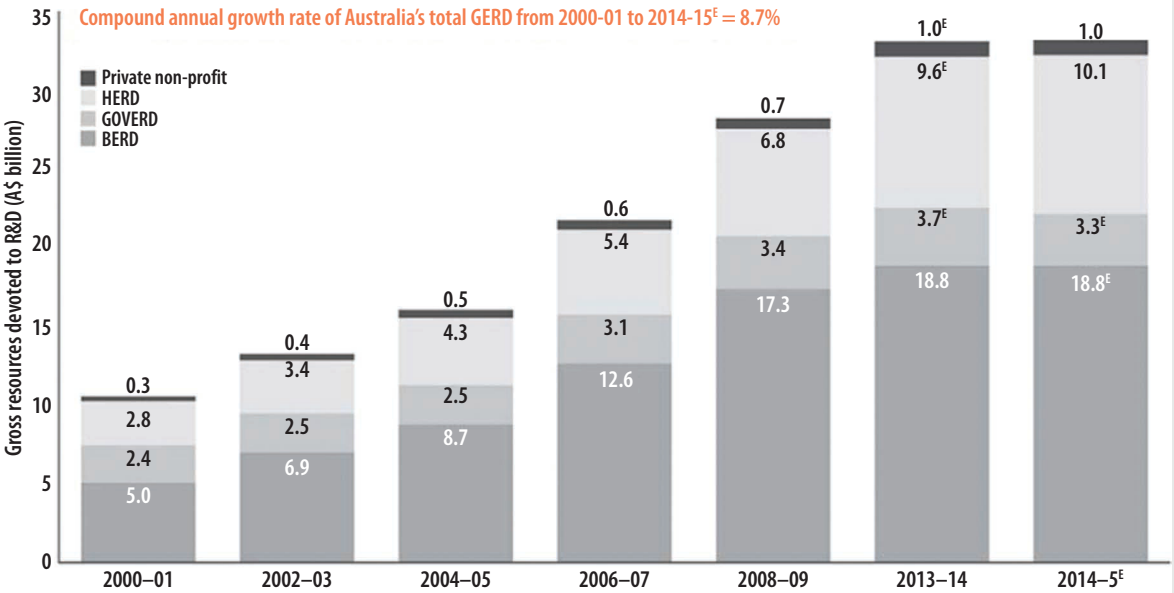
Like many firms that sustain high growth, Redbubble focuses on a specific niche. But Redbubble's niche is global, and it is a multibillion-dollar market. Its innovative business model has enabled it to use the internet to lessen the issue of distance and reach customers all around the world.

Most of the business's growth is because of existing users introducing new users, and from free searches, aided by Google and Facebook. The market grows as more customers become comfortable buying online and value the convenience and range of choice available. Redbubble's product range has grown steadily, to over 50 products. Redbubble responds rapidly to changes in the market and technology.

(Source: Based on Department of Industry, Innovation and Science, *Australian Innovation System Report 2017*, pp. 66–7.)

AUSTRALIA'S GROSS EXPENDITURE ON RESEARCH AND DEVELOPMENT

A$ billion by sector



GERD = Gross expenditure on research and development (R&D); **BERD** = Business expenditure on R&D; **GOVERD** = Government expenditure on R&D;
HERD = Higher education expenditure on R&D; **Private non-profit** = Private non-profit expenditure on R&D
E = Estimates. 2013–14 data for GOVERD on 2012-13, HERD on calendar year 2012 and private non-profit on 2012–13, 2014–15 data for BERD on 2013–14 and HERD on calendar year 2014.
Note: Data on BERD has been collected on a biennial basis since 2011–12; all figures for HERD from 2000 to 2015 are calendar years.

Sources: Australian Bureau of Statistics, Cat. No. 8104.0 Research and Experimental Development, Businesses, Australia, 2013–14 (released 4 September 2015); ABS Cat. No. 8109.0 Research and Experimental Development, Government and Private Non-Profit Organisations, Australia, 2014–15 (released 6 July 2016); ABS Cat. No. 8111.0 Research and Experimental Development , Higher Education Organisations, Australia, 2014 (released 17 May 2016); Austrade

Figure 14.6 The federal government is encouraging overseas businesses to invest in Australia.

CONTINUED ITEM

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ANALYSIS

1 Define the concept of innovation.
2 Outline how innovation can support the growth of a business.
3 Using Google or your favourite search engine, find the 2017 *Australian Innovation System Report* and read Chapter 4. Assess the impact of innovation on a business's growth.
4 Discuss why it is important that businesses continually innovate and develop.
5 Outline some of the strategies Redbubble has used to expand its business into the global market.



CASE STUDY **14.3**

Strategies to seek domestic and global opportunities: Coconut Bowls and social media

From coconut milk to coconut water, our seemingly insatiable appetite for all things coconut comes at an environmental cost. More than 9 million tons of coconut shells are produced worldwide each year, out of which only 15 per cent are used.

After harvesting the coconut flesh, environmental consultancy group Bioenergy Consulting estimates the coconut industry discards billions of shells each year, which are usually burned as waste or go to landfill.

One Aussie entrepreneur is turning trash into treasure by using discarded coconut shells to create bowls. Jake McKeon was on a surf holiday to Bali when he came across some carved coconut shells with paintings on them at a local market.

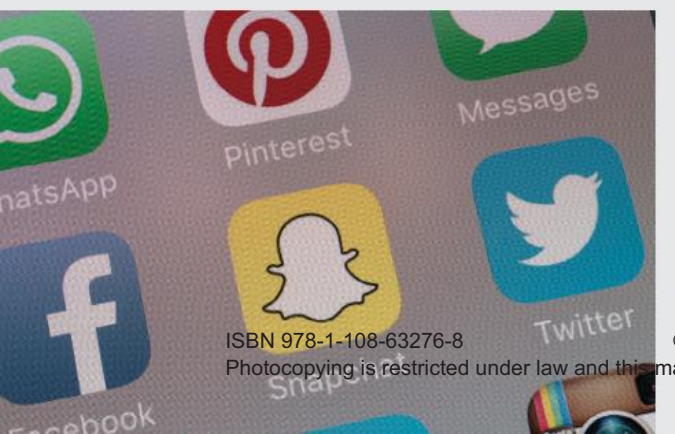


Figure 14.7 Businesses can use social media to attract customers.

'At the time I had a health food business and I thought "wow, if we just had a natural coconut shell with this craftsmanship my customers would buy them,"' McKeon says. 'So I packed my suitcase full of them and brought them back to Australia and, in a six-week period, I sold out. Within about three months, the coconut bowls were selling better than my health food products, so I created a new business called Coconut Bowls.'

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Starting from that first $500 investment in 2016, the 28-year-old Melburnian has sold more than 100 000 recycled bowls, which are priced from $12.95 each.

Coconut Bowls' main market has been selling direct to consumers with online sales making up 90 per cent of orders, but the business also sells wholesale to cafes and retailers. Its products are used in more than 600 cafes in Australia.

The popularity of smoothie bowls and acai bowls on cafe menus and at home has helped drive McKeon's business.

Coconut Bowls uses three different social media channels, @coconutbowls @veganbowls and @smoothiebowls with over a million followers, who are encouraged to post photographs of their Coconut Bowls on platforms Instagram and Facebook.

McKeon says he has created a strong social media following by using Coconut Bowls' social media channels to create conversations rather than focusing on selling the product.

It's a strategy that helped Coconut Bowls grow by more than 500 per cent last year to a turnover of almost $1.2 million.

Increased demand led McKeon to change his supply source for the coconut shells from Bali to Vietnam, where a contact with a coconut farm can supply shells after the flesh and milk is extracted.

Building a sustainable business has become increasingly important to McKeon.

McKeon says the impact of Coconut Bowls can be far reaching. He believes it highlights a better way of doing things.

Re-using materials such as coconut shells is increasingly important.

Melissa Edwards, senior lecturer at University of Technology Sydney (UTS) business school, says Coconut Bowls is a great example of the circular economy business model.

'Here is a waste stream, a coconut shell, and how do we create a value stream out of that rather than a waste stream?' she says.

Edwards says businesses with a sustainability focus are growing.

'A lot of the growth is in small-to-medium enterprises. We are seeing a lot more start-up businesses seeing an opportunity in these waste streams and being able to develop into a new marketplace with an environmental focus.'

McKeon is not stopping at coconut bowls and has expanded his range to include bamboo straws, and wooden spoons and forks made from furniture offcuts.

He says. 'Profit with purpose is a great way to start a business. It gives you a story to tell and something to work on passionately as well, rather than just trying to sell products.'

(Source: Based on Cara Waters, 'Trash to cash: Jake's million-dollar coconut bowl business', *The Age*, 9 April 2018.)

ANALYSIS

1 Outline where the Coconut Bowls business idea came from.
2 Explain how McKeon has developed his business using social media and what he hopes to do in the future.
3 According to Cambridge Dictionaries Online, 'if you have a social conscience, you worry about people who are poor, ill, old, etc. and try to help them'. Outline how the business has demonstrated that it has a social conscience.

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Crowd-sourced funding

Crowd-sourced funding is a financial service where start-ups and small businesses raise funds, generally from a large number of investors who invest small amounts of money. To meet the requirements for crowd-sourced funding, Australian businesses must have revenue of below $5 million and under $5 million in assets. As from September 2017, legislation was enacted to enable businesses to seek funding using this method. The gist of the changes is to open funding opportunities for entrepreneurs and to provide investors with the prospect of success.



CASE STUDY **14.4**

Strategies to seek domestic and global opportunities: Indigenous businesses

INDIGENOUS ACTIVEWEAR GEARS UP FOR SUCCESS

Like her eye-catching activewear, Alisha Geary likes to stand out from the crowd. Producing running tights and fitness accessories decorated with Indigenous art, the 22-year-old has won the attention of some big names including Google.

Alisha Geary won a pitching competition for her fledgling activewear business Faebella. Google invited her to join their accelerator program after she took out the Bond Business Accelerator pitching competition last year. Since then, the offers haven't stopped coming in. Geary's wearable art business Faebella has piqued the interest of runners and investors alike.

She decided to finish her law degree before starting with her business full time. She has had a number of offers from private investors and a number of opportunities have arisen.

'There was an accelerator program in France that offered me 12 months there and another one in Sydney and Google wants me to do one in Sydney and there's a bunch of other stuff,' she said.

Indigenous art has long inspired Geary who worked as a guide at Bond University's Corrigan Walk Art Tour, the largest private collection of Indigenous art in Australia. At first she planned to create dresses using Indigenous prints, but when a friend suggested activewear it made sense.

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The one-woman start-up has been funded by $10 000 in prize money – half from Geary's victory at the Bond pitching competition and the other half from winning an entrepreneurship contest with the Helensvale Technology Group.

Faebella has released just three small batches of running tights with the latest featuring the designs of Indigenous artists Wendy Rix of Yuwaalaraay heritage and Jingalu Melissa Craig of Gumbaynggirr and Yaegl heritage. Their art features Dreamtime stories, including the serpent that made the Clarence River in New South Wales. Five per cent of the price goes to the artist. By launching an Indigenous brand, Geary hopes to secure a niche in the popular market and eventually make inroads into Asia.

Most Indigenous businesses fit the 'mum and dad' tag, but Indigenous Business Australia (IBA) acting chief executive Wally Tallis says a wave of younger entrepreneurs is changing that.

'The biggest interest of our people coming to us are under-30s, so we are getting a younger cohort of people interested in entrepreneurship,' he says.

'They're not afraid of and are much more in tune with the digital economy.'

IBA provides guidance and finance to Indigenous business people.

As a young Indigenous entrepreneur, the challenge for Geary will be maintaining her focus, says mentor and Bond University Assistant Professor of Entrepreneurship Dr Baden U'Ren.

'As with most early entrepreneurs, their eyes are so wide and so bright, that lots of things attract their attention,' he says.

'But if it's her Indigenous activewear that takes off or something else, it doesn't matter. All these things she's doing in her life are building the types of skills that will set her far apart from the average worker.'

(Source: Based on Kate Jones, 'Indigenous activewear gears up for success', *The Age*, 23 May 2017.)

ANALYSIS

1 Describe the business concept Geary developed.
2 Outline the support available to young entrepreneurs and Indigenous people wishing to start a business.
3 Consider the statement 'They're not afraid of and are much more in tune with the digital economy.' Identify and discuss the implications for business support programs.



Figure 14.8 Indigenous entrepreneurs are starting businesses.

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Strategy: developing a market niche

Many businesses can successfully grow and take advantage of opportunities by considering what they are producing, what their competitors are doing and how they can take advantage of gaps in the market. This will often allow a small business to grow and compete both domestically and on the world stage.

A business can use a range of strategies when developing a market niche. Businesses need to narrowly define the target market and create a unique product or service. It needs to be carefully researched and developed. There also needs to be a clear focus on what the market or niche should be.

Questions and areas that need to be covered include:

- How the niche should be developed – the business needs to be specific about the location and types of customers.
- The business needs to clarify exactly what it wants to sell and to whom.
- Talk to prospective customers and identify any concerns or ideas they might have.
- Carefully plan the business and test to see if the products or services are being purchased.

Examples of businesses that have found a niche

Beyond Q Bookshop

It's the little innovations that can make all the difference to a small business, according to the co-owner of Canberra's Beyond Q Bookshop, Simon Maddox.

When customers enter Beyond Q, they are greeted by several kilometres of bookshelves, the smell of freshly-brewed coffee and a frog that croaks hello. Even if they don't realise it, they're experiencing a series of small innovations that have been pieced together over the past few years.

The innovations began when Simon took over the bookshop. He asked customers what they wanted and listened to their feedback. He noticed that many customers wanted to stay in the store for longer, but had partners who were not interested in books. He looked at different ways to get non-readers involved.



Figure 14.9 Beyond Q Bookshop listened to its customers before making changes.

Over time he introduced a bar, live music and a café that looks like a bloke's tin shed. It was designed to make people walking past come and experience the store. The innovation was a series of small changes not one big idea. Cheap metal shelves, for example, were replaced with timber ones and this led to a 20% increase in sales from those shelves.

The bookshop has also become a community resource. Local musicians perform every Saturday and people use the shop as a venue for their out-of-hours book clubs.

Customers are the ones who keep the shop alive and well, and if they know you appreciate them they will become loyal. For example, the bookshop recently started selling toasted sandwiches because a male customer said there wasn't enough 'bloke-food'.

(Source: Based on 'Novel idea for a bookshop', Australian Government, Business website, 15 November 2017.)

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Need a Barista

Need a Barista, an online business, developed to fill a niche or gap in the market. Melburnians in particular love coffee and cafes cannot operate without a trained and skilled barista. The service provides temporary staff if a barista is away on leave or does not turn up to work. The service is available on call seven days a week between 7 a.m. and 6 p.m. Baristas are paid a fixed per hour rate directly by the business and also a booking fee to the company. It is an instant and easy service and saves a business trying to find staff itself.



Figure 14.10 Need a Barista finds fill-in baristas at short notice.



CASE STUDY **14.5**

Strategies to seek domestic and global opportunities: Della Rosa Fresh Foods and finding a niche

Australia's food industry exports approximately $35 billion worth of food and beverage items around the world. Huge growth opportunities are coming up in Asia due to the growth of a middle class with increasing disposable income.

Australia has found it difficult to gain market share in Asia, as it has been competing with other countries in the bulk food segment.

Della Rosa has started to export because of the quality of its product and has gained sales in China, Taiwan and Japan. It is the first company in the region to provide pizzas to China.

One of its challenges has been to tailor the product to local consumer tastes and buying behaviour, to invest in innovative practices and to create a unique product and build the brand in other markets.

CONTINUED ITEM

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Della Rosa has started to do in-store demonstrations on how to cook the product. Local staff have been employed and trained to provide advice to consumers. One of the challenges has been to change the salt content of the pizzas, and the product in China has become sweeter with spices.

ANALYSIS

1 Explain why Della Rosa has looked at the Asian market as an area of potential growth.
2 Discuss the methods the business used to gain access to China.
3 Identify how the business is adjusting its product to sell in Asia and China.

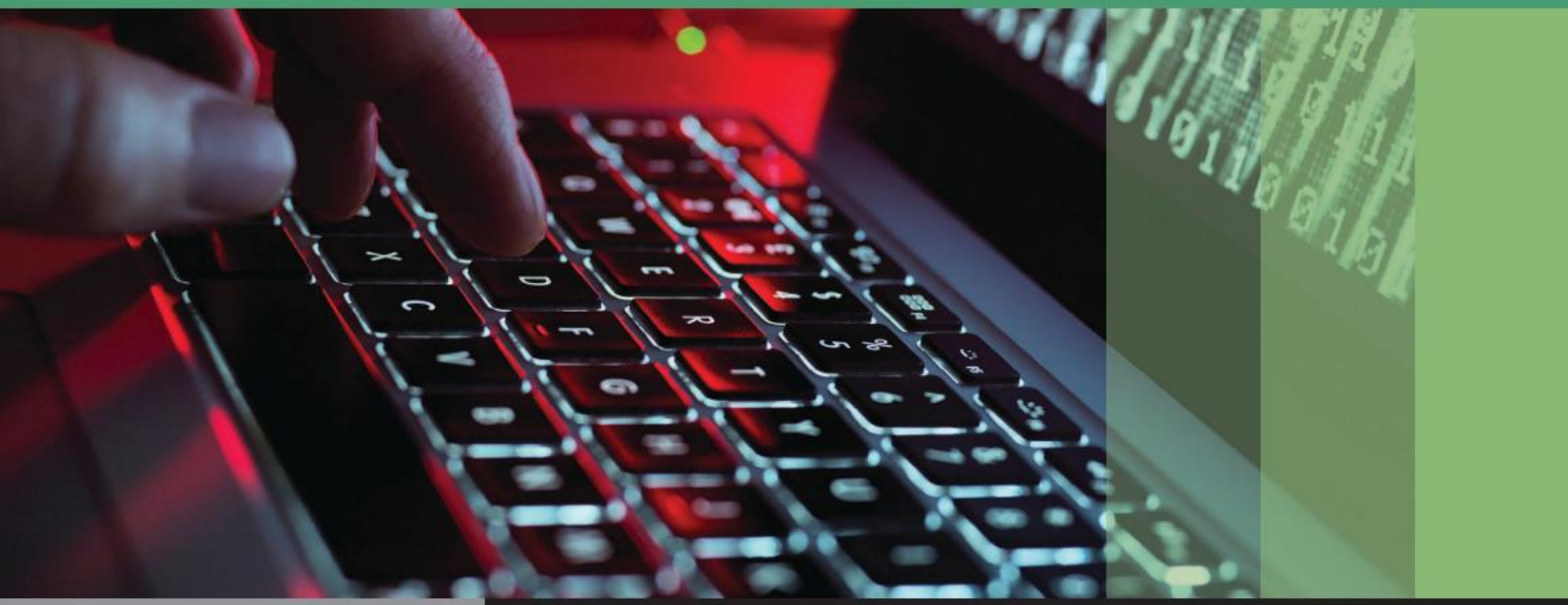
Strategy: research and development

One way to increase and expand a market is to carry out research and development and come up with new ways to provide services and products. Small businesses are often able to develop a service or a product because of their passion and willingness to take a risk. Large and multinational corporations are able to spend large amounts of money and resources on developing products and grabbing the attention of potential customers. Businesses such as Apple and Google are at the forefront of technology and ideas. As seen in earlier sections of this chapter, innovation and invention are not limited to large businesses. There are many small businesses that have been able to innovate or develop a new product and gain either domestic or global market share.

Figure 14.11 Small businesses can develop a new product and gain market share.



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CASE STUDY
14.6

Strategies to seek domestic and global opportunities: research and development and the Cooperative Research Centre

The following is a media article from April 2018 (when Malcolm Turnbull was Prime Minister).

The Turnbull Government, in cooperation with the WA McGowan Government, has today launched the Cyber Security Cooperative Research Centre (CRC) to grow the national capability in cyber security research, development and commercialisation.

The Cyber Security CRC, based at Edith Cowan University in Perth, is the result of collaboration between industry, government and the research sector.

The centre is charged with delivering advancements that will build Australia's cyber security capability and deliver solutions to ensure the safety of Australians and Australian businesses online.

The Cyber Security CRC will focus on three key areas:

- ensuring the security of critical infrastructure by developing innovative approaches, tools and techniques to predict, prevent, detect, and respond to cyber threats
- enabling Australian individuals, businesses and industries to access cyber security solutions
- building the next generation of industry, government and research cyber security leaders, and increasing capability and collaboration in the sector.



Figure 14.12 Cyber security is an issue for businesses and individuals.

CONTINUED ITEM

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Minister for Jobs and Innovation Michaelia Cash said the Cyber Security CRC activities build on the Cyber Security Strategy, launched in 2016.

'We want to keep Australia safe and competitive in an increasingly digital world and today's launch is evidence that we are taking action to do so,' Minister Cash said.

Minister for Law Enforcement and Cyber Security Angus Taylor said cyber security was a strategic priority for Australia's national security and the country's critical infrastructure.

'Australians face ever evolving cyber threats in our workplaces, businesses and homes. This centre will help us combat these threats and develop more sophisticated solutions to protect our digital borders,' Minister Taylor said.

The Joondalup Innovation Hub brings together ECU's cyber security expertise, the Australian Security Growth Network, AustCyber, and now the Cyber Security CRC.

(Source: 'Joint media statement – Cooperative Research Centre to strengthen cybersecurity', West Australian Government website, 5 April 2018.)

ANALYSIS

1 Explain why governments invest money to strengthen cyber security in Australia.
2 Discuss why partnerships between universities, businesses and government support research and development.
3 Explain why research and development is an important strategy to access increased business opportunities.



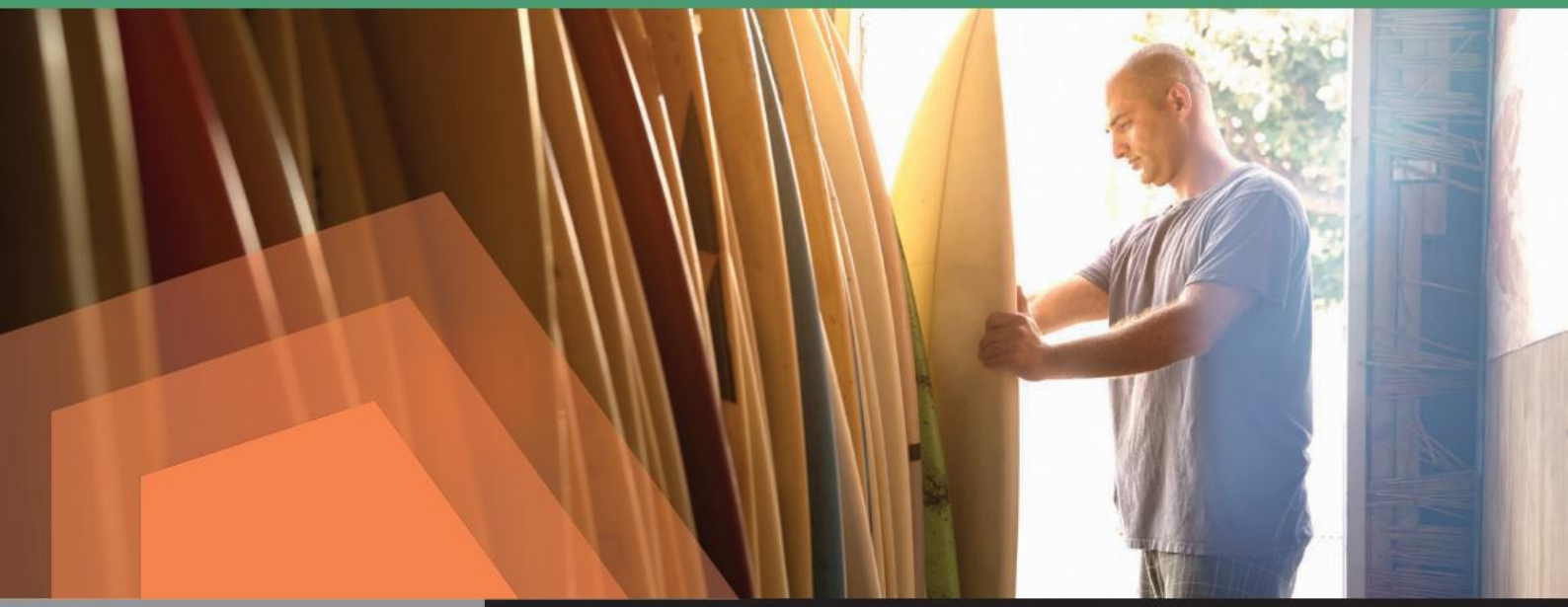
Figure 14.13 Businesses can use technology to innovate and develop new products.

Strategy: new and emerging technologies

Customers now shop and do business in a range of different ways. The emergence of online shopping has had a profound impact on businesses – in both a positive and a negative way. Many retailers have been able to expand their customer base due to a combination of both retail in-store and online shopping.

Other businesses have had to try to change in response to the impact of technology on their business. Australia Post, for example, has had to change its core business and functions due to a sharp decline in mail posted. Australia Post has expanded into other areas such as parcel delivery and is looking at reducing the number of mail deliveries in conjunction with increasing the cost of sending a letter. Individuals and businesses are also using technology to develop new products and businesses.

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CASE STUDY
14.7

Strategies to seek domestic and global opportunities: new and emerging technologies

PART 1: DISRUPT SPORTS

Disrupt Sports is a business that provides unique designs for customers on surfboards, skateboards, snowboards and yoga mats. Customers choose their own designs and can watch their product being made in the Bondi store through an interactive touchscreen, and it can be viewed in 3D. The business has also expanded into the United States.

PART 2: STAKK

Sixteen-year-old start-up founder Connor Cameron says he's had an entrepreneurial streak since his first year of high school, selling soft drinks out of his locker at lunchtime to friends for a dollar a pop. When he was 15 he started a clothing brand and found it to be a great experience.

Cameron then founded student-focused online jobs marketplace Stakk. Short for 'Students at Work', Stakk allows people to hire students for various freelance jobs, such as gardening, babysitting, coaching and tutoring.

The idea for Stakk came to Cameron through his everyday life as a student, seeing how his friends were struggling to find quality work that paid well, while his parents would regularly be on the lookout for extra hands to help around home when Cameron was unavailable. At the same time, he could see a way for people paying for otherwise pricey services to save some money.

'I wanted to help out with productivity and cost for what are relatively simple tasks. Gardeners in Sydney can cost anywhere between $60–70 an hour, but a student would do it for $20–25 an hour, so I thought we could save people some money,' he says.

The founder says he takes a cut of what students on the platform get paid, say $5 out of $25. So far he's processed over $1500 worth of jobs on the platform, with over 500 users.

The vision for Stakk originally started as an app, but Cameron decided to launch with a website as an easier first step. Instead of teaching himself website coding, the founder says his process was to just 'throw myself in and see where I can get to straight away', doing so by reaching out to freelance web developers and getting the ball rolling.

CONTINUED ITEM

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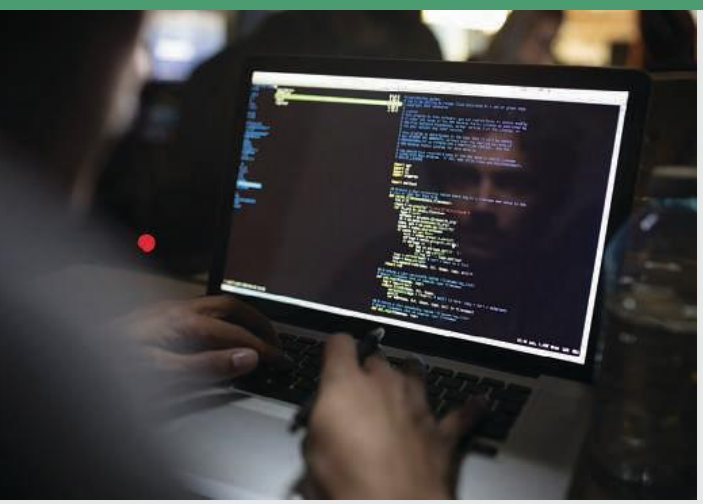


Figure 14.14 App development is an example of a niche business opportunity opened up by technology.

While Cameron acknowledges it's still early days, he hopes running his own business is something he can keep doing into the future. He plans to go to university; however, he wants to work on Stakk for as long as possible.

Cameron's start-up journey hasn't been without challenges; the founder has run into the predictable yet frustrating problem of people not taking a 16-year-old start-up founder seriously.

Reflecting on his experience and passing on advice to other young founders, Cameron says the best thing you can do is to have a shot, because the worst thing you'll get out of it is experience.

(Source: Based on Dominic Powell, 'How 16-year-old entrepreneur Connor Cameron founded jobs marketplace Stakk to make it easier for students to find work', *SmartCompany* website, 5 April 2018.)

ANALYSIS

1 Assess technology as an avenue for business growth and innovation.
2 Describe how the ideas for Disrupt Sports and Stakk were supported by technological developments.
3 Explain why it is important for businesses to use the available technology.

ACTIVITY 14.2

Read the quotes below, and in groups of two or three discuss what you think the quotes might mean.

- 'If the automobile had followed the same development cycle as the computer, a Rolls-Royce would today cost $100, get a million miles per gallon, and explode once a year, killing everyone inside.' – Robert X Cringely, *InfoWorld* magazine
- 'There is no reason for any individual to have a computer in his home.' – Ken Olsen (1926–2011), President, Digital Equipment, 1977
- 'The great thing about a computer notebook is that no matter how much you stuff into it, it doesn't get bigger or heavier.' – Bill Gates (1955–), *Business @ The Speed of Thought*, 1999
- 'Computers make it easier to do a lot of things, but most of the things they make it easier to do don't need to be done.' – Andy Rooney (1919–2011), radio and television writer
- 'Computers are useless. They can only give you answers.' – Pablo Picasso (1881–1973), Artist, 1964

1 Justify whether some of these quotes are more relevant than others.
2 Outline your ideas to the class.

SAC AND EXAM TIPS – linked to key skills

Businesses need to think strategically to determine which domestic and global opportunities are available.
Innovation can be a strategy to expand into both global and domestic markets.
A strategy is a course of action – what does the business need to do to achieve a goal?

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Chapter summary

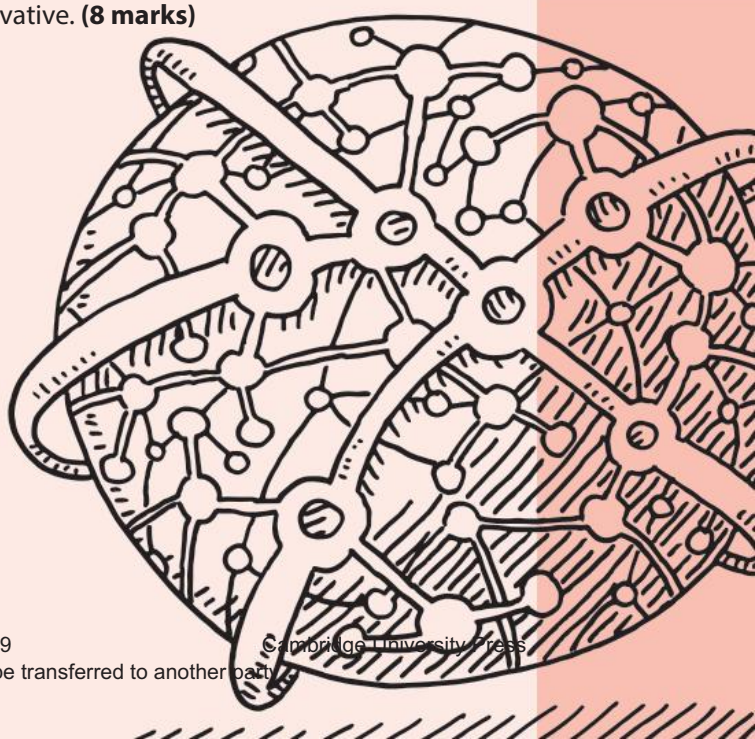
- Businesses need to seek new opportunities to expand.
- Innovation is a way to develop new products and ideas to expand a business.
- It is important to develop a culture of innovation.
- Businesses can seek opportunities in the domestic economy.
- Businesses can develop due to global opportunities.
- Issues about globalisation centre on legal structure, taxation and staffing.
- Research and development is important for all businesses.
- Developing and finding a market niche is important for many businesses.
- Businesses can take advantage of new and emerging technologies.

Chapter summary tasks

1 Discuss why businesses should seek out ways to expand their business.
2 Explain how innovation can be used to develop a business.
3 Describe the type of domestic opportunities available to businesses.
4 Explain why it is important for a business to invest money in research and development.
5 Outline how a business can develop globally.
6 Describe how information technology can assist a business.
7 Clarify why developing and finding a market niche is important for the success of many businesses.
8 Identify three important considerations a business should take into account before it moves into the export market and the global economy.

Examination preparation

1 All businesses, regardless of their size, need to take advantage of global and domestic opportunities. **Identify** and **explain** two domestic or global opportunities a business could take advantage of when trying to expand. **(8 marks)**
2 Innovation is important for enhancing or expanding a business. **Identify** and **discuss** three strategies that a business could undertake to be innovative. **(8 marks)**



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Chapter 15

Principles of the Learning Organisation, the Three Step Change Model and strategies to overcome employee resistance to change

Overview

All businesses and individuals go through change many times. In the current economic and social climate, change is constantly occurring. All businesses and their leaders and managers need to be able to manage the change process to ensure changes are implemented successfully. To assist businesses with the complex and often stressful change process, theories and principles have been developed. Businesses can use high-risk and low-risk strategies to implement and manage change. Low-risk strategies can include communication, empowerment, and support and incentives. High-risk strategies include threats and manipulation.

This chapter will examine the principles of Senge's Learning Organisation and Lewin's Three Step Change Model, and will study the core ideas and principles that underlie each in relation to how a business might transform its organisation. It will also provide an overview of the low-risk and high-risk management strategies used by businesses to respond to data and KPIs and, if necessary, to transform the business.



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Key terms

- high-risk strategies
- Lewin's Three Step Change Model
- low-risk strategies
- Senge's Learning Organisation

Key knowledge

You will be introduced to the concept of a Learning Organisation and Lewin's Change Model. You will also examine the use of low-risk and high-risk strategies to implement change. You will learn about:

- the principles of the Learning Organisation (Senge)
- key principles of the Three Step Change Model (Lewin)
- low-risk strategies to overcome employee resistance, including communication, empowerment, support and incentives
- high-risk strategies to overcome employee resistance, including manipulation and threats.

What's ahead

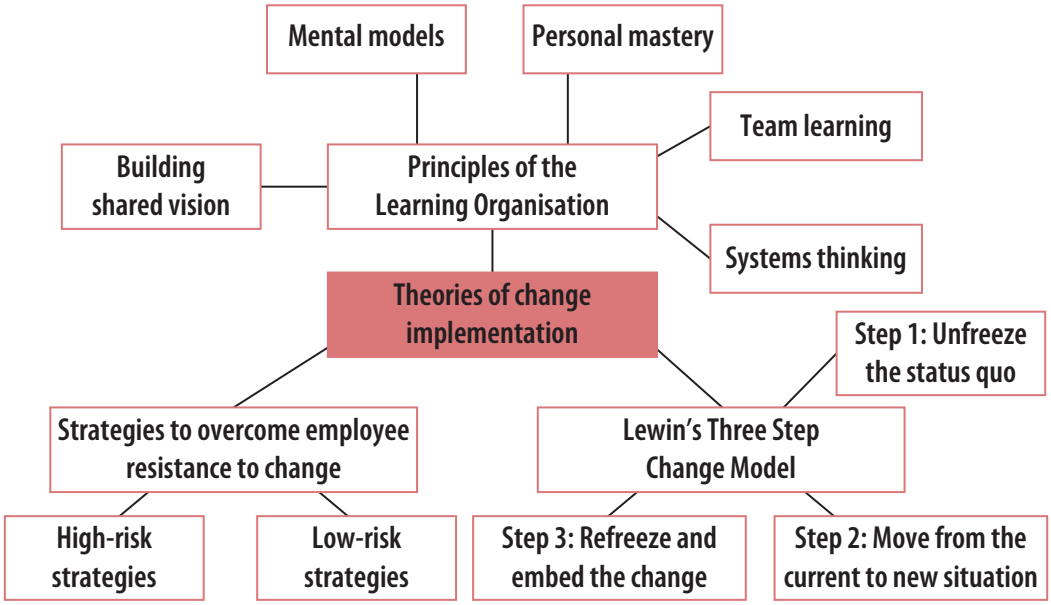
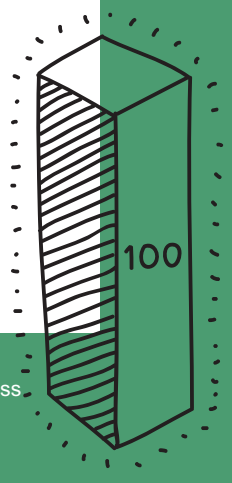


Figure 15.1 Theories of change implementation and strategies to overcome resistance to change





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15.1 The principles of the Learning Organisation

Peter Senge was named a 'Strategist of the Century' by the *Journal of Business Strategy*. He has an engineering degree and went on to study social systems modelling. He was interested in looking at the role of leadership in organisations and how it could be decentralised to enhance the capacity of all people who work in the business. He also studied how businesses developed adaptive capabilities. In 1990, he published a book called *The Fifth Discipline* in which he outlined the concept of a 'Learning Organisation'.

Senge's Learning Organisation in situations of rapid change, only those businesses that are flexible, adaptive and productive will be successful. To allow this to happen, a business needs to be able to work out how to tap into and harness people's commitment and their capacity to learn.

Senge's Learning Organisation is based on a number of principles underpinned by five disciplines:

- systems thinking
- personal mastery
- mental models
- building shared vision
- team learning.

According to Senge, Learning Organisations are:

> ... organizations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured ... and where people are continually learning how to learn together.

(Source: Peter Senge, *The Fifth Discipline*, Doubleday/Currency, New York, 1990, p. 3.)

Senge believed that only those businesses that were able to be flexible, adaptive and productive when implementing change would be successful during periods of rapid change. If a business can harness and use the talents and engagement of staff, it is more likely that people will be committed.

Figure 15.2 A business must have structures in place if it wants to encourage reflection and engagement through learning.



To support people during times of change, a business should have structures and processes in place to allow them to reflect on what they could do. If a business can focus on expanding the capacity and expertise of its people, this will positively assist the business. Businesses also have to allow staff the chance to be part of an effective team. The opportunity to connect and work with others is important for those within a business.

For a Learning Organisation to be successful, it needs to have both 'adaptive' and 'generative' learning, as the learning itself enhances the capacity to create and innovate.

Senge argued that the five factors or disciplines he identified will ensure a business is able to innovate and learn.

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The five disciplines

Systems thinking

According to Senge's theory, it is essential to look at management as a whole and the interrelationship between all parts. Senge believes that simplistic frameworks are sometimes used on complex systems. Often there is a focus on the short term 'cause and effect', and some issues or factors are ignored entirely. Senge argues that instead a long-term approach should be taken – it is imperative to look at what has occurred and gain feedback on what is taking place and why it has happened. It is also important to use 'systems maps' – diagrams that show the key elements of systems and how they all connect.

While systems thinking is the overarching discipline, the other four disciplines can be viewed as a series of principles or disciplines (practices we study, master and integrate into our lives). The disciplines can be approached at one of three levels:

1 Practices: what you do
2 Principles: guiding ideas and insights
3 Essences: those with high levels of mastery (Senge 1990, p. 373).

Each discipline is necessary if others in the business are going to be able to learn.

(Source: Based on MK Smith, 'Peter Senge and the Learning Organization', *the encyclopedia of informal education*, Infed website.)

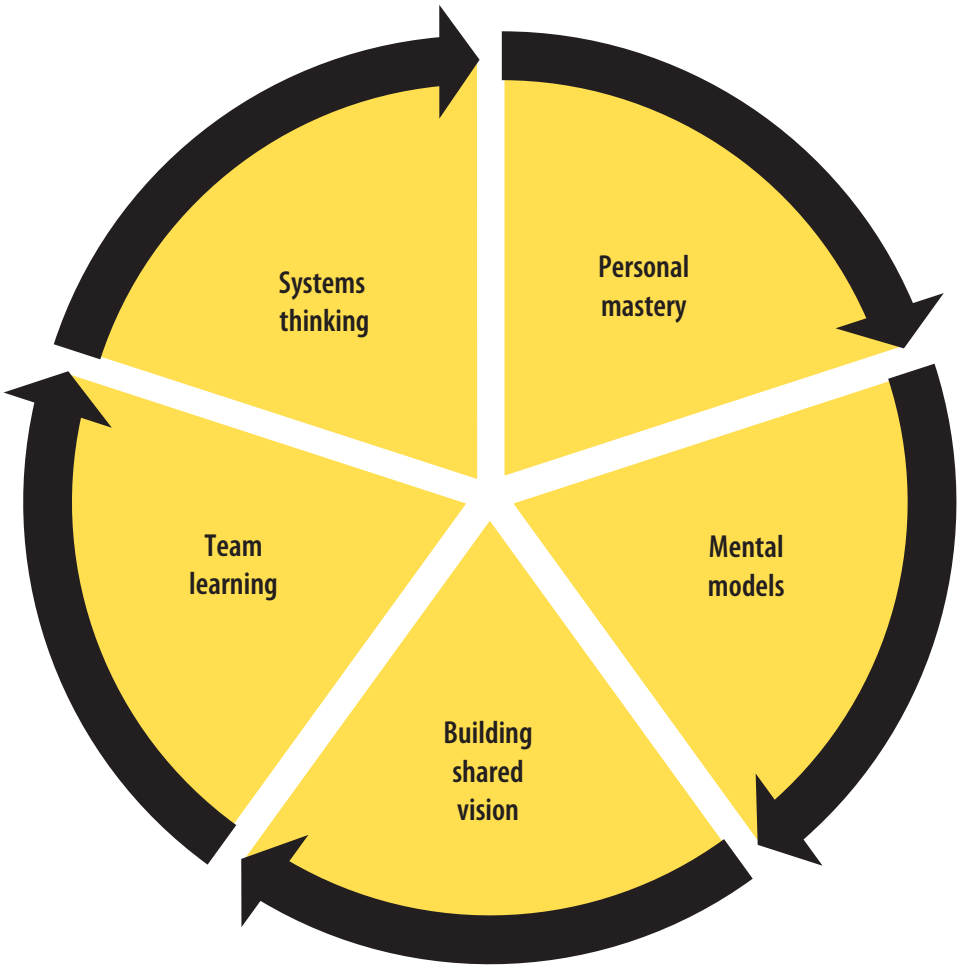


Figure 15.3 Peter Senge's five disciplines

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The core disciplines

Personal mastery

Businesses learn through individuals who learn. Learning by individuals is important. Personal mastery can be defined as the discipline of continually clarifying and deepening personal vision. It is more than competence and skills and involves growth – often spiritual. People who have a high level of personal mastery are in a continual learning mode and aware of what they do know, do not know and what they can work on improving.

Mental models

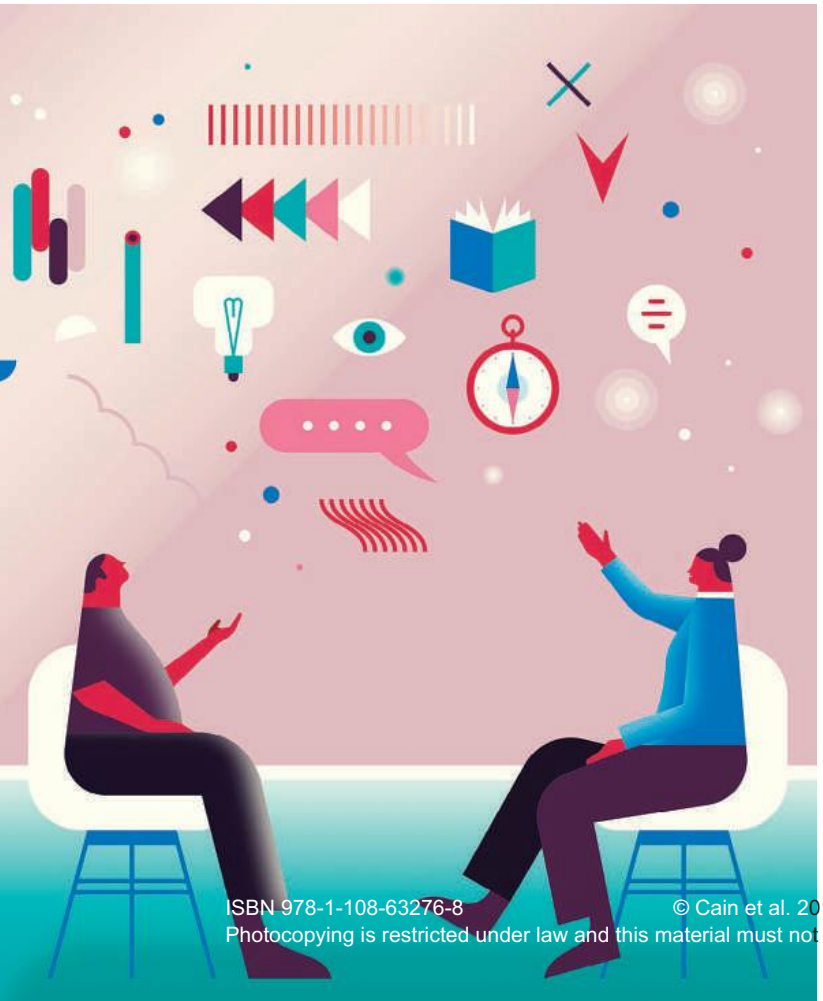
These are deeply entrenched assumptions, generalisations and images of how people understand the world. Often people are not aware of the impact of their own values and beliefs on their behaviour. If people become aware of and self-reflect on their own assumptions and picture of the world, they may adjust their mental models. Shared mental models also enable people to carry on meaningful conversations about the organisation.

If businesses are going to be able to develop a capacity to work with mental models, then staff have to be given the opportunity to learn new skills so that the business can move in the right direction.

Building shared vision

Senge believes that one central idea about leadership is the capacity to hold a shared picture of the future we want. A shared vision can encourage and inspire others to experiment and innovate in the business.

Figure 15.4 A shared vision can encourage experimentation and innovation.



A vision can be created, but it needs to come from a range of people, not just the leader, otherwise there may not be a level of commitment. Visions spread because they are reinforced as people talk, and their enthusiasm and ideas spread to others.

Team learning

Team learning can be viewed as a process where the members of the team develop the team's capacity to create desirable results for all. It builds on personal mastery and a shared vision, but the members of the team also have to act together.

(Source: Based on MK Smith, 'Peter Senge and the Learning Organization', *the encyclopedia of informal education*, Infed website.)

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Leading the Learning Organisation



Figure 15.5 A Learning Organisation requires a focus on developing employees strategically.

Senge argues that Learning Organisations require a new view of leadership. He sees leaders as designers, stewards (curators) and teachers. These people are responsible for building an organisation where people are able to expand their capacity and capabilities. Leaders are responsible for learning within the business.

Senge's ideas are aimed at inspiring managers and leaders, and there are some questions around how these disciplines can be identified and used to turn a business into a Learning Organisation. His ideas focus on a holistic vision of an organisation and the people within it; this is a change in thinking for some businesses. Senge also assumes that businesses can change their focus to the long term, which can be more difficult when business owners/shareholders want to see immediate results and have more of a short-term focus. While owners do look in many ways towards long-term growth, there may not be a focus on developing staff at a strategic level where priorities tend to be financial, or a focus on investment in technology, equipment and processes.

One example where Senge's principles are demonstrated is at IBM. Bob Schultz, general manager of IBM Talent Management Solutions, believes that in an ideal world businesses have the technology to find, hire and retain the talent they need to excel. He believes that it is important for a business to look at work–life integration rather than balance. According to IBM, both businesses and employees are demanding change, and both want to be involved in meaningful work that can lead to change.

IBM Watson Talent Insights is a tool human resources uses for listening to employees. Previously there was a yearly survey, but now human resources listens continuously to employees, who then feel more engaged and contribute to short-term and strategic business goals. The business has become more agile and it is continuously engaging with a more engaged workforce.

ACTIVITY 15.1

Discuss how the Learning Organisation principles could be used in a business to ensure it is successful during a period of change.

Figure 15.6 Senge's principles are demonstrated at IBM.



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15.2 The principles of the Three Step Change Model

Kurt Lewin was a social scientist who was born in Germany. He contributed to research and developed ideas about leading and implementing change. He is recognised as one of the significant contributors to the development of theories around applied behavioural science, action research and planned change management.

Lewin developed the concept of Force Field Analysis, which was a way to try to examine the way the behaviour of individuals and groups impacts on change (see Chapter 11 for more detail).

Lewin saw his model as part of his other theories developed around Force Field Analysis, group dynamics and action research. He argued that a successful change project involved three steps.

Lewin's Three Step Change Model Lewin developed a change management model with the three steps: 1) 'Unfreeze the status quo'; 2) Move from the current to the new situation; 3) 'Refreeze' and embed the change

The three steps of **Lewin's Three Step Change Model** are:

1. 'Unfreeze the status quo' – there is a need for the business to assist people to 'unlearn' their current behaviour.
2. Move from the current to the new situation – the business needs to assist employees to change their behaviour.
3. 'Refreeze' – put strategies in place to make sure that the new behaviour and change are stabilised and reinforced.



Figure 15.7 Lewin's Three Step Change Model

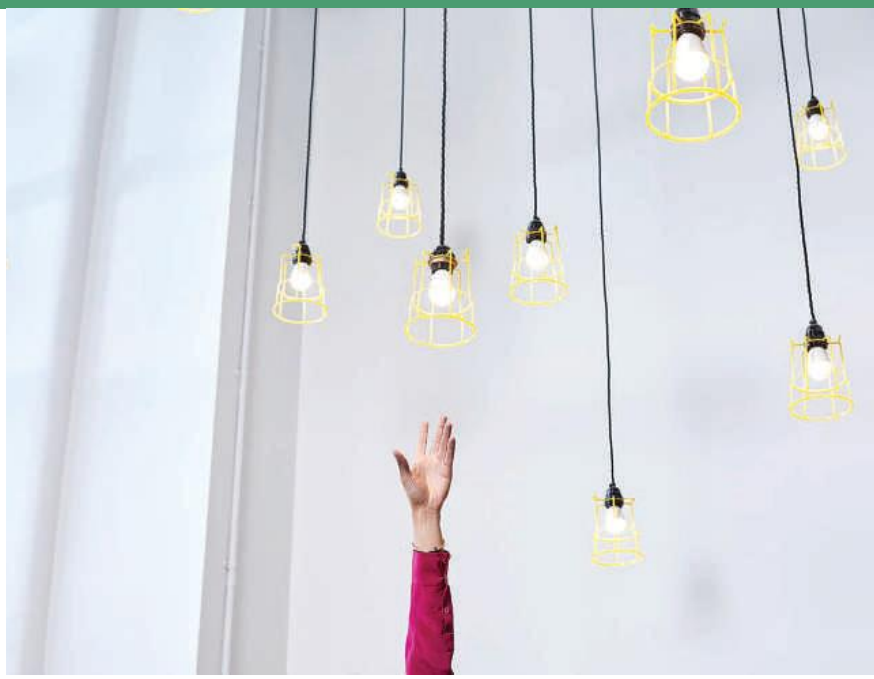
Step 1: Unfreeze the status quo

Lewin believed that human behaviour was based on the equilibrium (balance) between driving and restraining forces for change. He argued that the only way to change was to break or destabilise the equilibrium (unfreeze) before the old behaviour could be 'unlearnt' and the new behaviour successfully adopted. Others argued that the key to 'unfreezing' behaviour was to take a different approach to achieve the same end – change behaviour. People have to feel safe from loss and humiliation before they can accept the new information and ideas.



Figure 15.8 Current behaviour must 'unfreeze' or be destabilised before change can occur.

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Step 2: Move

It should be noted that 'unfreezing' present behaviour does not always mean change will occur. Lewin stated that any planned change is very difficult because of the complexity of the forces concerned. He believed that to successfully implement change people need to try to take into account all the forces at work, and this may involve some trial and error. This is a 'learning approach' where research may also be completed. Without this, and reinforcement of the change, any change would be likely to be temporary.

Figure 15.9 Implementing or reaching for change may involve some trial and error.

Step 3: Refreezing

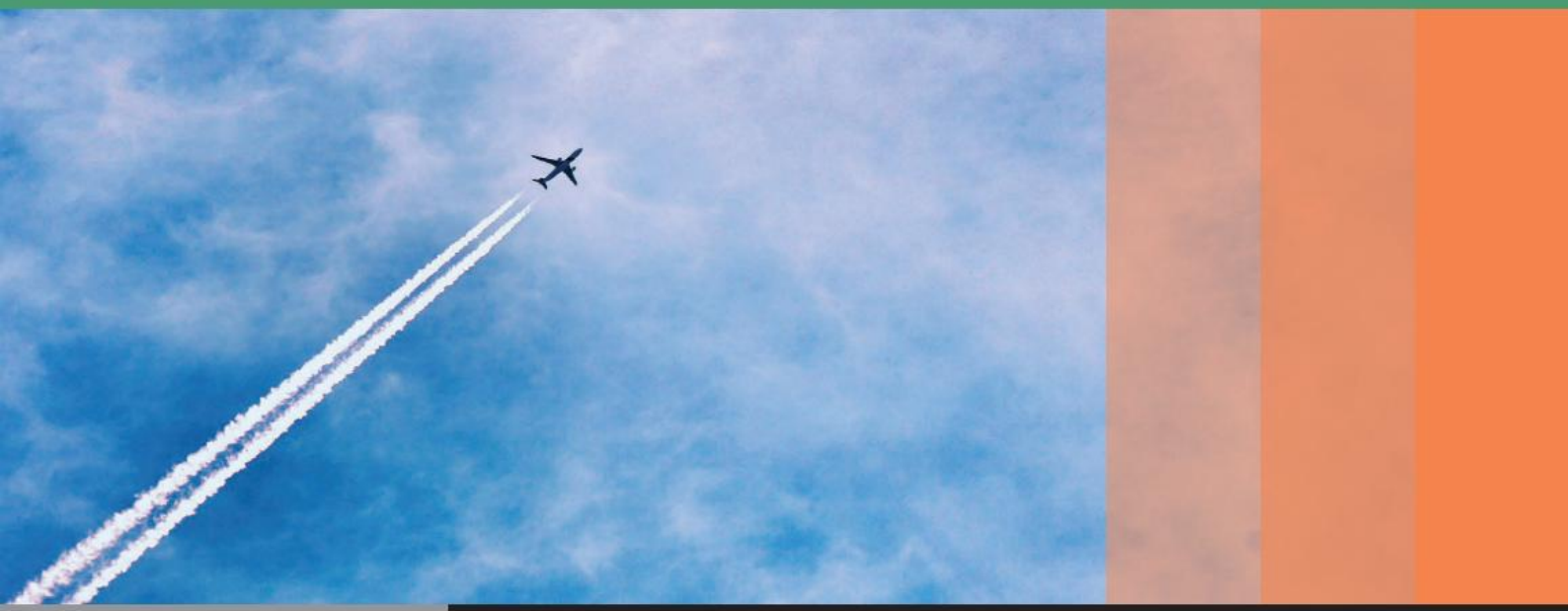
The final step in the model is refreezing. This refreezing means that the change and the group behaviours are stabilised or 'frozen' to ensure the change has been embedded in the business. Lewin saw successful change as a group activity because unless the group norms and routines were transformed, changes to individual behaviour would not be sustained. Any successful 'refreezing' involves change to the behaviour of the individual, the group, corporate cultures, policies and procedures within the business.

(Source: Based on B Burnes, 'Kurt Lewin and the planned approach to change: a re-appraisal', *Journal of Management Studies*, 41 (6), September 2004.)



Figure 15.10 'Refreezing' or reinforcing new behaviours ensures that the change has been embedded in the business.

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CASE STUDY
15.1

Lewin's Three Step Change Model: Continental Airlines

In 1994, the CEO of Continental Airlines, Gordon Bethune, successfully transformed the organisation from worst carrier to fifth-largest airline in the United States. Continental Airlines had filed for two bankruptcies prior to 1991, and was heading for a third. The significant change was initiated by the implementation of the 'Go Forward Plan', which utilised steps in Kurt Lewin's Three Step Change Model. The business had a reputation for poor service, and little care was taken of the interior of planes. There were unexplained delays and there was little care shown by staff.

The business had to make changes across a number of different areas. The process took over five years to be implemented. Changes included:

- Employees were communicated with regarding the need for change to take place. Meetings were held with employees and they were empowered and engaged in a number of ways, including making suggestions as to what needed to happen to lead to improvement. There were 40 000 jobs at stake. Employees were also offered incentives and payments if airline performance improved.
- Maintenance budgets were addressed in an effort to improve reliability.
- Managers at all levels of the business were empowered, as many had been too afraid, or not given the opportunity, to manage and make changes.
- Changing the mindset – previously frequent changes to senior management in a short period of time meant that nothing happened while the business waited for a new president.
- The managers acted and did not look back, employees took an active role in the whole process.
- Many managers left (new people were needed to turn the company around).
- Planes were repainted and refurbished and a new image was marketed.
- Customers were asked for feedback: what did they want and what would they pay extra for?

The change revolved around the 'Go Forward Plan' based on four cornerstones:

- Fly to Win (market plan)
- Find the Future (gain financial liquidity)

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- Make Reliability a Reality (product plan)
- Working Together (people plan).

The changes made at Continental Airlines have been successful and the business has turned around. In 2010, the business merged with United Airlines, with the new airline having the United name, but Continental's logo. The vision and purpose of the business now centres on:

> **Connecting People. Uniting The World.**
>
> Every day, we help unite the world by connecting people to the moments that matter most. This shared purpose drives us to be the best airline for our employees, customers and everyone we serve.
>
> **We Fly Right**
>
> On the ground and in the air, we hold ourselves to the highest standards in safety and reliability. We earn trust by doing things the right way and delivering on our commitments every day.
>
> **We Fly Friendly**
>
> Warm and welcoming is who we are.
>
> **We Fly Together**
>
> As a united United, we respect every voice, communicate openly and honestly, make decisions with facts and empathy, and celebrate our journey together.
>
> **We Fly Above & Beyond**
>
> With an ambition to win, a commitment to excellence, and a passion for staying a step ahead, we are unmatched in our drive to be the best.
>
> (Source: 'Our Shared Purpose & Values', United Airlines website.)

CURRENT SITUATION (UNITED AIRLINES)

United Airlines and United Express operate approximately 4600 flights a day to 354 airports across five continents. In 2017, United and United Express operated more than 1.6 million flights carrying more than 148 million customers. It now has the world's most comprehensive route network, including US mainland hubs in Chicago, Denver, Houston, Los Angeles, Newark/New York, San Francisco and Washington, DC. United operates 750 mainline aircraft and the airline's United Express carriers operate 545 regional aircraft.



Figure 15.11 Continental Airlines used Lewin's model to implement widespread changes.

ANALYSIS

1 Explain how Lewin's Three Step Change Model can be used by a business implementing change.
2 Describe how Continental Airlines used Lewin's model to implement far-reaching changes.
3 Discuss why it is important for a business to identify the issue/s that need to be addressed before starting the process of change.

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ACTIVITY 15.2

In groups of two or three, investigate a recent change in your school or place of employment.

1 Identify why the change was introduced.
2 Investigate how the students, parents and teachers were informed of the change.
3 Synthesise your findings and report back to the class on the issue.
4 Justify whether the change was successful.
5 Link the change process back to the Three Step Change Model and assess whether the model was followed.

15.3 Strategies to overcome employee resistance to change

The majority of people do not like change. While some see change as exciting and welcome a challenge, most people become comfortable with routine and tend to stay in their comfort zones. The uncertainty of change, and of the future, means that change becomes a stressful experience for the majority of people.

Before taking action, managers must make time to understand the situation, the people they are dealing with, and how and why they feel the way they do.

There are different ways to overcome employee resistance to change; these can be either low-risk or high-risk.

low-risk strategies participative approach to implementation of change, using communication, empowerment, work groups and support for those who are impacted upon

Low-risk strategies

When implementing change, organisations should try to use **low-risk strategies** to overcome employee resistance, as these strategies are more likely to lead to acceptance of the change. With this approach, change will be implemented and usually sustained. Low-risk strategies include:

- two-way communication between management and employees – this means that managers and employees are in open and honest communication, and the information is two-way so that everyone is kept in the loop.
- empowerment of employees to make decisions – if employees are involved in the process, they are more likely to take ownership of the changes. Once the need for change is agreed, how it can be implemented, and what support or measures are needed, are decisions in which the employees can be involved and can lead.
- support and incentives – sometimes employees may need support to manage the change, as it can have a negative impact on employees and their health and well-being. Support may be required to ensure that staff are able to cope with the changes. Training and transition to changes in responsibilities and roles can support employees and allow them to feel confident about the change and their place in the business. Other incentives to change may include a different job, transfer or promotion.



Figure 15.12 Low-risk strategies allow for employees to feel valued throughout the process of change.

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High-risk strategies

Some businesses may decide to use **high-risk strategies**. Such practices can include:

- threats to employees who do not agree with the change – this may include threatening employees with the loss of their job or a demotion, or may involve bullying or exclusion.
- manipulation of the situation – for example, some of the details or consequences of the change may be left out of the information presented, or the facts may be distorted and employees pushed into a certain direction or decision. Leaving out some of the more adverse or difficult information may mean that employees are making decisions without being fully informed.

high-risk strategies autocratic approach to implementing change, involving use of force, threats and manipulation of situations

Overall, low-risk strategies are more likely to be successful in the long term. They allow for all stakeholders within the business to feel valued as their ideas and feelings are taken into account. Often an employee or other stakeholder who has first-hand experience in an area will know how the change may look in practice. If managers want change to be successfully implemented, they should use low-risk strategies.



CASE STUDY **15.2**

Overcoming employee resistance to change: Nokia

Nokia is a global technology leader which serves communications service providers, governments, large enterprises and consumers, with the industry's most complete, end-to-end portfolio of products, services and licensing. From the enabling infrastructure for 5G and the Internet of Things, to emerging applications in virtual reality and digital health, the business is shaping the future of technology to transform the human experience. A truly global company, we are 160 nationalities working in more than 100 countries.

(Source: Based on Nokia's Annual Report, 2017, p. 2.)

CONTINUED ITEM

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Nokia has worked on developing strategies to value and use the talents and skills of its employees. It has a 'Drive, Dare and Care' policy that encourages employees to be involved and innovative. The internal Culture Cohesion Tracker survey reflects the employees' belief in the direction of the company.

Nokia has continued to work on developing a common culture and ways of working in all six of its business groups across the globe.



Figure 15.13 Nokia places employees at the centre of change processes.

The teams are made up of people from a huge variety of personal and professional backgrounds, expertise and experience. Nokia celebrates this, and the cultural diversity of the business is reflected in the executive leadership teams, which include six different nationalities, three female members and an extremely varied number of educational backgrounds. The appreciation of others starts at the top.

Many of the employees are from different parts of the world. The Nokia website has a number of employee blogs where staff discuss their roles and the positive things and the opportunities available at Nokia.

ANALYSIS

1 Distinguish between low-risk and high-risk strategies to manage the change process.
2 Identify the type of strategies Nokia would use based on the information in the article.

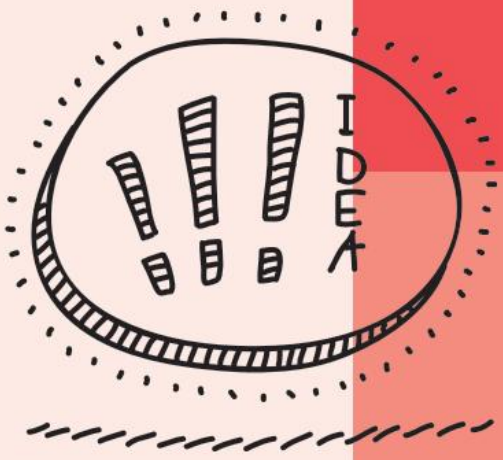
SAC AND EXAM TIPS – linked to key skills

Senge's Learning Organisation principles highlight the need to support and develop people for long-term success in a business or organisation.
Lewin's Three Step Change Model simplifies the change process. It is important for businesses to refreeze or embed change to ensure long-term success.
Low-risk strategies are more likely to successfully bring about change than high-risk strategies.

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Chapter summary

- All businesses have to manage change in their environment.
- Peter Senge examined the role of leadership in organisations.
- He argued that there can only be rapid change when a business is flexible, adaptive and productive.
- The key principles of the Learning Organisation centre on harnessing people's commitment and capacity to learn.
- Senge's five factors or disciplines are:
  - system thinking
  - personal mastery
  - mental models
  - building shared vision
  - team learning.
- Lewin's Three Step Change Model is an approach to implementing change in a business.
- Lewin's Three Step Change Model is made up of:
  1. unfreezing the current situation or status quo
  2. moving to the next phase or situation
  3. refreezing the new situation.
- Businesses can use low-risk strategies to manage employee resistance; for example, the use of communication, empowerment, work groups and support for those who are affected.
- Some businesses use high-risk strategies to implement change, including the use of force, threats and manipulation of situations.



Chapter summary tasks

1. Outline Senge's key principles of the Learning Organisation.
2. Describe the five factors or disciplines that ensure a business is able to innovate and learn.
3. Discuss the idea of Senge's concept of the role of leadership in the change process.
4. Explain Lewin's Three Step Change Model.
5. Discuss how Lewin's model can be used in a business wishing to introduce change.
6. Explain why businesses would use low-risk and high-risk strategies to overcome resistance to change.
7. Identify the possible consequences on a business of implementing high-risk strategies to overcome resistance to change.

Examination preparation

1. The Learning Organisation is based on a number of different disciplines. **Outline** two of these disciplines and **explain** how they can support a business trying to change and develop. **(8 marks)**
2. **Describe** Lewin's Three Step Change Model and **explain** how the steps can be applied in a business wishing to introduce change. **(6 marks)**
3. **Identify** two high-risk and two low-risk strategies for change. **Discuss** why low-risk strategies may be more likely to lead to sustained change in a business. **(7 marks)**

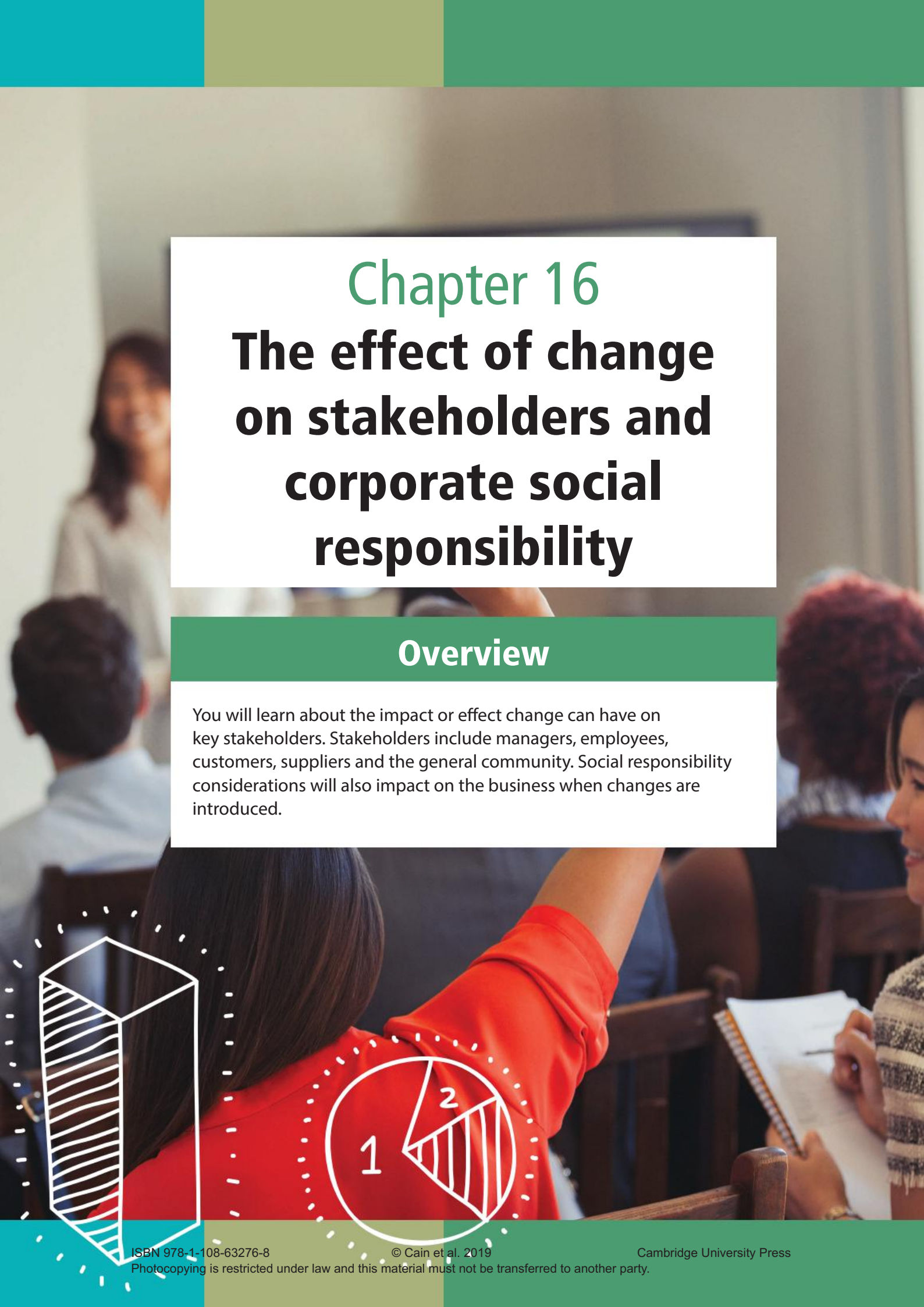
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Chapter 16

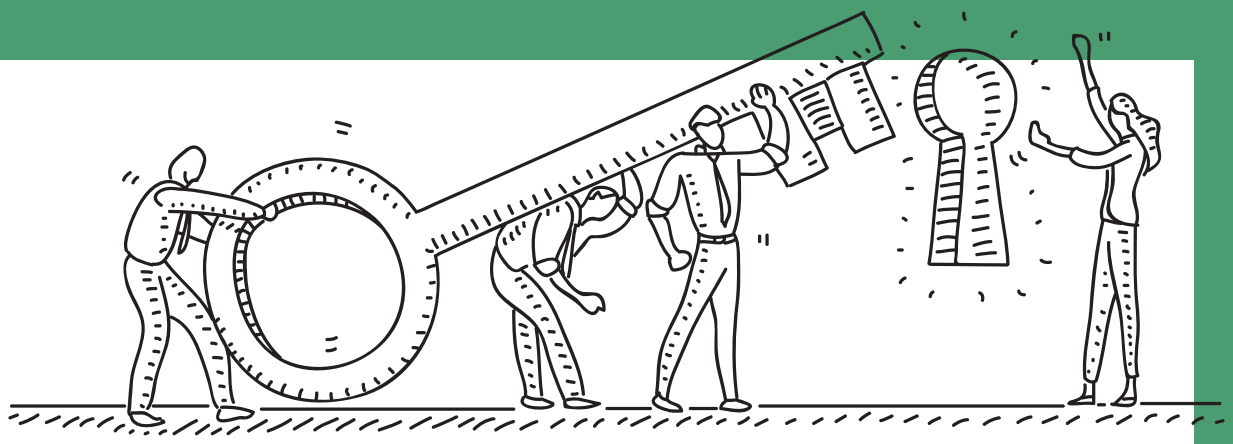
The effect of change on stakeholders and corporate social responsibility

Overview

You will learn about the impact or effect change can have on key stakeholders. Stakeholders include managers, employees, customers, suppliers and the general community. Social responsibility considerations will also impact on the business when changes are introduced.



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Key terms

- affirmative action
- award restructuring
- corporate philanthropy

Key knowledge

You will examine the effect or impact change can have on stakeholders, and the types of social responsibility considerations a business should contemplate. You will learn about:

- the effect of change on stakeholders, including managers, employees, customers, suppliers and the general community
- corporate social responsibility considerations when implementing change.

What's ahead

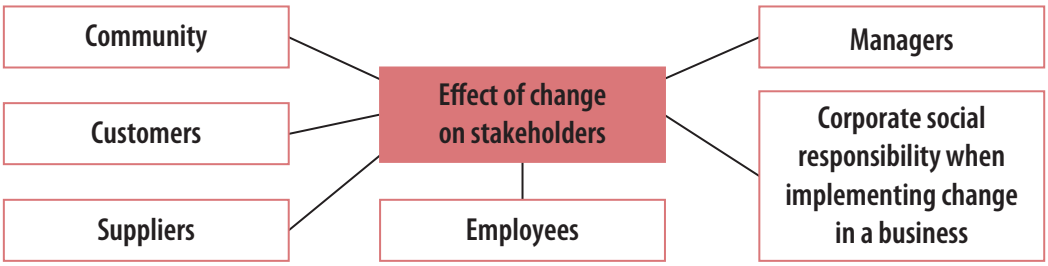
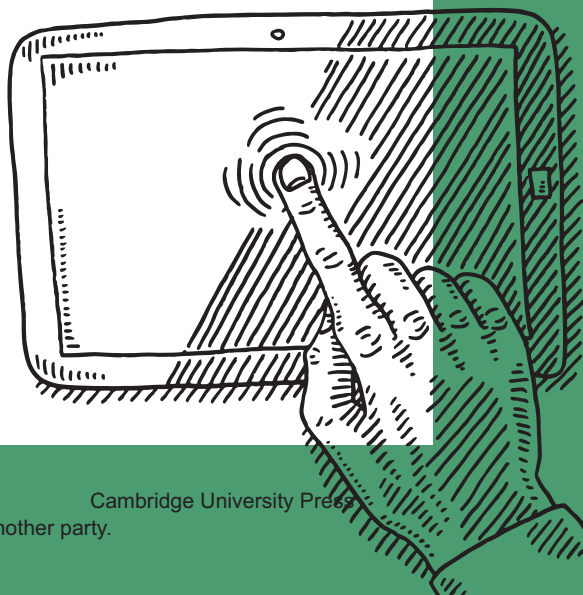


Figure 16.1 Effect of change on stakeholders and corporate social responsibility



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16.1 Effect of change on stakeholders

Change has an impact on a number of stakeholders and on many facets of the business. Whether the change is far-reaching or relatively minor, it will impact on people or groups connected to the business. It is important that leaders and managers of a business are aware of the effect of the change and try to ensure that negative impacts are minimised where possible, or that the positive aspects of the change are highlighted. Stakeholders who may be affected by the implementation of change include:

- managers
- employees
- customers
- suppliers
- general community.

Managers

Managers are affected by change in a business. This effect can be far-reaching: managers may have to try to cope with changes to their positions or their responsibilities while managing the implementation of the change with the employees. Some managers may find themselves in a difficult position and 'stuck' between the need for implementation, coping with the change themselves and supporting employees at the same time.



Figure 16.2 Managers may need to re-evaluate management styles to cope with change.

Managers may need to re-evaluate the management styles used with employees and the types of management skills they need to develop. Appropriate management styles might be participative or consultative, as these will involve the employees in the process more positively. Managers may also be affected if they need different skills when implementing change. They may need to develop and improve a range of skills, such as communication, delegation of authority, empowerment, planning, leading employees, decision-making and interpersonal skills (as discussed in Chapter 3). As part of their role, managers also have to continually monitor and evaluate the changes to ensure that the new processes and procedures allow for the achievement of the goals of the business.

Senior managers might find themselves in the position of having to support and put in place strategies to overcome resistance from middle and front-line managers who may react in the same way as employees. Feelings of uncertainty and changes in roles or jobs, authority and reporting lines might make it just as difficult for managers to accept changes as it is for employees.

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ACTIVITY 16.1

Sasha and Sarah are both sales managers who are implementing new procedures for their area. One of the main changes is a focus on employees recording their sales and keeping a log of their hours of work. Employees are able to work flexible hours in the office or at home. Sasha likes to know exactly what all his team members are doing and is finding the new arrangements difficult.

1 Predict the possible impact of the new procedures on the managers in the sales department.
2 Describe the types of skills the managers would need to develop.

Employees

Employees are always affected by change within a business. The changes can be at the individual level, the department or function they work in, or the business as a whole. Employees may find that their positions, the tasks they are required to complete, the types of skills they need to possess, the hours of work and even the location of their workplace may change depending on the decisions made by the business.

Employees may find that they are happier with the changes or are stressed and concerned. For many, change is daunting, and it is important that employees understand why the changes have taken place, as well as the benefits to them and the business. Management needs to ensure that employees are supported in the implementation of the change(s) within the business.

Many employees will worry about changes and how these will affect their roles and place in a business. According to a survey by The Society for Human Resource Management (SHRM), the rate of business change has accelerated dramatically. Experts have estimated that 30 years ago the largest businesses typically had one or two widespread changes at the one time. Today it is estimated that between 20 and 25 changes occur at the same time and such changes are not limited to large companies. As major changes become more frequent and widespread, it is even more important that employees are involved in and support the change process.

Communications that can nurture and support employees affected by change include:

- making sure employees have the information they need to make decisions
- providing them with opportunities to make decisions
- helping leaders/managers feel comfortable empowering employees.

Figure 16.3 Managers are realising that responsive employees are able to support their peers through change.



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CASE STUDY
16.1

Effect of change on staff: Qantas sells catering business to Emirates

Qantas has sold its catering arms to its global alliance partner Emirates, in a move it says will help it to focus investment in its core airline operations.

The airline said it would sell Q Catering Limited and Snap Fresh (which produces frozen meals for a number of airlines, as well as customers in healthcare and general retail) to the Dubai National Air Transport Association (dnata), who supply catering, cargo and ground handling for the Emirates Group. Emirates will then provide catering services for Qantas for the next 10 years.

Qantas will continue to set its own menus and work with produce suppliers, the airline said.

Qantas's combined catering businesses employ about 1200 people, who will become dnata employees.

ANALYSIS

1 Outline the changes being made at Qantas.
2 Summarise how the changes will impact on Qantas and the employees from Q Catering and Snap Fresh.
3 Describe the process Qantas might put into place to support employees transitioning to Emirates.

Customers

Customers may be affected by changes implemented in a business. They may find that their preferred products and services are no longer available, or that access to goods and services has changed. It is important for a business to ensure that customers are fully aware of the changes that have been implemented and any effects these might have. Businesses – through managers and employees – need to ensure customers and potential customers are clear about the changes and the benefits for the customer.

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If a business has not taken into account the wishes and preferences of customers, it may risk losing loyal customers and miss out on potential customers. Changes are often implemented in a business with the focus on the shareholders, and employees and customers may not be taken into consideration.

A number of businesses have made changes to products or services and have had to contend with negative feedback and reactions from customers. Coles, for example, changed its home brand nappies. While the business argued that it had been tested and was an improved product, customers turned to social media to voice their unhappiness. Arnotts is another example: it made changes to its Shapes range of biscuits and immediately lost sales, as many customers were unhappy with the new biscuits. This led Arnotts to offer the 'old' and the 'new' varieties.

If a business has not considered the impact of change on customers, particularly if it is negative, the change could have an impact on the business as a whole and may adversely impact on revenue and reputation.



CASE STUDY **16.2**

Effect of change on customers: Toblerone's redesign

TOBLERONE'S REDESIGN SENDS CHOCOLATE LOVERS IN A SPIN: WAS THE 'COST SAVING' EXPLANATION WISE?

Mondelēz International has rolled out one cost-saving measure this week that's impossible to hide; a change in the size of Toblerone bars.

The change, which involves spacing out the peaks of the Swiss chocolate to reduce the weight of each bar, was announced in late 2016. Once the new product was launched, many customers realised that the product looked different and the price was the same.

Manufacturer Mondelēz International said in a social media statement last month that while the company has tried to carry increased ingredient costs for as long as possible, it was forced to make the choice to lower the weight of each bar in order to ensure 'Toblerone remains on-shelf, is affordable and retains the triangular shape.'

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But thousands of customers have pointed out not only that the shape is a key part of the product, but the change does alter the appearance of the bar.

The 400 g Toblerone bar produced in the UK will now weigh 360 g, while the 170 g bar will now weigh 150 g, although it's unclear whether the changes will make their way to Australia or other regions where Toblerone is distributed.

The Toblerone chocolate bar has been marketed as a quality and accessible European treat and gift for more than 100 years – and this image makes a product change like this even more difficult, say experts.

The brand has a number of holiday special editions and sales, which a number of customers have referenced over the past week as they draw on the nostalgia for the old product.

Given the brand has high visibility, the narrative around the change has to go beyond simply money saving, says Marketing Angels director Michelle Gamble.

'For Toblerone, their product is really iconic for its shape, and you've got to be really careful when people are attached,' Gamble says.

A spokesperson for Mondelēz International stated that the 400 g Toblerone bar had its size reduced to 300 g earlier in the year and the new size has been sold in Australia since May.

(Source: Based on Emma Koehn, 'Toblerone's redesign sends chocolate lovers in a spin: Was the "cost saving" explanation wise?', *SmartCompany* website, 9 November 2016.)

ANALYSIS

1 Explain why it is important for businesses to be aware of the impact of changes on customers.
2 Outline why there have been concerns around changes to the Toblerone chocolate bar.



Figure 16.4 Suppliers can be affected both negatively and positively by a change in a business.

Suppliers

Suppliers can be affected substantially by a change in a business. The business may no longer want their products or services, there could be new contracts that benefit the suppliers, or there may be changes in contracts and supplier specifications, which could adversely impact on the suppliers. It can be difficult if the supplier is a relatively small business that has little control or influence over what the relationship is with the business buying its products.

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CASE STUDY
16.3

Effect of change on suppliers: Volkswagen Group

VW PUSHES ITS SUPPLIERS TO RAISE SUPPLY CHAIN SUSTAINABILITY

Volkswagen Group has said it is engaging in 'intensive' discussions with its suppliers to determine how the sustainability of its supply chain can be improved, especially for the raw materials used in electric vehicles.

The company said it had made its corporate guidelines more stringent, requiring greater transparency in raw materials procurement from its suppliers.

In addition to the previous requirements such as compliance with clearly defined working conditions, environmental and safety standards as well as human rights, the guidelines now explicitly forbid any form of child labour or forced labour in the extraction of raw materials such as cobalt and mica.

'Specifically, the objective is to bring environmentally compatible vehicles onto the road that have been produced with respect for human rights and in accordance with environmental and social standards throughout the supply chain,' said the carmaker in a statement. 'This starts with raw material extraction and ends with the finished product.' In early 2017 the VW Group company Audi announced it would only place orders with suppliers who achieved a positive score under a new sustainability ratings system.



Figure 16.5
Volkswagen has improved its supply chain management system.

Francisco Javier Garcia Sanz, member of the board of management of the Volkswagen Group responsible for procurement, said: 'We expect our suppliers to ensure maximum transparency and provide information on compliance with

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the agreed sustainability standards. We will consistently pursue any infringements or irregularities.'

In September, Volkswagen was named amongst a group of corporations and NGOs aiming to end child labour, hazardous working conditions, pollution and environmental damage in the global battery supply chain.

The Global Battery Alliance was launched at the World Economic Forum (WEF) Sustainable Development Impact Summit in an effort to create a responsible value chain for the battery market.

(Source: Based on Gareth Tredway, 'VW pushes its suppliers to raise supply chain sustainability', *Automotive Logistics* website, 13 December 2017.)

ANALYSIS

1 Outline the main concerns raised in this case study.
2 Describe the changes made by Volkswagen and the possible impact on its business.
3 Explain why businesses need to consider their relationship with their suppliers.

General community

The community can be impacted on directly and indirectly by the changes within a business. If a business decides to relocate to another area or state, this has an impact on the local community because, apart from a loss of direct employment, other businesses may be affected, as there are not as many people in the area who need places to live or other services such as retail outlets and restaurants. If a business decides to expand, this can have an impact on the general community in a particular area, as it may mean there is increased traffic, or resources are required.

The general community can also be impacted on by business decisions to change or expand the types of goods and products made or distributed. The change may require more natural or non-renewable resources to be used in a particular industry, which will then have an effect on the whole community. Small and medium-sized businesses may have a more localised impact when implementing change. A rural town or regional centre may be adversely affected by decisions made by a local small business. A change introduced by a large business may have an impact on the community at large in a state, throughout Australia or even on an international level.



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The changes to the car industry in Australia, and decisions made to cease production of locally made motor vehicles, have had a wide impact on the local community as well as employees and suppliers. If a factory closes, it might mean that people and families need to move to other areas or towns to find employment. This will have a subsequent impact on businesses, housing and facilities in these towns.



CASE STUDY
16.4

AMP admits putting shareholders before customers

During the 2018 Royal Commission into the financial and banking sectors, AMP executive Anthony 'Jack' Regan was questioned about a range of internal documents and communications that showed that AMP was charging customers fees for services not provided.

Mr Regan said, 'I think the concerns there are obvious … It's clear that we preferenced the interest of shareholders over the interest of clients in that exchange'. Mr Regan subsequently resigned and there may be charges against some managers and employees at AMP.

Mr Regan also stated that there was a need for some areas of the company to have greater clarity about what they could do.

In 2015, AMP told ASIC (Australian Securities and Investments Commission) that an audit of its processes by PwC, which found it did not conduct any investigation or analysis of compliance issues as they arose, had determined that there were no issues. In fact, some reports had been rewritten to indicate that there was no cause for concern.

ANALYSIS

1 Summarise the main points in the article.
2 Discuss the statement that the business gave priority to 'the interest of shareholders over the interest of clients'.

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Table 16.1 Possible impacts of the implementation of change on stakeholders

Stakeholders	Possible impacts
Managers	• Effective implementation of change may mean the use of consultative and participative styles – use of two-way communication, group decision-making and decentralised authority • Need for skills such as interpersonal/communication skills, decision-making, delegation and vision • Focus on planning and leading through the implementation process • Appointment of new senior managers, new management styles and new corporate culture
Employees	• Emphasis on work groups or teams • HR managers will need to recruit staff with the right skill set, and manage ways to provide career paths and retain talented and skilled employees • Employees may become multiskilled or rotate through positions and duties • Changing jobs and tasks for employees to complete • New training and development of employees if jobs change • New production methods that may entail changes in the employees required in the business • Decentralisation of power, decision-making and accountability, with more emphasis on employees • Many job descriptions and tasks may change as a result of change within the business • **Award restructuring** and the introduction and extension of collective agreements and industry awards • Focus on occupational health and safety, equal opportunity and **affirmative action** as a result of legislative changes
Customers	• May find that their choice is limited (or has grown) • May find that some products and services are no longer available, or replaced by improved versions • Prices of some products may increase or decrease • May find that some products or services have changed from the ones they originally purchased
Suppliers	• Code of conduct for suppliers might be introduced • Restrictions on conditions of supply or products might occur • Some suppliers might develop strong relationships with a business

award restructuring microeconomic reform designed to change how labour is organised, employed and paid; it is aimed at increasing productivity by multiskilling and retraining workers and through union amalgamation

affirmative action programs that require businesses to make special efforts to recruit, select and promote women and members of minority groups

ACTIVITY 16.2

Consider the impact on stakeholders in a business if the following scenarios occurred. Outline a brief response for each.

1. Some of the IT functions of a business have been outsourced to the Philippines.
2. A merger with a competitor has been initiated.
3. A level of management has been made redundant.
4. A critical skills shortage has led to a major recruitment drive by a business.
5. A new marketing manager has been appointed.
6. A new collective agreement has been ratified by the Fair Work Commission.
7. An established and well-known product has been changed.
8. A small business has decided to offer student academic scholarships to the local secondary college.

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16.2 Corporate social responsibility when implementing change in a business

Behaving in a socially responsible and ethical manner is important for all businesses. It is an expectation of employees, customers, shareholders and the community at large that a business will put into place processes and practices to ensure that all its dealings with stakeholders are ethical and that it contributes in some way to the community beyond the provision of goods and services and compliance requirements. This is particularly important when implementing change or transformation in a business.



Figure 16.6 Corporate social responsibility should be incorporated into all aspects of a business.

Corporate social responsibility

Whatever the size and type of the business, the principles of corporate social responsibility (CSR) should be considered in policies and procedures. It has become an increasingly important issue for all businesses.

The World Business Council for Sustainable Development defines corporate social responsibility as:

> the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families and the local community and society at large.
>
> More than goodwill, corporate community involvement or strategic **corporate philanthropy**, corporate responsibility is a genuine attempt by a company to build meaningful relationships between the corporate sector and the rest of society. This can be achieved when a business adapts all of its practices to ensure that it operates in ways that meet or exceed the ethical, legal, commercial and public expectations that society has of business.

(Source: Copyright © World Business Council for Sustainable Development 2003–2015. All rights reserved.)

corporate philanthropy a business's way of giving back to its community – local, regional, national or international – through financial donations and non-cash contributions such as time, expertise and goods. Companies can donate to charities and not-for-profit organisations.

Corporate social responsibility includes the moral and ethical decisions made by businesses. It includes questions of what the business can do for society. If a business is socially responsible, it adopts behaviours that will help achieve broad societal values. Businesses that demonstrate social responsibility express concern for how they may affect the environment and society and have a concern for their employees.

To be considered effective, corporate social responsibility must be integrated within day-to-day activities and business practice. All stakeholders should be engaged and the business needs to include strategies that support and encourage managers to make socially responsible decisions, comply with ethical behaviour and obey the law.

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Examples of strategies adopted by businesses to transform commitment to corporate responsibility into practical action include:

- articulating a business philosophy and incorporating it into vision and mission statements that set out the social responsibility ideals
- a code of ethics that incorporates social responsibility and is applied throughout the business
- employment policies that also support and reflect social responsibility; for example, employees' volunteer or pro bono work completed during business hours, mentoring programs, community forums and corporate community partnerships
- strategic philanthropy that involves a business having a plan for the long term that necessitates a commitment to behaving in an ethical manner and contributing in some way to the community.

Good corporate citizenship means that a business goes beyond the minimum requirements such as the obligations included in legislation. Legal obligations include compliance with health and safety legislation, completing taxation information and other financial information correctly and minimising the impact of chemical and other waste on the environment. CSR and being a good corporate citizen also relate to the drive to improve society. Many businesses, regardless of their size, have taken a proactive approach and have implemented policies and actions rather than waiting and reacting to the demands of the community. By being proactive, these businesses are demonstrating that they take their social responsibility roles seriously and have included CSR as part of the overall strategic plans of the business identity.

Since the 1990s, there has been a sustained and general interest in the triple bottom line performance of businesses (see Chapter 9). Businesses are being held more accountable for their activities and there has been a move towards reporting on environmental and social as well as financial performance, hence their business and strategic decisions are based on more than economic factors.

Businesses are now finding that it is necessary to have policies and business activities incorporating CSR into all areas and functions. Corporate social responsibility has become the norm, and surveys and polls conducted and published across the globe and in Australia have identified and confirmed that customers expect businesses to contribute to the economic, social and environmental agendas of the countries they operate in. People are starting to focus on corporate citizenship ahead of brand reputation or financial factors when forming impressions about the businesses they are going to interact with.

Figure 16.7 Businesses can encourage employees to be involved in their community as part of their corporate social responsibility.



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Research shows that Australians feel strongly about the concept of corporate social responsibility. Furthermore, a 2017 CSR survey discussed on the Pro Bono Australia website found that 50% of respondents say that sustainability reporting should be mandatory.

> The Australian Securities Exchange (ASX) participates in international assessments such as the Carbon Disclosure Project on emissions and waste, the FTSE4Good Index Series (which identifies companies that meet social and environmental criteria) and the World Federation of Exchanges annual survey which gauges an exchange's role in sustainability. The ASX is also a partner in the United Nations Sustainable Stock Exchange Initiative targeted at enhancing corporate transparency on environment, social and governance issues and encouraging sustainable investment.
>
> (Source: Based on 'Corporate social responsibility', ASX website, 9 November 2018.)

Polls also suggest that consumers are willing to switch brands to support businesses that they believe benefit community and world causes. Corporate social responsibility is 'good ethics' and also good business.

Many companies are responding to the changed expectations by switching to more ethical business practices. In annual financial reports, most businesses are incorporating triple bottom line reporting including a broader range of information covering areas such as the environment, community development and anti-corruption activities.

Businesses recognise the need to take an active role in developing practices that meet best-practice benchmarks, and to act responsibly to minimise the impact of their business on the environment. Despite this, some still do not address the concept of strategic social responsibility, shown as the top part of the diagram of social responsibility (Figure 16.8). Attending to corporate responsibility would allow businesses to examine and modify how they function; for example, aligning processes or developing plans to include greater social and environmental priorities.

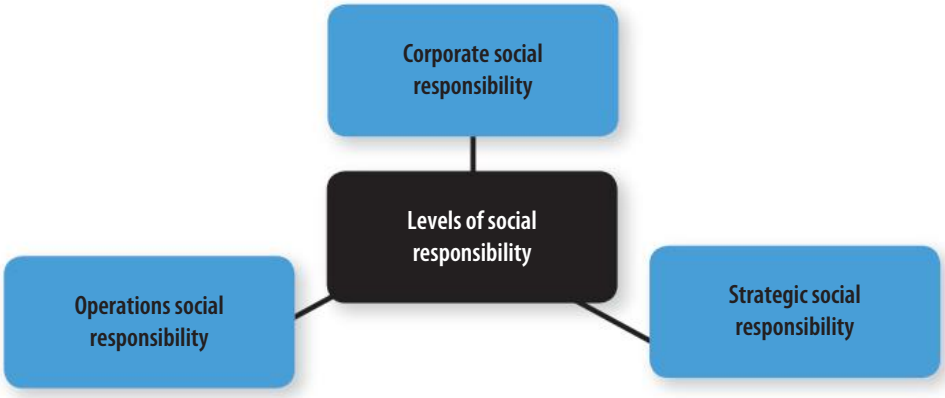


Figure 16.8 Levels of social responsibility

Stakeholders

Key stakeholders in any business include employees, government, community, the media and customers. The continuing goodwill of each of these groups is essential to the future success of the business. These stakeholders all have an interest in a company's sustainability and there are long-term benefits for the organisation, including improvements in reputation and brand image. The suppliers to the business also benefit from its growing reputation, while shareholders are increasingly seeking out companies that have a strong CSR profile to invest their money in its long-term triple bottom line performance.

Stakeholders may have different social responsibility issues and expectations, with different implications, from those of the business. Stakeholders usually consider social responsibility from their own perspective.

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Employees

Employees are concerned with issues such as human resource policies and practices, opportunities to develop, and pay and benefits. In addition, many employees are starting to drive social responsibility and are concerned about issues such as work–life balance, diversity and being able to contribute to the community in some way.

The benefits of practising corporate socially responsible behaviour when handling these issues include:

- improving morale in the workplace
- higher productivity
- reduced employee turnover costs
- greater identification and connection with employees.

The last point is considered to be particularly important, as high employee identification increases the likelihood that staff will act in the best interest of employers, thereby reducing risks of fraud and unethical behaviour.

Customers

It has been found that customers are more likely to buy goods and services from socially responsible businesses as well as avoid purchasing from socially irresponsible companies. Customers prefer to source goods that are kind on the environment (e.g. organic or not tested on animals). CSR issues for consumers include product manufacturing (e.g. human rights of workers, product safety), labelling and packaging (e.g. disclosure and completeness), marketing and advertising practices, selling practices and pricing.

Suppliers

Supply chain CSR issues include the rights of outsourced workers, ethical sourcing of suppliers, timely payment, hiring migrant workers, animal rights and environmental impacts in the supply chain. Supply chain issues are the core of CSR crises experienced by some well-known US-based companies such as Adidas and Apple. As Australian businesses become increasingly globalised, supply chain CSR issues have been placed in the spotlight.



Figure 16.9 Good supply chain management is important to avoid a CSR crisis.

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CASE STUDY
16.5

Corporate social responsibility and change in business: Cotton On and ethical sourcing

The Cotton On chain has worked to become one of the country's top performers regarding its supply chain management. However several other companies, including Decjuba, Trelise Cooper and Bloch and Wish, have received a low grade because they failed to report on their manufacturing and sourcing processes. The annual Baptist World Aid Australia 'Ethical Fashion Report' ranks 114 fashion companies on issues from workers' rights to the environment. Outland Denim and Outbreaker were the top performers. Cotton On was one of the most improved performers.

Cotton On took a previous ranking seriously and reviewed its ethical sourcing program. Processes were put in place to improve transparency, including listing all of the business's 2500 factories online, and it also sponsored a cotton-farming operation in Kenya. It is also working to reduce landfill by increasing the 'take back' of used clothing from its customers.

(Source: Based on Melissa Singer, 'How Cotton On went from a B– to an A by airing dirty laundry', *Sydney Morning Herald*, 17 April 2018.)

ANALYSIS

1 Discuss why a report is completed each year on Australian clothing retailers.
2 Explain why a business would develop processes and standards to ensure materials and clothing are sourced ethically.
3 Find the Behind the Barcode campaign page from Baptist World Aid online. Examine the latest fashion report or one of the other reports and summarise the report's findings.

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Communities

Businesses often take part in community relations strategies to improve their public image and avoid conflicts with activist groups. This type of strategy is also greatly appreciated by local communities and can be a large help to sports teams, events and tourism. Community relations strategies may include corporate community investment, partnerships between employees and communities or traditional philanthropy.



Figure 16.10 A business's reputation can be improved if it attends to corporate social responsibility issues in communities.



Figure 16.11 Businesses need to consider many ethical considerations when operating.



CASE STUDY **16.6**

Corporate social responsibility and change in business: Facebook and data security breaches

Since Facebook's inception, it has become a social media and advertising colossus. Customers and governments are now realising the impact this might have on Facebook users. There has been greater scrutiny of Facebook, and questions have been raised around data privacy and the influence and impact it can have on consumers.

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Cambridge Analytica was able to access private data via Facebook, and this has sparked questions about how secure personal data is. The business used the data to identify the personalities of people and analysed how this could be used; for example, to influence voting preferences in the US election.

Facebook said no passwords or 'sensitive pieces of information' had been taken, though information about a user's location was available to Cambridge Analytica.

Facebook insisted that what Cambridge Analytica did was not a data breach, because it routinely allows researchers to have access to user data for academic purposes – and users consent to this access when they create a Facebook account. However, it seems these details have been used for a range of other purposes.

Facebook stated that it had hired a digital forensics business to determine whether users' personal data could still be accessed. The business's lack of disclosure on the harvesting of data could violate privacy laws in Britain and several other countries.

While share prices initially fell after the data scandal became public, shares have risen again and revenue has continued to grow, as has the number of users, although some advertisers have contacted Facebook regarding the security of their customers' data.

Facebook's business model relies on allowing advertisers to use customers' data to better target their advertising. Facebook uses the revenue from these ads to keep the social network free for users. Some European countries are looking at restricting this data access, which may impact on Facebook's business model.

The Australian Competition and Consumer Commission (ACCC) is currently scrutinising the role of digital platforms in diverting advertising away from traditional media companies, as well as how much users know about the data being collected about them.

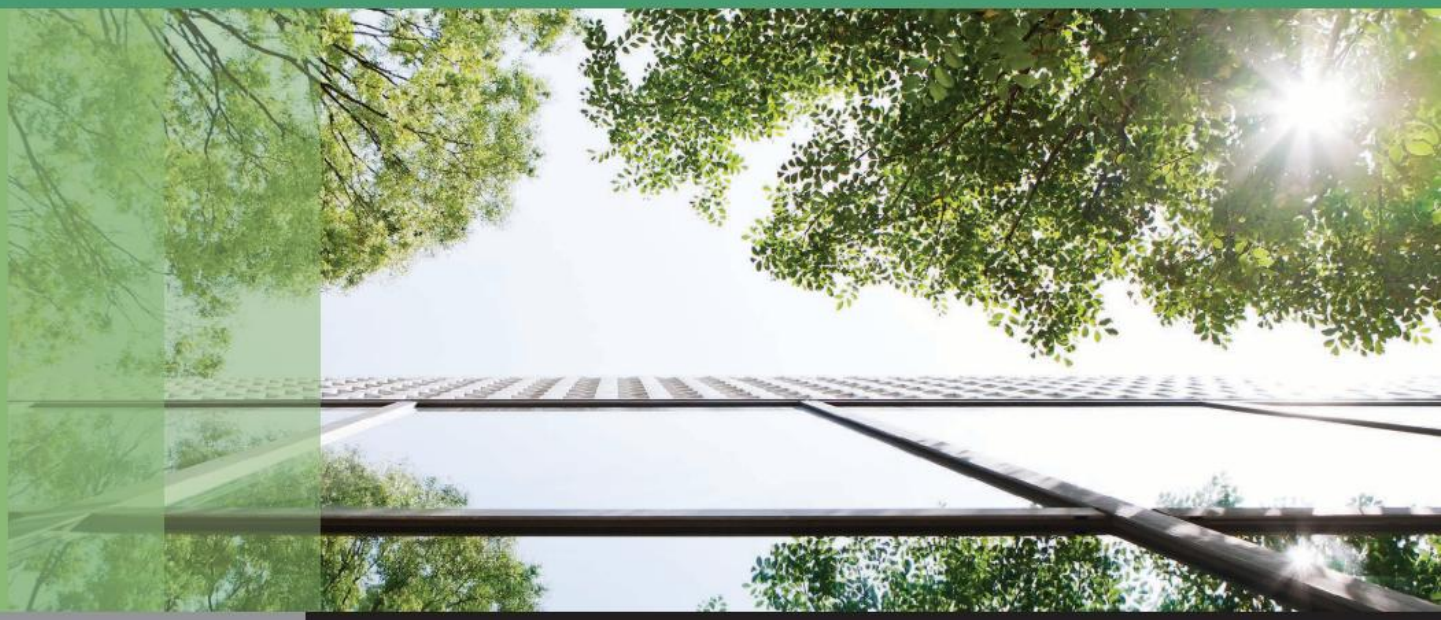


Figure 16.12 Facebook faced scrutiny over access to personal data.

ANALYSIS

1 Discuss why stakeholders value ethical and socially responsible policies and approaches by businesses.
2 Explain why governments and other bodies examine the role of businesses and the impact they have on a number of stakeholders.
3 'Access to personal data and businesses behaving in an ethical manner are essential for Australia.' Evaluate this statement.

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CASE STUDY 16.7

Corporate social responsibility and change in business: CSR programs

PART 1: COMPANIES WITH THE BEST CSR REPUTATIONS

An annual study compiled by the Reputation Index (RI) examines customers' perceptions of social responsibility and matters such as corporate governance, positive influence on society and the business's treatment of employees. The results include:

- **LEGO:** It is seen as behaving ethically, conducting business fairly, protecting the environment and supporting worthy causes. Its Build the Change and Sustainable Materials Centre initiatives and its partnership with the World Wildlife Fund are part of the Danish toy company's push for sustainability.



Figure 16.13 Chadwick Boseman, the star of the Marvel Studios film *Black Panther*

- **Microsoft:** Microsoft CEO Satya Nadella is a proponent of social and environmental responsibility. Microsoft has policies and programs in place to support and enhance education across the globe. The company's co-founder and former CEO Bill Gates (still a major shareholder) has a stellar reputation for social responsibility due to his work with the Bill & Melinda Gates Foundation.
- **Google:** The search giant has been seen as willing to speak out on social issues.
- **Walt Disney Company:** In celebration of the record-breaking success of Marvel Studios' *Black Panther*, The Walt Disney Company is donating $1 million to the Boys & Girls Clubs of America (BGCA). The donation will help expand Boys & Girls Clubs of America's youth STEM (Science, Technology, Engineering and Math) programs.

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Figure 16.14 Intel has invested in environmental sustainability.

- **BMW Group:** The BMW Group supports more than 200 environmental and social projects. Educational programs have reached more than 150 000 children and young people across the world and its Intercultural Innovation Award has benefited more than two million people since 2011.
- **Intel:** The company has invested in environmental sustainability and conservation and new alternative energy projects and has focused on supply chain responsibility by increasing the percentage of suppliers who meet advanced expectations in ethics, environmental performance, labour and human rights practices. It has also focused on diversity and inclusion by targeting women and unrepresented minorities in its workforce in the United States. Furthermore, it has created the Innovation Generation Initiative, which aims at empowering young people through increased access to technology skills and innovation experiences.

PART 2: AUSTRALIAN BUSINESSES AND CORPORATE SOCIAL RESPONSIBILITY

- **BankVic:** BankVic is a Victorian-based bank servicing people in the police force and health sector. Some of its social responsibility programs and support of different community organisations and groups include:
  - Alfred Health
  - Ambulance Victoria
  - ANMF
  - Australasian Police and Emergency Services Games
  - Ballarat Health Services
  - Bendigo Health
  - Blue Ribbon Foundation
  - Cancer Council
  - Peter Mac
  - The Ethics Centre
  - Wesley Mission Victoria
- **South32:** South32 is a mining company in Australia. As part of its social responsibility program, it has started after-school Learning Clubs in partnership with the Groote Eylandt local schools and the Graham Polly Farmer Foundation to provide tutors who could give extra support to children of Indigenous employees. These clubs now operate across a few of the mining sites operated by the business.

ANALYSIS

1 Describe the concept of corporate social responsibility.
2 Outline a CSR program developed by one of the businesses discussed in the case study.
3 Explain why a business would be willing to spend money on developing CSR programs as part of its business activities.

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Social responsibility also relates to business ethics. Many socially responsible businesses have developed ethical practices that incorporate social responsibility. Sometimes corporate social responsibility may override other objectives of the business, such as profit.

ACTIVITY 16.3

1 Identify five programs in your local community sponsored by a business (can be small, medium or large).
2 Compare the list with other students in the class. Assess what areas are covered in the programs (e.g. sport and education initiatives).
3 Identify at least four reasons why organisations and businesses spend money and other resources on the development of such programs.

The impact of implementing corporate social responsibility on stakeholders

There are a number of social responsibility considerations that must be taken into account when implementing change. Different stakeholders will be affected in different ways, so it is important that managers and leaders take this into consideration.

Some of the effects are outlined in Table 16.2.

Table 16.2 Corporate social responsibility and the impact on stakeholders

Stakeholder	Impact of CSR	Examples of business changes
Employees and managers	• May find that their tasks and jobs are modified due to CSR considerations. This may include: roles within the community that are not directly related to their main tasks, opportunities to volunteer with a local community business or charity. • Need to upskill their qualifications; for example, the need to learn new processes and waste minimisation procedures due to CSR. • Managers might have to make decisions as to how the business might run. This may mean an overhaul of the production methods and processes used to provide goods and services to customers.	• Businesses that provide opportunities for employees to grow and remain motivated are more likely to be known as 'Employers of Choice'. VicSuper, for example, has sustainability as its business philosophy. Many candidates for jobs within the business highlight the commitment to sustainability as a reason for pursuing a career with the company.
Customers	• Customers may find that they prefer to purchase goods and services from businesses that have a CSR outlook. This may mean that customers are changing their spending habits to reflect this. • A business needs to ensure that it has sound environmental and social policies if it wishes to retain or expand its market share.	• Customers might purchase products where some profits are passed on to community groups or projects. For example, Target Australia has supported the Alannah and Madeline Foundation since 2008 through the 'Bags for Bags' campaign. Profits from the sale of reusable Target bags go to 'The Buddy Bags' Program.

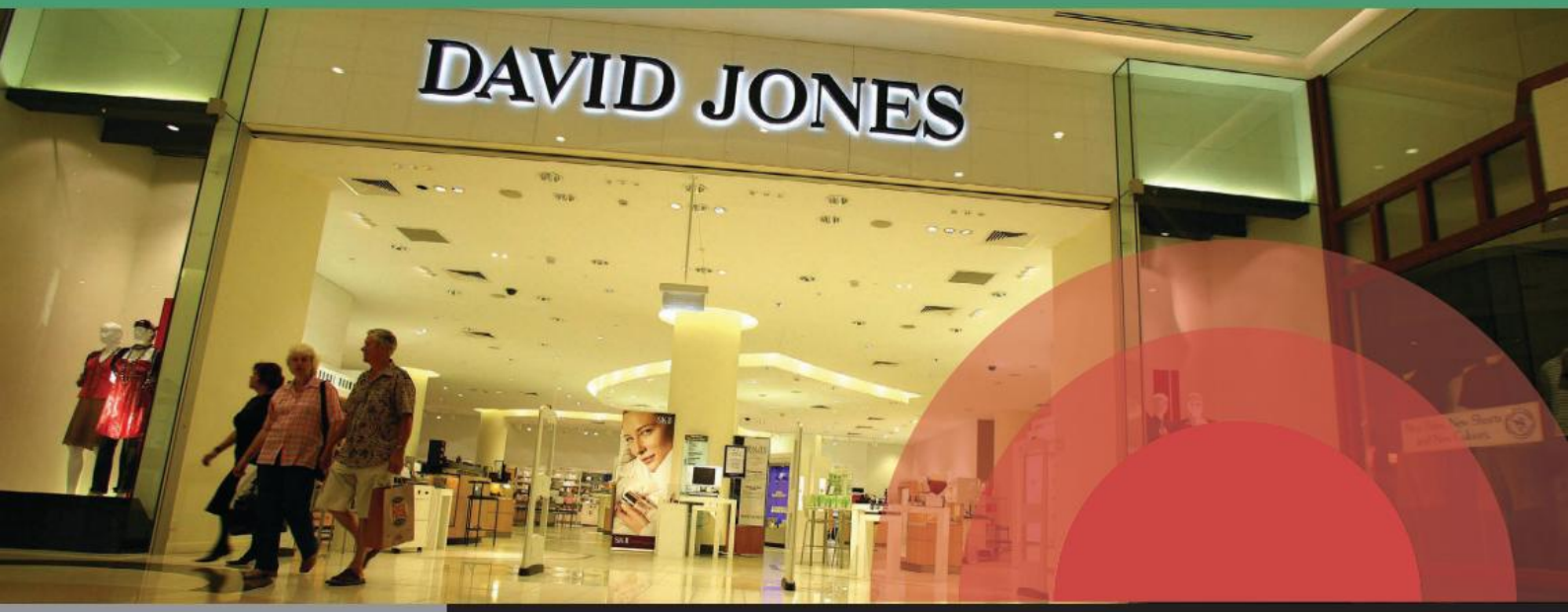
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Suppliers	• Some suppliers may have to change their own policies and processes to ensure that they can meet the demands of the businesses they deal with. • Some suppliers will have to develop their own code of ethics or conduct to conform to other businesses' requirements. • Suppliers may also find that they have to change where they source ingredients and materials to ensure that they meet and follow CSR priorities of their main customers.	• Apple has developed codes around social and environmental responsibility and ethical conduct. Apple's suppliers are required to provide safe working conditions, treat workers with dignity and respect, act fairly and ethically, and use environmentally responsible practices wherever they make products or perform services for Apple. Apple requires its suppliers to operate in accordance with the principles in the Apple Supplier Code of Conduct ('Code') and in full compliance with all applicable laws and regulations. This Code goes beyond mere compliance with the law.
Community/the public	• The community is increasingly interested in social responsibility and sustainability. • Businesses that have a poor record in terms of impact on the environment, and that do not contribute beyond their core business, will find that their reputation will decline. • The world is increasingly concerned with issues such as global warming and carbon emissions. The community expects businesses to play a major role in reducing their environmental impact. • Many people feel that industries and multinational corporations do not do enough to reduce their 'global footprint'.	• Former staff at a local cafe in Westgarth claimed they were underpaid by about $5 per hour. • The community is also aware of the environmental impact a business has and will look to support those businesses that follow sustainable practices.



Figure 16.15 Social responsibility programs can improve a business's public image.

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CASE STUDY
16.8

Corporate social responsibility and change in business: David Jones and sustainability, CSR and supply chain management

David Jones has made a number of business decisions to ensure that the business has refocused on the reasons why it is in business and has honed in on profit, employment, and being a part of the community. Decisions around how to be a better corporate citizen go beyond financial performance and also include a plan of action to ensure this occurs. Decisions have been made to support and implement programs such as improving safety, reducing greenhouse gas emissions, increasing employee engagement and supporting foundations such as the Breast Cancer Foundation since 1994.

David Jones has also focused on the ethical sourcing of products and has developed several strategies to enable it to reposition as a voice or business supporting positive change. Business objectives and policies have been developed in a range of areas, such as:

- adopting environmentally sustainable practices to reduce greenhouse emissions and reuse natural resources
- environmental strategy
- ethical sourcing strategy and supplier code of conduct
- animal welfare policy
- sustainable packaging
- strategies to support industry efforts to improve social, ethical and environmental standards along the supply chain.

ADOPTING SUSTAINABLE PRACTICES

David Jones recognised that it wanted to commit to adopting more environmentally sustainable practices and focused on trying to further reduce its greenhouse gas emissions and to ensure the responsible use of resources. The business has moved from a focus on minimising its impact on the environment to trying to take a more proactive stance.

David Jones has determined that it will invest in new programs and activities to optimise the use of energy, water and natural resources and will consider ways to transition to

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the low-carbon energy economy of the future. The key foci will be reducing electricity and gas consumption, fuel usage, waste management, packaging, paper usage and water consumption. All of these strategies are identified in five-year plans which will be implemented.

ETHICAL SOURCING AND SUPPLIER CODE OF CONDUCT

The business's stakeholders expect David Jones to play a positive role in a range of areas. One of these is ensuring there are standards in the supply chain. The business's 2015–2020 Ethical Sourcing Strategy outlines its commitment. Its approach is to work collaboratively with a range of stakeholders that promote and support continuous improvement for people employed in the supply chain and to strengthen relationships with suppliers as well as protect the environment.

Its Supplier Code of Conduct outlines the minimum requirements of doing business with David Jones. It requires all suppliers to ensure there are safe and fair working conditions, to ensure integrity and transparency, to commit to improved environmental outcomes and to protect the welfare of animals. The business reserves the right to terminate suppliers who fail to meet the standards set out by the company. Approximately 1200 suppliers are covered, and this is vital as many customers want to know where their purchases are sourced. David Jones has also tried to align its code with ISO (International Standards) and Ethical Trade Initiative around labour standards.

The Code allows it to deal with situations of 'What happens if … .'; for example, if the business becomes aware of child labour infringements it can terminate a contract. While it has taken a number of years for David Jones to negotiate with suppliers, it now has 99% of its supply chain signed up. David Jones is a relatively small business in the international sphere and it sometimes has to rely on factory audits from other larger businesses. It has developed a range of self-assessment and risk assessment tools and has tried to engage with stakeholders where possible so it can target 'hot spots'.

Under the ethical sourcing program, the suppliers also need to provide David Jones with details such as manufacturing locations, provide a recent social audit for each factory and register on the Supplier Ethical Data Exchange (SEDEX). Ninety-eight per cent of non-food factories have completed the audit and any issues that were identified have either been resolved or the company is working on these with suppliers. David Jones has also introduced an Approved Factory Program which will restrict orders being placed on factories that have open critical issues. In 2017, the business also received a 'B+' rating in the Australian Ethical Fashion Report.

In addition to ensuring it supports environmental and social responsibility, David Jones has developed policies in areas such as:

- Protecting the welfare of animals by including this in its Supplier Code of Conduct. The plan includes ensuring that animals are treated humanely, that harmful processes are not employed, prohibited products are not supplied, such as fur, angora, exotic skins and products made from endangered species.
- Sustainable packaging that is focused on improving the packaging design of its private label range and encourages suppliers to use renewable, recycled and recyclable materials as a minimum requirement.



Figure 16.16 David Jones supports customers to make ethical choices.

CONTINUED ITEM

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- Supporting customers to allow them to make ethical choices. The sustainability attributes program provides suppliers with the chance to talk to David Jones' customers about their sustainability credentials.

Buyers and suppliers are also trained in sustainability attributes to ensure that they understand what the company wants in terms of their products. Fifteen per cent of David Jones' private label range contains at least one sustainability attribute and another 180 branded vendors also hold a sustainability attribute.

(Source: Based on 'Social Responsibility & Sustainability', David Jones website.)

ANALYSIS

1 Explain why David Jones has developed policies and practices around sustainability, corporate social responsibility and supply chain management.
2 Examine the strategies devised by David Jones. Choose two and describe how they might impact on business operations.
3 Explain why David Jones has developed a code of ethics for suppliers and discuss what success it has had with this code.

SAC AND EXAM TIPS – linked to key skills

It is important to be able to identify the interests and needs of stakeholders and how they may be impacted by change. There may be conflicting interests, which can complicate any change process.
All stakeholders expect a business to have corporate social responsibility objectives. It is important to understand the concept of CSR and understand the impact on a business implementing change.
Understanding the impact and influence of stakeholders on CSR is important.

Chapter summary

- Change in a business can have an impact on all stakeholders.
- Managers are affected by change in a business, and they may have to implement the changes, adjust their management style and develop new skills.
- Employees are often affected by a change in the business. This can impact on the tasks completed, their work location, training and the hours worked.
- Customers can be affected by changes in a business, and this may influence their spending and product loyalty.

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- Suppliers can be affected by changes that are implemented in another business.
- The general community or the public can be affected by a change in a business, particularly if it is a large business or a significant small business in a local area.
- Corporate social responsibility (CSR) is an important consideration for all businesses implementing change regardless of their size, and may influence other stakeholders in their behaviours and activities. It can impact on all areas of a business.

Chapter summary tasks

1 Identify three stakeholders who may be affected by change.
2 Explain how the management style and skills used can influence the way change occurs in a business.
3 If a business decided to relocate to another location, describe how this could impact on employees.
4 Outline the concept of corporate social responsibility (CSR).
5 If a business decides to open a new factory in a regional area, explain how this could influence the general community.
6 Describe how the closure of a small business in the metropolitan area could impact on the public.
7 Discuss why a business should ensure it demonstrates a commitment to CSR.
8 Describe an example of CSR from a small or medium business in your area.
9 Explain how stakeholders can be affected by CSR.

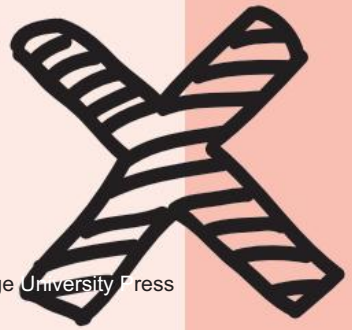
Examination preparation

A&M Finance, a Victorian-based financial adviser, developed a strategic plan three years ago, with the main strategies centred on an improvement in customer and client relationships. Strategies included targeted recruitment of expert employees, new customer loyalty programs and flexible hours. Many employees were able to work from home and job sharing was introduced.

Over the past three years, the business's market share has increased by 5% each year and a strong client base has been established. The business believed that it needed to be more involved in the local community and became actively involved in a range of programs to support school students in financial literacy. The business won an award for innovation in 2018.

The next strategic plan is focusing on expanding the business into three other states over the next three years. The business needs to employ another 120 employees and 20 new managers. The owners have had some difficulties trying to find suitable managers and have employed a recruitment agency to assist in finding new employees.

1 **Describe** how A&M Finance's decisions could impact on two stakeholders. **(4 marks)**
2 A&M Finance has a strong focus on CSR. **Describe** the concept of CSR and **explain** why it is important for a business to be socially responsible. **(5 marks)**
3 'All businesses, regardless of their size, need to evaluate and monitor the transformation of the business and the impact on stakeholders.' **Discuss** this statement. **(6 marks)**

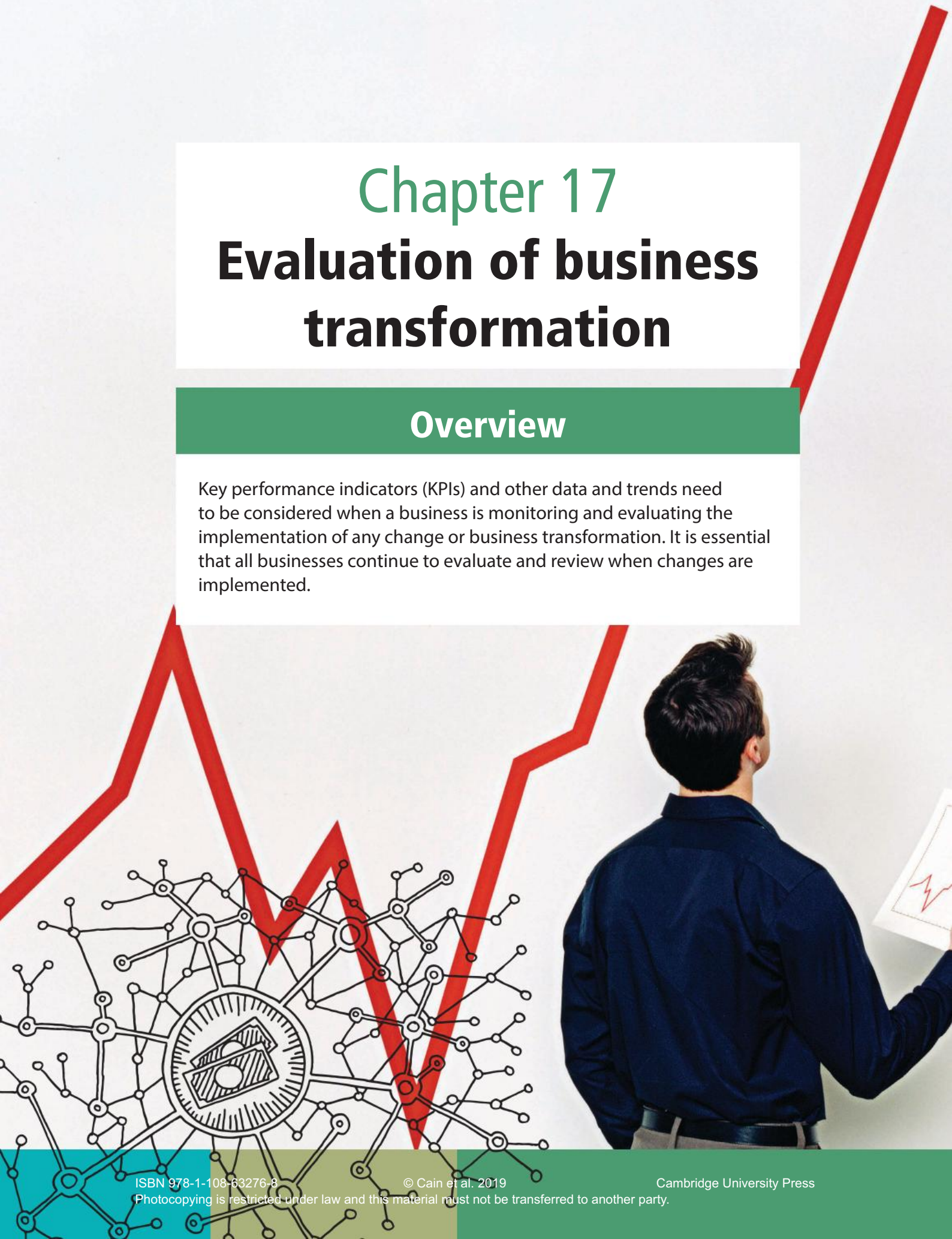


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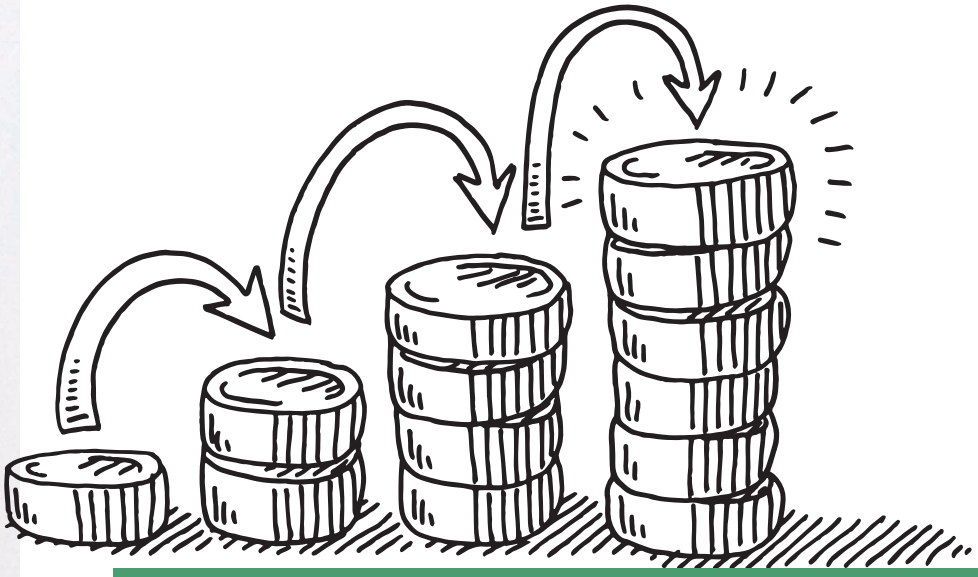
Chapter 17
Evaluation of business transformation

Overview

Key performance indicators (KPIs) and other data and trends need to be considered when a business is monitoring and evaluating the implementation of any change or business transformation. It is essential that all businesses continue to evaluate and review when changes are implemented.



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Key knowledge

You will consider the importance of evaluating transformation in a business. You will learn about:

- the importance of reviewing key performance indicators to evaluate the effectiveness of business transformation.

What's ahead

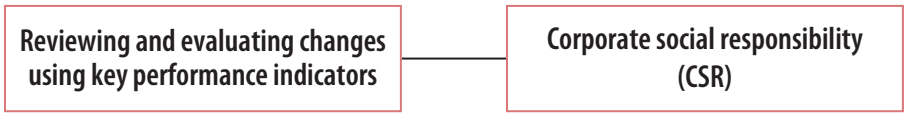
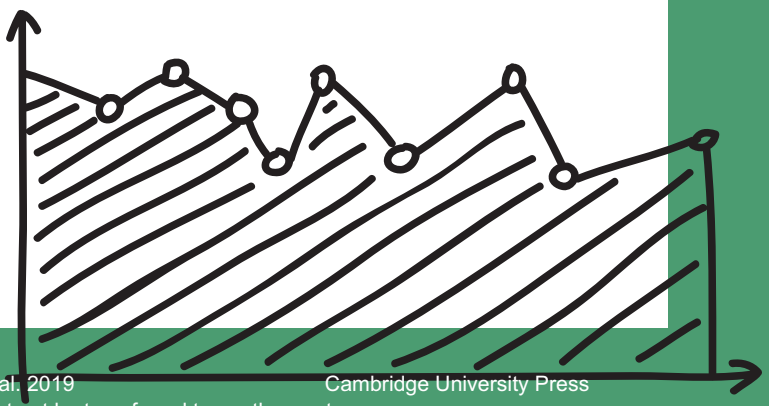


Figure 17.1 Evaluation of KPIs and corporate social responsibility





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17.1 Reviewing and evaluating changes using key performance indicators

All businesses, regardless of their size, need to ensure that any changes that have been implemented are monitored and reviewed. If this is not done, there is no way to determine whether the changes or transformation have been successful or whether the business needs to make further changes. It can be difficult to get everything right, so an evaluation process needs to be incorporated to determine whether the transformation has been successful or if further changes or modifications need to be made.

If a business wishes to review, evaluate and make judgements about the future, KPIs provide a means to do so. The KPIs can be used at different levels, from whole of business to a section or department or at an individual level. All are important, and changes made at different levels of the business should work towards the achievement of objectives. KPIs provide a quantitative or quantifiable basis to make judgements on performance. It is important to track KPIs and other data over time to see if there are any trends emerging. KPIs can also be checked against projected or budgeted plans and, if applicable, compared with other similar businesses and competitors. KPI's can also be used to track performance over time. Benchmarking against industry standards will also allow the business to evaluate any change or business transformation.

Businesses should ensure that when KPIs are used to evaluate transformation and change this is done on a number of levels, including:

- whole business
- departments or sections of the business
- teams
- individuals.

It is important for the business owners/managers to be clear about business objectives so that the strategies and performance data can be reviewed and strategies changed. If, for example, the business wants to focus on superior customer service, then the KPIs used to evaluate whether the business has been successful may examine the number of customer complaints. The evaluation will provide managers/owners with the ability to make decisions on customer service-related aspects. If the results of evaluations are kept for a number of periods, a business can also analyse trends.

If a business has chosen appropriate and relevant KPIs and data, this can be used at all levels of the business. An individual, for example, can use KPIs to monitor their job and tasks and then this can be used as part of a performance appraisal or review. Customer service levels, for example, may link to an individual's goals around improving customer satisfaction levels for a period of time and may indicate the need to access training and coaching to support this.

When a business is reviewing business performance and transformation, it needs to consider the following questions:

- What is the vision of the business?
- What strategic plans and strategies has the business developed?
- How can the business ensure it is moving towards its vision?

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Reviewing business transformation and using KPIs to evaluate its effectiveness

All aspects and functions of a business can be evaluated. These include:

- operations management
- employees/human resources
- financial performance – profit, sales, market share
- corporate social responsibility.



Figure 17.2 The Australian Securities Exchange (ASX) tracks the performance of listed companies.

Operations management

Operations management is the core function of any business and is an area that is likely to be transformed. If the business has made changes, it can evaluate these using KPIs such as the rate of productivity growth, level of wastage and efficiency due to changes such as lean production techniques and the management and use of natural resources.

If a business can track and monitor productivity growth and this is increasing, then the changes have been successful. Reducing waste within a business is also important and can be measured to judge whether a program or initiative has been successful. If the number of workplace accidents is reduced and consistently low, this may also provide an indication of an improvement in the safety of employees in the production process. If the plans in place have included targets, then actual figures can be compared to the target or forecast set out by management.

Figure 17.3 KPIs can also be used to evaluate operations management.



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CASE STUDY 17.1

Reviewing and evaluating changes using KPIs: Telstra and structural changes

Telstra has set a new strategy to improve customer experience, simplify structure and cut costs. The new strategy sets out to:

- create a new wholly owned infrastructure business unit, 'InfraCo', to drive performance
- transform customer plans and pricing
- increase its productivity program
- achieve an 8000 net reduction in employees and contractors and a reduction in 2–4 layers of management
- ensure Telstra remains a premium brand.

The strategy was released in June 2018 and named Telstra2022.

The changes form a three-year plan. Telstra CEO Andrew Penn said the strategy would fundamentally change the nature of telecommunication products and services in Australia by eliminating many pain points for customers.

Telstra2022 pillars

The strategy leverages the significant capabilities already being built.

The four pillars of the program are:

Pillar 1: Radically simplify our product offerings, eliminate customer pain and create all digital experiences. The number of products on offer will be reduced from over 1800 to around 20 core plans. Telstra has also started to develop new technology.

Pillar 2: Establish a standalone infrastructure business to drive performance and set up optionality post the NBN rollout. Telstra will create a wholly owned standalone infrastructure business unit which will focus on developing high-quality infrastructure.

Pillar 3: Greatly simplify our structure and ways of working to empower our people and serve our customers. Telstra will implement a new streamlined operating model and organisational structure. Ways of working are being simplified and re-aligned to increase the focus on best serving customers and increasing the focus on product leadership.

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Pillar 4: Industry-leading cost reduction program and portfolio management. Telstra narrowed its strategy to ensure all new growth investments were more closely focused on products and services close to the core of the business. The key drivers of the increased productivity targets include simplifying the product set, phasing out legacy products and systems and migrating customers to new products. Other drivers include further digitising sales and service channels and continuing to improve procurement practices.

(Source: Based on Telstra media release, 20 June 2018.)



Figure 17.4 Telstra has set out to restructure its business.

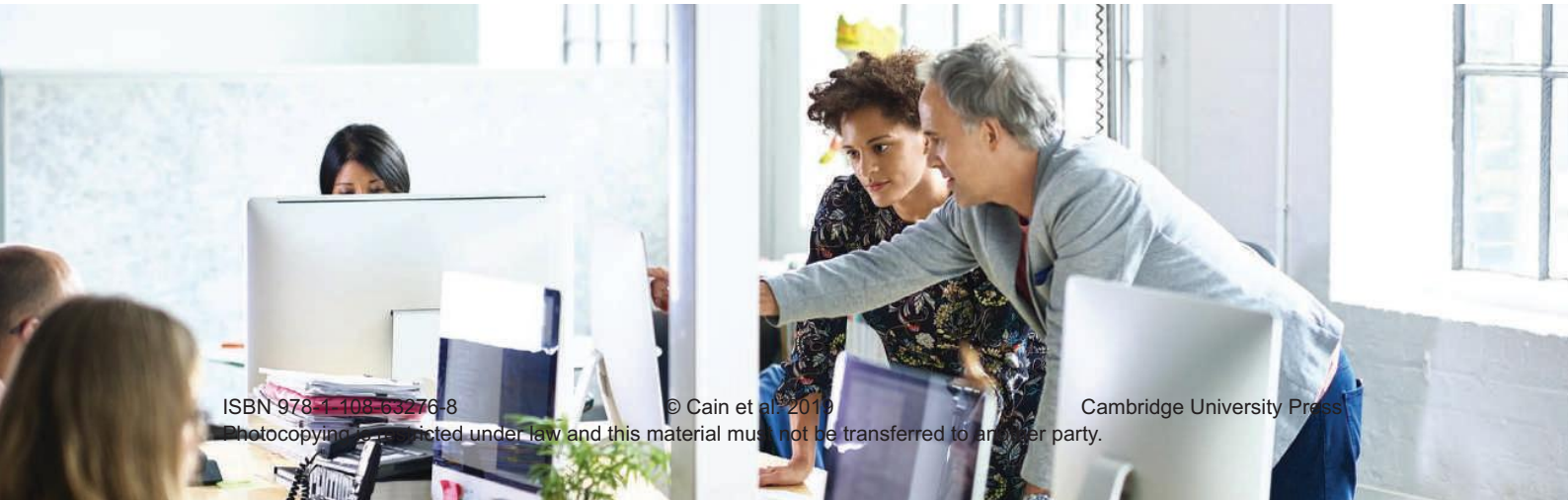
ANALYSIS

1 Explain how Telstra plans to change its business and services.
2 Identify what Telstra hopes to achieve in its new plan and explain how it could affect the performance of the business.

Employees

A number of different KPIs can be used to judge performance and effectiveness of changes to employees and staffing. Using KPIs such as the number of training days per employee, the level of staff turnover and the rate of staff absenteeism will give an indication of employee motivation and commitment to the business. If the rates of absenteeism and turnover levels are lower than similar businesses, then the strategies and changes may be considered successful.

The results of a staff satisfaction survey can also be used, as these can be tracked over time and the survey can be tailored to suit the needs of the business and its objectives. Examining management styles, staff motivation and feedback, complaints or concerns of employees can also be highlighted in an employee survey. If a survey has a high rate of completion, it also provides the business with timely and informative data.



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ACTIVITY 17.1

Susie Parris is the team leader at Unique Marketing Agency. The business implemented a number of changes to the way the teams worked 12 months ago. The changes mainly revolved around the way the team handled commissions and payments received. Previously, the teams worked together in groups, and the projects and any commissions were shared. In order to increase motivation, the manager, Fraser White, decided to make changes to have the teams work on projects individually rather than as a team. Susie has collated the following information:

KPI	Before the changes	After the changes
Number of projects completed	5 per month	3 per month
Project revenue	$100 000	$60 000
Commission paid	$55 000	$25 000
Staff absenteeism	9 days per year	14 days per year

1 Explain why it is important for a business to evaluate and review any changes that are made.
2 Using the information and the KPIs in the table, explain the impact of the changes on the employees at Unique Marketing Agency.
3 Recommend two strategies the agency could implement that might improve the situation.

Financial performance

One important area for a business to monitor and review is financial performance. It is crucial to a business's success and is an area that will generally be reviewed and analysed. Financial KPIs can include profit, sales or revenue, and the percentage of market share.

All businesses need to monitor these, and for many small businesses the lack of review of financial information is a major cause of business failure. To analyse the performance of the business, it is necessary to break down the information so it can be interpreted. If a small business owner does not have the ability to understand the financial reports, it is important that they establish a close relationship with an accountant or financial adviser.

Figure 17.5 Information about financial performance is critical to business success.



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CASE STUDY
17.2

Reviewing and evaluating changes using KPIs: Blackmores' financial performance

The business was successful again in 2017. Highlights included:

- Group net sales of $287 million, up 9% compared to previous corresponding period. Sales result driven by strong performances from China, BioCeuticals and across Blackmores' other established Asia markets.
- Net profit after tax of $34 million, up 20% compared to previous corresponding period.
- First half dividend of 150 cents per share fully franked, up 15% compared to previous corresponding period.

Blackmores had two quarters of consistent sales growth and improved profitability which reflected the delivery of our strategic priorities and greater stability in the business. Blackmores Australia & New Zealand revenue was $121 million and slightly down compared to the previous year as the broader consumer market remained subdued and China-influenced sales continue to move to direct China channels. The impact on the Group result was lessened because of the strength of the business's diversity, meaning the business is less reliant on any single market or brand.

The success of Blackmores' new product development in the probiotics and children's gummy vitamin categories supported gains in the first half of the year, resulting in Blackmores maintaining clear total market leadership.

Blackmores Asia China sales grew by 27% with online sales events. Profit from China grew by 4% for the period after investment in resourcing and operating expenses were made.

Blackmores' other businesses in Asia, including Malaysia, Singapore, Hong Kong and Korea, delivered strong double-digit sales growth.

BioCeuticals Group delivered sales growth of 11%. The group continues to lead in the practitioner category in both product sales and education resources.

(Source: Based on 'Blackmores delivers strong revenue growth and first quarter profit of $16.5 million', Blackmores website, 25 October 2018.)

CONTINUED ITEM

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ANALYSIS

1 Outline some of the KPIs described in the article.
2 Describe why Blackmores is successful.
3 Discuss why Blackmores continues to develop markets in Asia.
4 Look at the ASX website and the share price of Blackmores this week. Identify any trends by examining the data. Explain whether or not the company is still as successful. Justify your response.

It is important to determine the success or failure of a business. If profit figures increase and a business is able to expand its market share, then the changes and performance of the business can be deemed to be successful. Cash reserves or liquidity are important, as sometimes a business may struggle to carry out all of its plans if it does not have access to cash and cannot raise the money through funds from the sale of shares or through a loan from a financial institution. Sales analysis can examine sales turnover and total sales figures.

ACTIVITY 17.2

1 Go to the website of a large business (most public companies have annual reports on their websites) and construct a brief report covering the following:
   - main vision and strategic goals or objectives of the business
   - key financial figures or KPIs
   - a judgement on the success or otherwise of the business
   - whether the company achieved its objectives for the year.
2 Mia and Mel Fraser have been operating Expert Health and Beauty Services for the past five years. The business has been expanding and has a well-established clientele and strong reputation. Mel is concerned that the business may have reached its peak and is looking at ways to expand the business further. Their accountant, Matt, has given them the following information:



Figure 17.6 Companies provide access to their annual reports via their websites.

Data and KPIs	Year 1	Year 2	Year 3	Year 4
Sales/revenue ($)	60 000	72 000	98 000	109 000
Profit ($)	9 000	16 000	19 000	21 000
Market share (local council area) (%)	10	15	18	28
Return on owner's investment (%)	5	7	10	12
Rate of productivity growth per year (%)	9	11	13	20
Level of waste (%)	10	8	6	4

3 Using the information in the table above, summarise the business's performance over the past four years. The report should be written for Mia and Mel, who are not accountants.
4 Mia and Mel would like to open up three other stores in nearby suburbs. Based on the information above, outline your recommendations.

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Reviewing KPIs and evaluating the effectiveness of performance: case study application

Read the following case studies about KPIs and answer the related questions.



CASE STUDY **17.3**

The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation and performance: Bega Cheese

BEGA CHEESE LTD

Mission: 'Bega Cheese – working together to deliver dairy products to the world.'

Vision: Bega Cheese's vision is to be an Australian dairy industry icon; valuing our heritage, people, customers and community. Embracing challenge. Driving change, building for the future.

Aspiration: Bega Cheese will be the dairy company of preference for customers, suppliers, staff and investors.

The cornerstone of our success is a strong focus on the needs of our customers, a record of superior shareholder returns, excellent supplier relationships, a safe and energised workforce and long-term community support and engagement.

HISTORY

Dairying started in the Bega Valley in the 1850s and each farmer sold the produce from his own dairy. In an effort to improve their individual production and marketing activities, local farmers banded together to establish the Bega Co-operative Creamery Company on 15 July 1899.

The Bega factory began production in 1900. The company regularly sells at the rate of over 1 million packs of cheese per day across all brands and customers.

CONTINUED ITEM

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In August 2011, the business was listed on the Australian Securities Exchange (ASX). In March 2014, a life-stage nutritional canning and blending plant was commissioned in Derrimut, Victoria. In 2016–17, Bega acquired most of Mondelēz International's Australian and New Zealand grocery business, which gave it the famous Australian Vegemite brand.

In 2017, Bega began increasing its stake in Capilano Honey and now holds about 8.4% of Capilano's shares. In 2018, Bega purchased the dairy at Koroit in Western Victoria from Saputo Dairy Australia.

Bega Cheese employs over 1700 people. The company's production of approximately 200 000 tonnes of dairy products equates to a sales turnover in excess of $1 billion per annum.

KEY PERFORMANCE INDICATORS

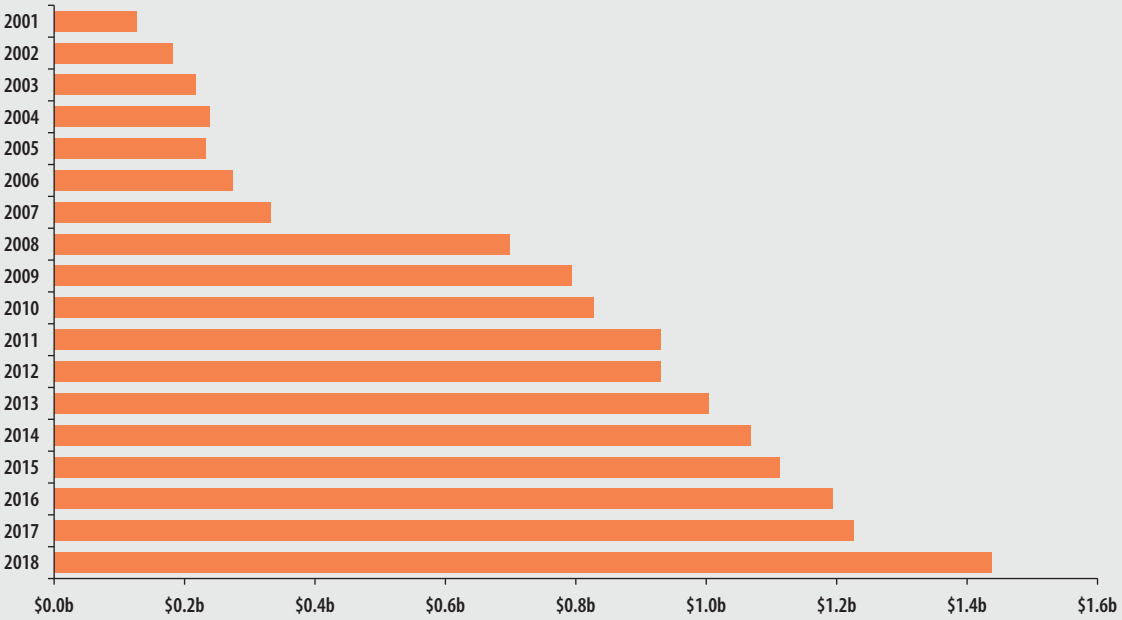
Table 17.1 Bega Cheese key performance indicators

KPIs	2016	2017	2018
Number of sales (millions)	$1196	$1227	$1438
Net profit (after tax) (millions)	$29.2	$30.3	$44.0

- Percentage of market share (2017) – 15.7%
- Rate of productivity growth – increase in line efficiencies
- Level of waste/energy use per tonne – reduced by 7.9% in 2016
- Number of workplace accidents – decreased by 70% (between 2016 and 2017)

Source: Bega Cheese 2018 Annual Report

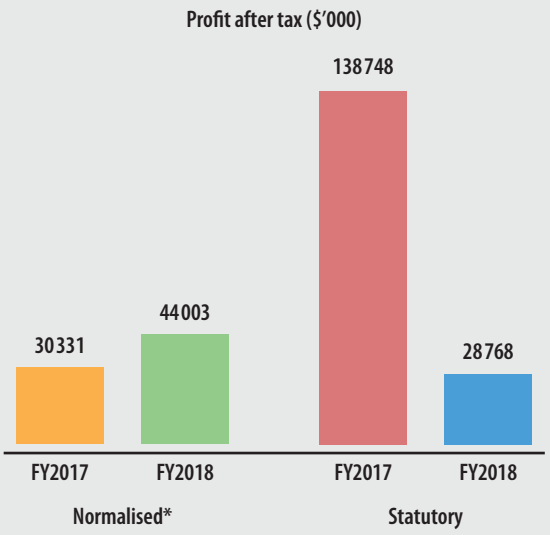
Figure 17.7 Bega Cheese group sales



Source: Bega Cheese 2018 Annual Report

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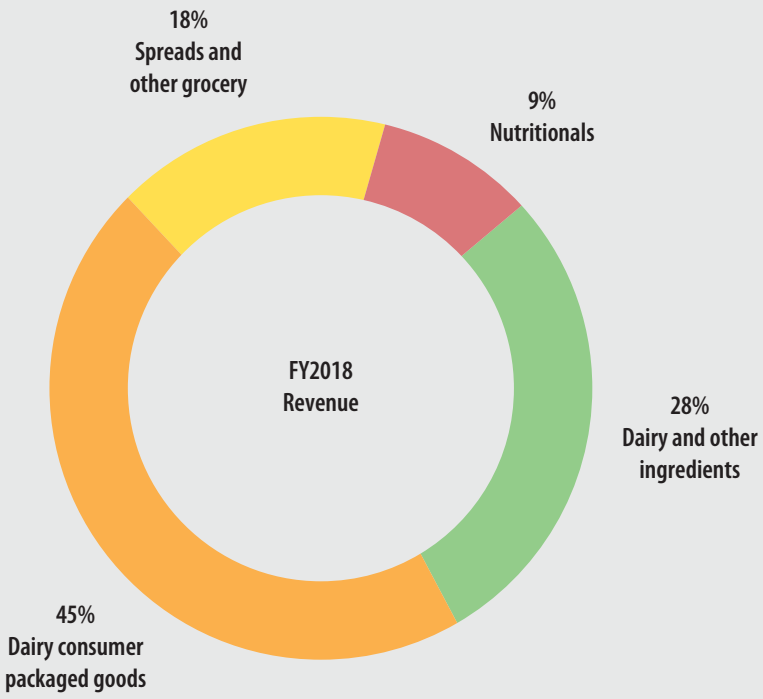
Figure 17.8 Bega Cheese profit after tax



FY = financial year
*Normalised results exclude the impact of significant events occurring during the year.

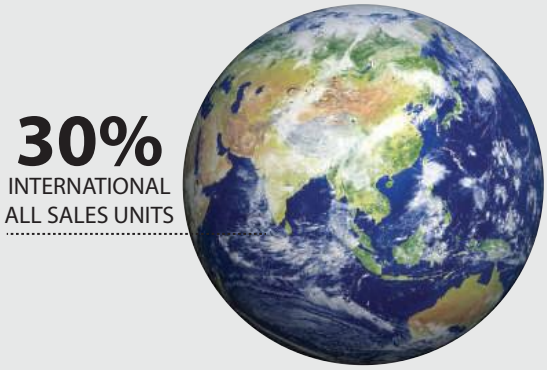
Source: Bega Cheese 2018 Annual Report, p. 3

Figure 17.9 Bega Cheese revenue



Source: Bega Cheese 2018 Annual Report, p. 2

Figure 17.10 Bega Cheese export sales



Source: Bega Cheese 2018 Annual Report, p. 2

OPERATIONS MANAGEMENT

Manufacturing

Production volume (tonnes):

- 2016 – 238 256
- 2017 – 236 928 (0.6% decrease)
- 2018 – 259 235 (9% increase)

Continued improvement in quality performance. Total capital expenditure was $46 million. Key projects include the upgrading of cream cheese process, increase in capacity and capability, continuous improvement across all sites.

STRATEGIC BUSINESS OBJECTIVES

- Maintain the growth trajectory of the business in all key platforms
- Drive efficiencies through ongoing investment in infrastructure
- Maximise the value of milk components
- Further investment in brand portfolio
- Continue to build strong long-term relationships
- Investigate corporate opportunities
- Build on well-established company values
- Senior management also established a joint venture with Blackmores to support its expansion into the Asian market, particularly China.

CONTINUED ITEM

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Human resources

Continued focus on reducing the number of workplace accidents; total reportable injury frequency rate was reduced by 15% in 2016 and 2017.

Environment

- Energy use down 7.9% between 2016 and 2017
- Further investments in compliance infrastructure across key sites
- 12% decrease per tonne of potable water usage
- Energy road maps completed for all sites
- Capital investment ($34 million)
- Nutritional blending and canning
- Natural cheese
- Enterprise resource planning

DRIVING AND RESTRAINING FORCES FOR CHANGE

Table 17.2 Driving and restraining forces for change at Bega Cheese

Driving forces at Bega Cheese	Restraining forces at Bega Cheese
Managers – introducing major infrastructure improvements and new capacities at their plants.	Managers – need to make changes that may impact on profitability; may have been some reluctance to change and invest.
Competitors – had to adapt to what other dairies were doing in terms of products and pricing.	Time – rapidly changing global environment; lead time has meant that not all changes have been successful.
Profit – pursuit of profit meant that options such as expanding into China and Indonesia were considered. Partnered with another business (Blackmores).	Organisational inertia – takes time to work with co-operative of dairy farmers and joint venture with another business (Blackmores).
Decreasing costs – pressure to ensure that the business remained competitive and obtained efficiencies.	Financial considerations – extra costs involved in expansion into Asian markets; marketing, supply and distribution. Bega Cheese has acquired other companies; need to raise the funds to pay for this; Koroit Dairy – substantial capital required.
Globalisation – trade agreements and ability to move into other countries and emerging markets allowed Bega Cheese to expand its market and customers.	Employees – may be afraid of what the changes may mean for them in terms of their job and the tasks they complete. Acquiring different businesses means that different corporate cultures exist, which means employees have to be integrated and the impact on culture monitored.
Technology – investment in technology and operations to ensure the business remained competitive.	
Innovation – focus on improving efficiencies and improving workplace safety.	
Employees – push to ensure that jobs are safe (particularly in rural areas where employment is more difficult to find).	

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ROLE OF LEADERSHIP IN CHANGE MANAGEMENT

The Australian dairy industry has faced significant change. Increases in global dairy production, particularly in Europe, and a decrease in dairy commodity imports into China all contributed to a shift in global supply and demand balance and placed further downward pressure on global dairy prices.

Bega Cheese did not decrease its announced 2016 milk price to farmers. The company took a long-term strategic view to ensure a sustainable milk supply and sees itself as the company of choice for Australian dairy farmers. The business continued to invest with major infrastructure improvements and new capacities added.

Senior management also established a joint venture with Blackmores to support its expansion into the Asian market, particularly China.

STRATEGIES TO RESPOND TO KPIS

Table 17.3 Strategies to respond to KPIs at Bega Cheese

Strategy	Response at Bega Cheese
Staff training	Number of workplace accidents was low. Bega Cheese focused on safety as part of its move to continuous improvement and is within comparative industry levels. There was an improvement in workplace safety and fewer injuries.
Investment in technology	Investment in technology included increasing automation of various production and manual handling processes throughout the business. Bega Cheese also invested in research and development on extracting and maximising the recoverable value of milk and whey protein to complement nutritionals and bionutrients activities. It also developed a new Enterprise Resource Planning and management reporting information system (ERP) that will ultimately streamline business processes and accelerate management analysis and reporting.
Quality	Bega Cheese has in place quality management systems and strategies that are designed to control inputs and activities through the entire supply chain, from procurement of ingredients to delivery of products to the customer. Bega Cheese Group is quality audited more than 50 times per year by different customers and independent authorities.Bega Cheese focuses on minimising wastage and losses in its manufacturing operations to minimise operating costs and the environmental impact of the business. Ongoing productivity improvements and a focus on doing things 'Right First Time' across the six manufacturing sites resulted in significant improvements to conversion costs across a number of sites.

NEW BUSINESS OPPORTUNITIES – GLOBALLY AND DOMESTICALLY

Domestic

Bega Cheese has been contracted to supply Woolworths Supermarkets own label cheese business and continues to work hard to secure new business with other domestic customers.

Cream cheese continues to be a core technical competency at the Tatura site and the Group maintains a steady increase. Bega Cheese has continued to acquire and expand into other food-related areas (see above).

Globally

Bega Cheese has developed a clear strategy for both international consumer retail and food service channels, with international retail and food service business generating sales revenue of approximately $100 million. Bega Cheese has achieved strong international growth. The

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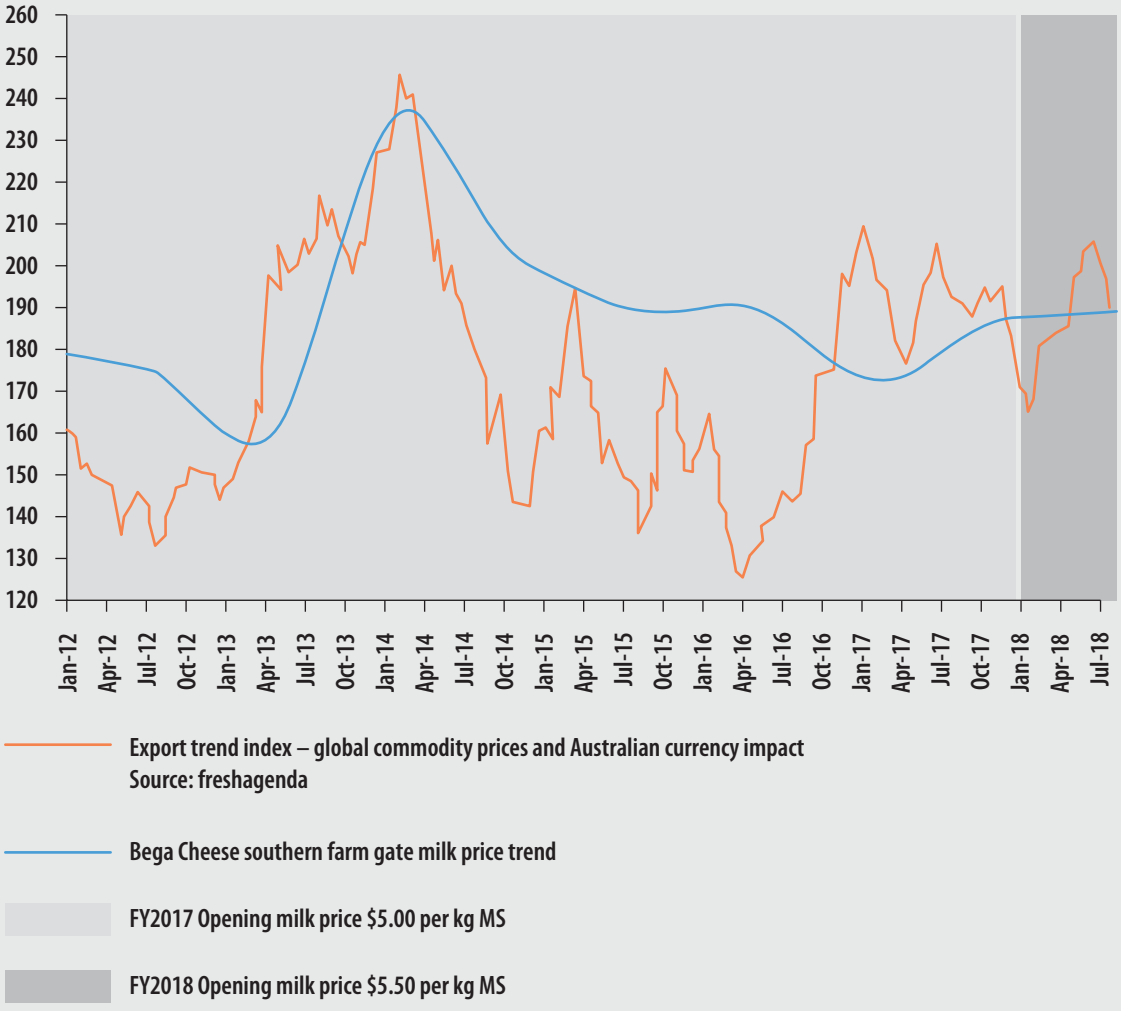
2018 Annual Report revealed that Bega Cheese had achieved a profit after tax of $44 million. Bega Cheese's export sales rose a hefty 29% to $430 million. Cream cheese continues to be a core product at the Tatura site, and Bega Cheese continues to work to ensure this area can cope with global expansion and demand. The development of Bionutrients as a fourth commercial platform has been slower than expected. This is due mainly to decreased returns from lactoferrin, which has seen an increase in global capacity and a drop in global demand resulting from a slowdown in usage in Chinese nutritional products. Bega Cheese has expanded the bionutrients product portfolio to include lactoperoxidaise, milk protein fractions and, more recently, non-dairy bionutrients including Starchlite white kidney bean extract used for weight control.

Export

Bega Cheese tailor-makes cheese products to suit particular international requirements rather than just exporting the same cheese products as produced for the domestic market. It operates the only cheese canning line out of the trans-Tasman region in order to service the demand for this style of presentation into the Middle East.

Bega Cheese has exported over 60 million units of cheese per year to approximately 40 different countries. Largest export off-takes are to the Middle East, South East Asia and North Asia, with sales also to Central and South America and the Pacific Islands.

Figure 17.11 Australasian dairy export index, January 2012 to July 2018



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REVIEWING KPIS AND BUSINESS TRANSFORMATION

In 2016 and 2017, Bega Cheese has faced declining sales, profit and share price. Joint venture with Blackmores has not been as successful as envisaged. In 2018, Bega Cheese's performance improved due to a number of factors, including:

- bigger milk intake that produced more cream cheese, mozzarella and other products
- higher export sales
- acquisition of the Vegemite brand/Mondelēz International grocery business
- acquisition of the Koroit dairy facility.

Bega Cheese's executive chairman, Barry Irvin, said the 2018 financial year had been 'a very significant year, and we've had significant achievements in terms of the growth and the profile of Bega Cheese'. Bega Cheese believes that its success will continue in the near future.

Table 17.4 Bega Cheese opportunities and threats

Opportunities	Threats
Total direct milk intake increased by 97 million litres	Commodity price volatility continues
Koroit provides further growth opportunity	Global dairy commodity price softening
	Drought impacting overall dairy industry supply

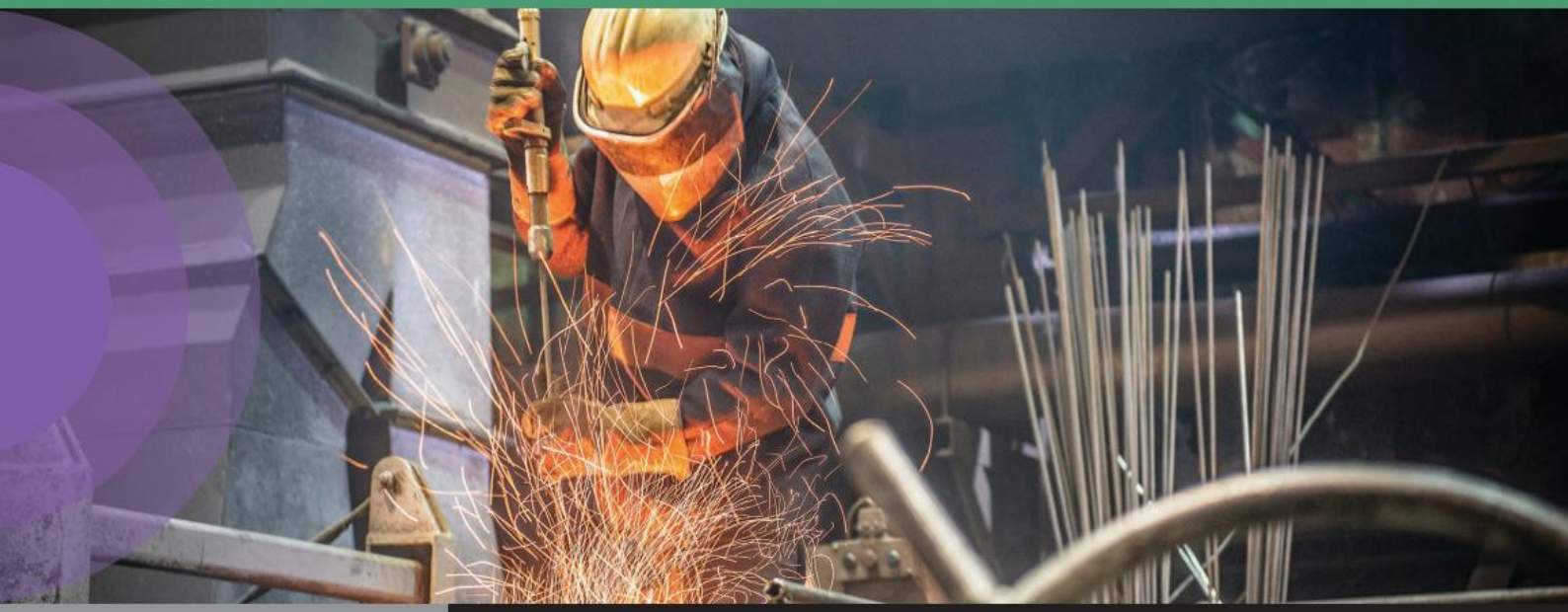
Future priorities

- Continue to grow branded retail and food service business
- Increase production volumes at Koroit facility
- Integrate Koroit into our production network
- New milk pricing option for dairy farmers to encourage lower farm production costs
- Increase peanut crop size with improved grower package and support
- Increase our customer reach with new products and channel expansion
- Improve financial performance through product development, continuous improvement and plant efficiencies

ANALYSIS

1 Evaluate the effectiveness of the strategies Bega Cheese has tried to implement.
2 Describe the strategic direction and plans for the future as outlined by Bega Cheese.
3 Discuss the effect of change on the stakeholders at Bega Cheese.
4 Using the financial data provided, evaluate the performance of Bega Cheese during the past three years.

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CASE STUDY
17.4

Reviewing and evaluating changes using KPIs: changes at Bluesteel Corporation

Three years ago, Bluesteel Corporation announced a major change to its steel engineering division. Gemma Ayres, the newly appointed CEO, outlined the changes at the time and announced in a media release and at a meeting that, 'All employees will need to be trained in a number of different tasks, work as part of a team and focus on producing a quality product'. Bluesteel was undergoing a major change in all aspects of the business, she stated at the meeting. It was also reported that there would be changes to the steel production and distribution divisions. 'The competition from foreign firms has made it an urgent task,' she announced when asked how long it was until the changes would take place.

The changes were introduced quickly, and during the implementation period there were a number of concerns among employees regarding the new technology and the training required. There were also changes in steel production and the methods used. This resulted in the relocation of some sections of the production process and an overhaul of the methods used, with a focus on new efficient technologies and recycling of waste materials.

Gemma presented information to the board of directors at a meeting last month. Below is a summary of some of the major trends and KPIs. Shareholders and employees are concerned that the business is planning to introduce further changes over the next 12 months to compete with overseas businesses.

Table 17.5 Bluesteel Corporation key performance indicators

KPI	Year 1	Year 2	Year 3
Sales ($m)	1500	2700	2800
Market share (%)	28	35	30
Profit ($m)	120	135	135
Staff turnover (%)	8	9	12
Share price (per share) ($)	3.25	3.80	3.85
Waste levels (%)	12	9	7
Number of customer complaints (%)	5	6	8

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ANALYSIS

1 Identify three stakeholders who would be affected by the changes over the past three years.
2 Explain why some stakeholders find transformation of a business difficult.
3 Using the information in the table, summarise four trends at Bluesteel Corporation.
4 Evaluate the overall performance of Bluesteel Corporation.
5 Propose three strategies the business could implement to respond to the KPIs outlined in the case study and state why these strategies should be implemented.

17.2 Corporate social responsibility

As discussed in the previous chapter, corporate social responsibility (CSR) is an important consideration and strategy area for most businesses. A business needs to evaluate its programs in light of CSR, as many businesses are now placing resources into this area in the hope of contributing beyond their core business and gaining a positive reputation.

Looking at indicators such as reduction in waste, recycling of components, contribution to community programs, employee participation in these programs and links to other social responsibility matters may provide a means to evaluate any new CSR-related initiatives introduced by a business.



Figure 17.12 CSR initiatives can include community support and programs.

Businesses that want customers to return to them need to let their return customers know that the money they spend on the business is 'doing good'. Many businesses recognise the importance of being socially and environmentally conscious; however, they need to still evaluate and review the programs they have initiated.

SAC AND EXAM TIPS – linked to key skills

It is important to understand KPIs and other data available to businesses. This can be used to evaluate and make judgements about the success of the change or transformation.
An analysis of how successful a change has been is crucial for all businesses.

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Chapter summary

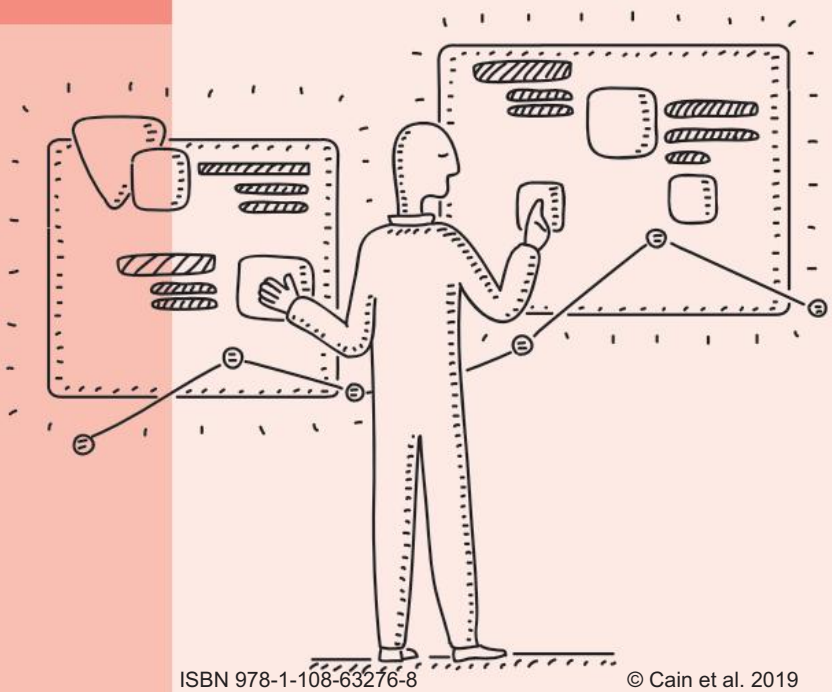
- Any change or transformation in a business should be monitored and evaluated.
- A range of KPIs can be used to evaluate the effectiveness of transformation of a business.
- Businesses should review performance and change on a number of levels, including:
  - whole business
  - department or section
  - teams
  - individual employees.
- Businesses need to be clear about objectives to enable them to make judgements.
- Any transformation or change needs to be reviewed.

Chapter summary tasks

1 Explain why businesses need to monitor and evaluate change or transformation.
2 Outline how KPIs can be used to evaluate:
  a operations management
  b employees
  c financial performance
  d corporate social responsibility.
3 Evaluate the changes a business could introduce to manage an increase in staff absenteeism.

Examination preparation

1 All businesses need to monitor and review the transformation of the business. **Outline** how a business can use KPIs to evaluate any changes made. Refer to a contemporary business example to illustrate your response. **(8 marks)**



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Glossary



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

affirmative action programs that require businesses to make special efforts to recruit, select and promote women and members of minority groups

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

appraisal any method of evaluating the performance of an employee against preset targets

arbitration a method of industrial dispute resolution where an independent third party listens to both sides of the agreement, then makes a decision based on these arguments, which is legally binding on both parties

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

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

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

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

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

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

automated production line process where raw materials enter and finished products leave with little or no human intervention

automation replacement of human activity with technology

award restructuring microeconomic reform designed to change how labour is organised, employed and paid; it is aimed at increasing productivity by multiskilling and retraining workers and through union amalgamation

benchmark a level of quality or achievement used as a standard of comparison for others; a point of comparison used to evaluate success levels

business change any alteration to a business and/or its work environment

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

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

capacity planning operations decision concerned with the quantity of goods or services to be produced within a specific period of time

capital intensive makes greater use of capital (machinery and equipment) than labour

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

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

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

collective agreement enterprise bargaining agreements that result from negotiations between an employer and union (employees) and are registered (ratified) by the Fair Work Commission

collective bargaining the process by which wages, hours, rules and working conditions are negotiated and agreed upon by a union with an employer for all the employees collectively whom the union represents

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

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

competency the ability to be able to perform a task

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

competitive advantage point of difference or superiority over one's competitors

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

components the parts and resources used in a production process

computer-aided design (CAD) computer program that facilitates creation and modification of design

computer-aided manufacturing (CAM) computer-controlled manufacturing

computer-integrated manufacturing (CIM) CIM, a combination of both CAD and CAM, is a computer program that controls and directs production from start to finish. CIM directs planning, cost estimations, inventory planning and control, and quality control systems.

conciliation a third-party (conciliator) facilitates agreement between management and employees in relation to a dispute

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

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

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

corporate philanthropy a business's way of giving back to its community – local, regional, national or international – through financial donations and non-cash contributions such as time, expertise and goods. Companies can donate to charities and not-for-profit organisations.

corporate social responsibility (CSR) the commitment by organisations to conduct their business in an ethical manner, to take responsibility for the economic, social and environmental consequences of their activities, and to be accountable to a wide range of stakeholders, including employees, customers and suppliers – now and in the future

cost leadership strategy a strategy that allows a business to achieve a competitive edge by reducing production or delivery costs

customise to alter the features of a product to suit specific and precise client/customer preferences

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

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

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

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

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

deregulated labour market where aspects of the employee–employer relationship are not subject to government control and regulation

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

differentiation emphasises the difference between a particular product/service and those that are similar by developing the attributes that customers find appealing

dismissal termination of an employment contract due to incompetence or indiscipline

dispute industrial disagreement between employees and employers

dispute resolution procedure a formal, systematic process that permits employees to complain about matters that affect them and their work

diversity human characteristics that make people different from one another

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domestic market refers to the supply and demand of goods and services within one country

downtime period during which production is not occurring

driving forces those forces affecting a situation that are pushing in a particular direction and are supporting the goal or proposed change

ecommerce buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet

effectiveness the degree to which a business achieves its stated objectives; 'doing the right things'; the ability of a business strategy to achieve an intended or expected outcome

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

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

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

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

employer associations provide a range of advice to employers and represent their interests on employee relations issues

enterprise agreement a written collective agreement made between an employer and the employees at a workplace, setting out the terms and conditions of employment

environmental management system (EMS) series of policies and practices that focuses on an organisation's approach to environmental issues

environmental sustainability ability of an ecosystem to maintain itself into the future; involves using Earth's resources at a rate they can be replenished

equipment machinery and other tools

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

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

facilities the buildings, equipment and services provided for a particular purpose

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

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

five force analysis a tool that focuses on five important determinants of competitive power – supplier power, buyer power, competitive rivalry, threat of substitution and the threat of new entry

Force Field Analysis looks at forces that are either driving movement towards a goal or change (helping forces) or blocking movement towards a goal or change (hindering forces)

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

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

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

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

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

globalisation the process of increasing interdependence between countries. It involves the increasing integration of businesses and economies. It removes economic boundaries, thereby creating free international trade and movement of capital between countries.

global market refers to the supply and demand of goods and services in and between countries across the globe

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

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

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

gross domestic product (GDP) total market value of production in a country over a period of time minus the costs of production

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

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

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

high-risk strategies autocratic approach to implementing change, involving use of force, threats and manipulation of situations

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

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

innovation generally refers to changing or creating more effective processes, products and ideas, and can increase the likelihood of a business succeeding

inputs resources such as raw materials, labour, plant, equipment, capital, information and time used in any organisational production system

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

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

inventory the holding or storage of raw materials, component parts, work in progress and finished goods

inventory control system of overseeing the contents of an inventory; usually involves maintaining correct levels of stock as well as averting stock loss and theft

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

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

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

Just In Time (JIT) an inventory management system that aims to avoid holding any stock (either as inputs or finished goods). Supplies arrive just as needed for production, and finished products are immediately dispatched or sold to customers.

key performance indicators (KPIs) measures or a set of data that allows a business to determine whether it is meeting its business objectives

labour intensive makes greater use of labour than capital during production process

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

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

lean management the term given to a range of measures traditionally used by Japanese businesses in an attempt to reduce waste and costs in production

lean production a range of measures that aim to reduce costs, reduce waste and increase efficiency in production, such as minimising inventory and maximising flow

level of wastage in a production process will give an indication of business efficiency and is a measure of resources that have not been converted to outputs

Lewin's Three Step Change Model Lewin developed a change management model with the three steps: 1) 'Unfreeze the status quo'; 2) Move from the current to the new situation; 3) 'Refreeze' and embed the change

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

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

logistics the distribution of products, or the movement/delivery of materials and products from one location to another

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low-risk strategies participative approach to implementation of change, use of communication, empowerment, work groups and support for those who are impacted upon

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

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

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

market niche an area of a larger market that aims to satisfy a particular market need, often focused on a specific or unique product

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

master production schedule (MPS) a statement of what a business intends to produce, in what quantities over a set time frame, taking into account forecast customer demand and production costs

materials requirement planning (MRP) a computerised inventory management system used to schedule and place materials orders

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

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

modern awards set out minimum conditions of employment for employees doing a particular job

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

net profit the amount left after all expenses (e.g. costs, taxes) have been paid, also referred to as the bottom line

number of customer complaints the number of written or verbal expressions of dissatisfaction from customers about an organisation's products or services

number of sales the total quantity of sales of a particular product or service

number of workplace accidents the number of unplanned events interrupting the workflow that may or may not include injury or property damage

objectives statements of desired achievement that provide direction for the business

official corporate culture desired culture a business wishes to establish

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

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

operations a series of procedures and processes undertaken in order to create outputs

operations management management of resources and functions within a business to achieve efficient output of finished goods or services in a way that adds value to customers and creates a profit margin for the business

operations system the three stages of production: inputs, transformation, outputs

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

organisational inertia the lack of ability of a business to react to internal and external pressures for change, as it tends to continue on its well-entrenched way

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

outputs transformed inputs that are returned to the external environment as products or services

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

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

partnership a legal form of business ownership where two or more people (partners) work together

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partnership agreement a formal document that outlines the duties and responsibilities of the parties to a partnership

percentage of market share the portion of sales (units or revenue) of a product that a company achieved in relation to the sales of the same product that other companies achieved

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

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

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

perpetuity having ongoing life; that is, never-ending

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

planning a formalised decision-making process that is future-oriented

plant capital items that are large and/or difficult to relocate once in place or installed

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

Porter's Generic Strategies approach a framework used to outline the three major strategic options open to businesses that wish to achieve a sustainable competitive advantage

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

proactive using initiative to gain an opportunity; acting in anticipation

production process the process of transforming resource inputs into finished goods and services

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

product recall when a defective product is sourced and either rectified or replaced after it has been sold by the manufacturer

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

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

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

public sector part of the economy operated by the government

purchasing policy a policy within an organisation placing requirements for employees seeking to acquire goods or services for use by the company

quality the degree of excellence in a good or service and its ability to satisfy the customer

quality assurance a system established to ensure that predetermined quality standards are achieved

quality circle a group of workers who meet regularly to discuss quality and production issues. Any proposed changes to production methods are then put forward to management.

quality control process of checking the quality standards of work done or quality of raw materials or component parts

rate of staff absenteeism a percentage indicating the number of workdays lost due to unscheduled staff absence from work, especially without a good reason

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

redeployment of resources process of relocating resources such as materials, equipment and labour to different departments, sites and countries in order to improve efficiency and productivity and reduce wastage

redeployment of staff process of moving employees from one area of a business to another, often as an alternative to termination of employment

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

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

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

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

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

restraining forces personal and organisational resistance to change that acts against the driving forces and could involve management, employees, cost, legislation and competitors

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

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

robotics use of robots to perform manual tasks; a form of automation

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

scanner a device for sensing recorded data, as in a barcode; for example, a supermarket scanner

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

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

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

Senge's Learning Organisation in situations of rapid change, only those businesses that are flexible, adaptive and productive will be successful. To allow this to happen, a business needs to be able to work out how to tap into and harness people's commitment and their capacity to learn.

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

shareholder owner of a company

shop steward locally elected union representative; an employee at a workplace is elected by local union members to represent them; they act as the first point of contact for an employee with their trade union

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

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

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

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

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

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

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

staff turnover measures the number of employees who had to be replaced within a given period

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

standardised where one finished good is generally the same as the next produced

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

strategies methods and plans that are implemented to develop and grow a business and to meet business objectives

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

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

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

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supply chain a system of organisations, people, activities, information and resources involved in moving a product or service from suppliers to manufacturers and then on to consumers

supply chain management meeting consumer demands for goods and services while making the most efficient use of input resources in both the production process and the distribution of the finished product to the customer

sustainable procurement a system of procurement of inputs that allows a business to meet its economic needs while minimising damage to both the environment and society

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

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

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

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

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

technology practical application of science to achieve commercial or industrial objectives

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

Total Quality Management (TQM) a concept whereby all staff in a business have responsibility for its process and output

trade union an organisation formed to represent and protect the rights of workers in a particular industry

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

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

transformation the processes involved in converting inputs into outputs

triple bottom line reporting where a business organisation reports on social outcomes and environmental impact as well as financial performance

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

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

union executive/official officials elected by union members to run the organisation (union) on a day-to-day basis; they act to represent members in negotiations with employers

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

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

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

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

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

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

workplace relations historically referred to as industrial relations, workplace relations is concerned with the contractual, emotional, physical and practical relationship between employer and employee

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