

Cambridge

VCE BUSINESS MANAGEMENT



Units 3 & 4
Third Edition

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Introduction

Congratulations on choosing to study VCE Business Management! We think it is a fantastic subject that offers knowledge you can put into practical use in your future work or studies. The author team is comprised of highly experienced Business Management teachers, who wish you the best for your VCE studies.

About the author team

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How to use this resource

Book structure

- All chapters have been closely aligned to the *VCE Business Management Study Design 2023–2027*.
- This book for Units 3 and 4 contains two units and five areas of study.
- Each unit and area of study starts with an overview taken directly from the VCAA study design.
- We have tried to make the book's alignment to the curriculum very clear for you. For example, each area of study starts by listing the chapters included and each chapter opens with a 'What's ahead' visual showing the main sections of the chapter.
- Chapters start with an engaging 'Kickstarter activity' that can be used to spark classroom discussion.
- Each chapter has a 'Chapter overview' that lists the 'Key knowledge and learning intentions' for the chapter. These are based on the key knowledge and key skills of the study design.
- Each chapter is divided into numbered sections, and each of these sections covers a key knowledge dot point from the study design.
- Each chapter section starts with 'Learning intentions' to drive your inquiries into VCE Business Management.
- At the end of each chapter section are review questions and at the end of each chapter are end-of-chapter activity questions.
- At the end of each area of study you will find a summary section featuring a range of revision tools for your preparation for assessment tasks.

Activity types

This series uses a range of activity types, including the following:

- Activities (activities that scaffold important concepts and skills from the study design)
- Case study analyses
- Reviews (questions in both print and digital formats)
- End-of-chapter activities that include a range of tasks for you to complete, including practice examination questions.

Digital resources

This series uses the interactive Edjin platform, and includes both a student and a teacher edition.

In the **Interactive Textbook** version of this book, students will find the following key resources:

- Downloadable worksheets for all activities
- Success criteria checklists (aligned to each chapter's learning goals, for students to self-assess their progress)
- Interactive Scorchers quizzes (timed, competitive and fun tests of knowledge)
- Interactive review activities (digital questions to summarise each chapter section)
- Videos
- Suggested solutions to all activities (enabled by teacher)
- A PDF downloadable version of the student textbook.

In the **Online Teaching Suite**, teachers will find:

- Exam generator – a powerful tool featuring scores of previous VCAA examination questions, VCAA-style questions and model answers. This tool allows you to create practice assessment tasks that you can assign to your classes. You can filter questions by area of study, mark allocation or key term
- Additional downloadable practice exams and SACs
- Reporting tools to track the progress of your classes and students
- PowerPoint summaries of each chapter
- Teaching programs
- Suggested solutions to all activities (access for students can also be enabled).

How to unpack exam questions

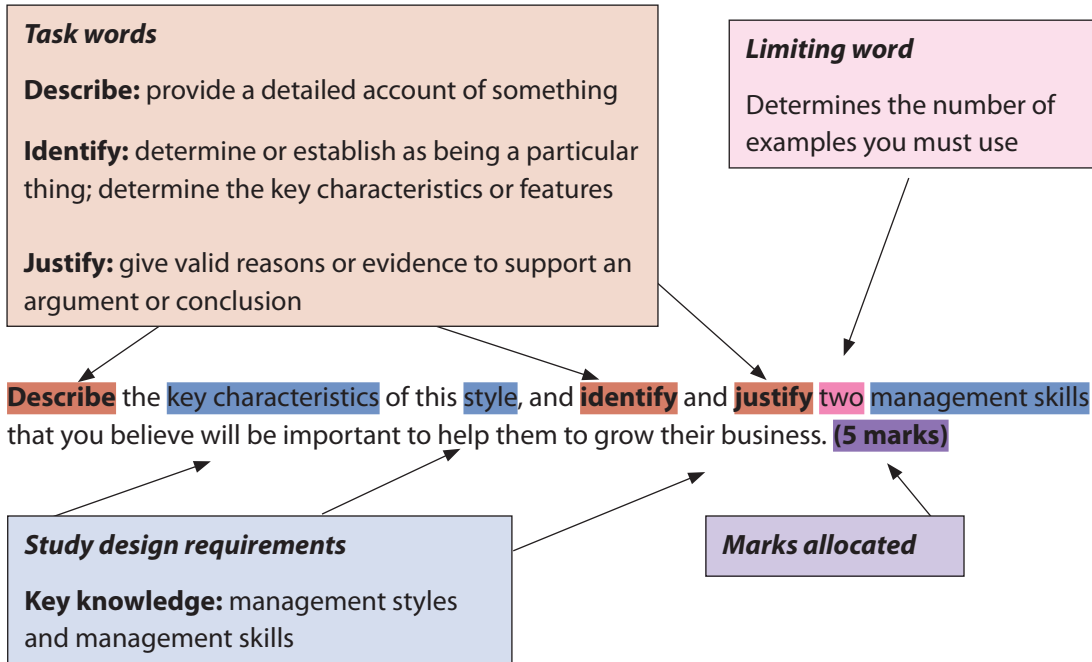
This guide may help you with the practice exam questions in each chapter. You will need to refer to this table when looking at the 'Extended response question – let's unpack it' feature at the end of each area of study.

A	Annotate the command word	<p>Before writing anything, read the question carefully and completely to work out exactly what it is asking you to do.</p>
B	Brackets around different parts of the question	<ul style="list-style-type: none"> • Identify the command word (e.g. discuss, evaluate, analyse). This will inform the structure of your response. • Does the question ask you to do more than one thing? Does it have more than one part? <ul style="list-style-type: none"> — If it does, put brackets around the separate parts.
C	Count the marks	<p>Look at the marks available. Think about what you need to include to get all of the available marks.</p> <ul style="list-style-type: none"> • Consider the command word. This might highlight that the question is one mark per point. • Questions with five or more marks are often holistically marked. <ul style="list-style-type: none"> — Consider how you can construct an in-depth response.
D	Determine key words to use	<p>Identify key concepts in the question so you can identify the key terms you need to use.</p> <ul style="list-style-type: none"> • Ask yourself: what is the question about? • Identify the key knowledge the question is drawing on and ensure that relevant terms are used.
E	Evidence If required	<p>Use the stimulus. If the question states 'using the data' or 'using the diagram', ensure that your response contains information from this stimulus.</p> <p>Provide evidence to support your evaluation or justification to add complexity to the response.</p>

Example question

Describe the key characteristics of this style, and **identify** and **justify** two management skills that you believe will be important to help them to grow their business. **(5 marks)**

Extended response question – let's unpack it



Hints:

- This question has multiple parts (management styles and skills) and requires all parts to be completed to gain full marks.
- There are a range of other skills that could be identified and justified – delegation, leadership, decision-making and interpersonal.

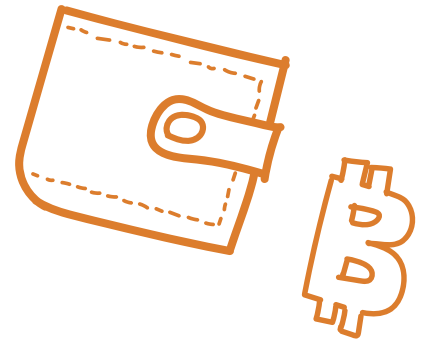
Key skills-based terms used in outcomes and examination questions

The following table explains common terms used in examination questions and activities in this resource.

Term	Definition
Analyse	Identify components/elements and the significance of the relationship between them; draw out and relate implications; determine logic and reasonableness of information
Apply	Use; employ in a particular situation or context
Compare	Recognise similarities and differences and the significance of these similarities and differences
Define	Give the precise meaning and identify essential qualities of a word, phrase, concept or physical quantity
Describe	Provide characteristics, features and qualities of a given concept, opinion, situation, event, process, effect, argument, narrative, text, experiment, artwork, performance piece or other artefact in an accurate way
Discuss	Present a clear, considered and balanced argument or prose that identifies issues and shows the strengths and weaknesses of, or points for and against, one or more arguments, concepts, factors, hypotheses, narratives and/or opinions
Distinguish	Make clear the differences between two or more arguments, concepts, opinions, narratives, artefacts, data points, trends and/or items
Evaluate	Ascertain the value or amount of; make a judgment using the information supplied, criteria and/or own knowledge and understanding to consider a logical argument and/or supporting evidence for and against different points, arguments, concepts, processes, opinions or other information
Examine	Consider an argument, concept, debate, data point, trend or artefact in a way that identifies assumptions, possibilities and interrelationships
Explain	Give a detailed account of why and/or how with reference to causes, effects, continuity, change, reasons or mechanisms; make the relationships between things evident
Identify	Recognise and name and/or select an event, feature, ingredient, element, speaker and/or part from a list or extended narrative or argument, or within a diagram, structure, artwork or experiment
Interpret	Draw meaning from an argument, point of view, description or diagram, text, image or artwork and determine significance within context
Investigate	Observe, study or carry out an examination in order to establish facts and reach new conclusions
Justify	Show, prove or defend, with reasoning and evidence, an argument, decision and/or point of view using given data and/or other information
List	Provide a series of related words, names, numbers or items that are arranged consecutively
Outline	Provide an overview or the main features of an argument, point of view, text, narrative, diagram or image
Propose	Suggest or put forward a point of view, idea, argument, diagram, plan and/or suggestion based on given data or stimulus material for consideration or action
Provide reasons/ justify	Justify your choice or answer; give valid reasons or evidence to support an answer or conclusion
Recommend	Put forward and/or approve (someone or something) as being suitable for a particular purpose or role
Summarise	Retell concisely the relevant and major details of one or more arguments, text, narratives, methodologies, processes, outcomes and/or sequences of events

Source: © VCAA, Glossary of Command Terms

Overview of areas of study and coursework assessment



Managing a business and transforming a business

The VCE Business Management study design 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 Human resource management
- 3 Operations management

UNIT 3 COURSEWORK ASSESSMENT CHART

Number	Outcome	Marks allocated	Assessment tasks
1	Analyse the key characteristics of businesses, their stakeholders, management styles and skills, and corporate culture	20	Two or more of the following: <ul style="list-style-type: none"> • 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	Two or more of the following: <ul style="list-style-type: none"> • 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	Two or more of the following: <ul style="list-style-type: none"> • 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, analyse why managers may take a proactive or reactive approach to change, use key performance indicators to analyse the performance of a business, explain the driving and restraining forces for change, and evaluate management strategies to position a business for the future	50	Two or more of the following: <ul style="list-style-type: none"> • A case study • Structured questions • An essay • A report • A media analysis
2	Discuss the importance of effective management strategies and leadership in relation to change, evaluate the effectiveness of a variety of strategies used by managers to implement change, and discuss the effect of change on the stakeholders of a business	50	Two or more of the following: <ul style="list-style-type: none"> • A case study • Structured questions • An essay • A report • A media analysis
Total marks		100	

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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%



UNIT 3 MANAGING A BUSINESS

UNIT DESCRIPTION

In this unit students explore the key processes and considerations for managing a business efficiently and effectively to achieve business objectives. Students examine different types of businesses and their respective objectives and stakeholders. They investigate strategies to manage both staff and business operations to meet objectives, and develop an understanding of the complexity and challenge of managing businesses. Students compare theoretical perspectives with current practice through the use of contemporary Australian and global business case studies from the past four years.

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AREAS OF STUDY IN THIS UNIT

1 Business foundations

2 Human resource management

3 Operations management



AREA OF STUDY 1 BUSINESS FOUNDATIONS

AREA OF STUDY DESCRIPTION

This area of study introduces students to the key characteristics of businesses and their stakeholders. Students investigate potential conflicts between the different demands of stakeholders on a business. They examine corporate culture and a range of management styles and management skills that may be used when managing a business, and apply these to contemporary business case studies from the past four years.

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OUTCOME 1

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

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

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CHAPTERS IN THIS AREA OF STUDY

1 Business foundations

2 Stakeholders and corporate culture

3 Management styles and skills

CHAPTER 1

Business foundations

'Don't go into business with the sole objective of making lots of money. If you put service, quality, and customer satisfaction first – the money will follow.'

Paul Clitheroe (1955–)

About the author:

Paul H. Clitheroe AM is an Australian television presenter, radio presenter, financial analyst, financial adviser and publisher.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about starting a business and discuss your response to the following question:

Discuss and **evaluate** the meaning of this quote by Paul Clitheroe.

CHAPTER OVERVIEW

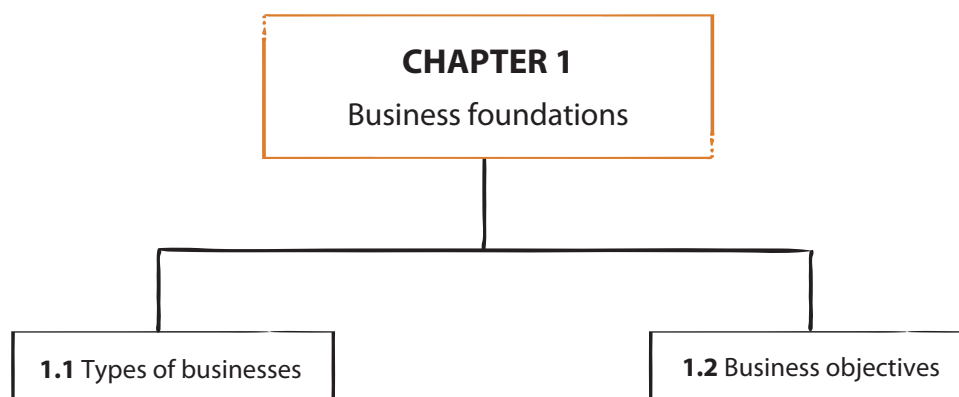
This chapter examines the types of businesses that operate in the Australian economy, together with the types of objectives that these businesses establish.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Types of businesses including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises	1.1 Types of businesses <ul style="list-style-type: none"> 1.1.1 Identify and describe types of businesses in Australia 1.1.2 Discuss, compare and evaluate the different types of businesses in Australia 1.1.3 Describe and apply relevant business management concepts and terms
Business objectives including to make a profit, to increase market share, to improve efficiency, to improve effectiveness, to fulfil a market need, to fulfil a social need and to meet shareholder expectations	1.2 Business objectives <ul style="list-style-type: none"> 1.2.1 Identify, define and describe specific listed business objectives 1.2.2 Apply specific listed business objectives to practical and/or simulated business solutions

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What's ahead



1.1 Types of businesses

Learning intentions – at the end of this chapter section I will be able to:

1.1.1 Identify and describe types of businesses in Australia

1.1.2 Discuss, compare and evaluate the different types of businesses in Australia

1.1.3 Describe and apply relevant business management concepts and terms

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 that are classified as being in the **public sector**.

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.

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

public sector part of the economy operated by the government

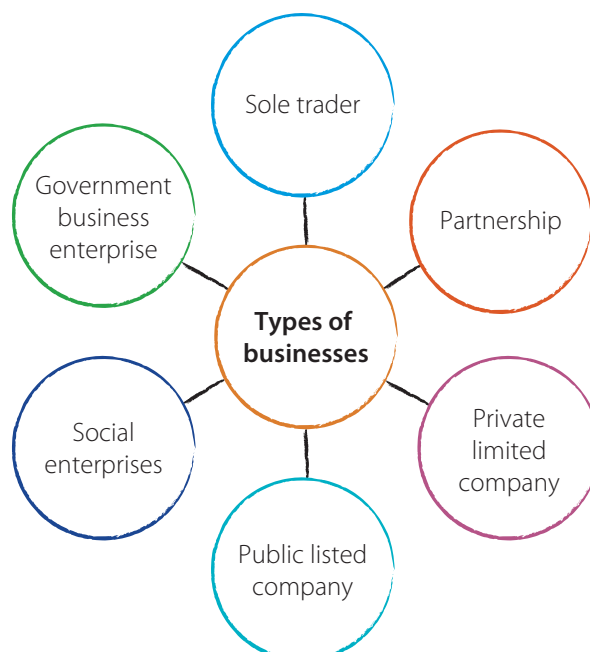


Figure 1.1 Six types of businesses

Sole trader

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

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, including 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 and to give their business legitimacy.

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

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

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



Figure 1.2 A sole trader – you are on your own!

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	Does not allow splitting of business profits or losses made with family members
Use own personal tax file number to lodge taxation returns	Business owner is personally liable to pay tax on all the income derived



ACTIVITY 1.1

Simon had been working as a pastry chef with a busy restaurant in the city prior to the COVID-19 pandemic. The restaurant decided that due to the numerous lockdowns that had occurred in Melbourne it would have to close. Simon had created a good reputation for himself, especially for his pastries and desserts, and was often appearing on reviews on Instagram posted by diners at the restaurant. Simon decided to try operating a catering business from his home. Although known as a good pastry chef, Simon knew nothing about running a business and the type of business structure he should set up. A friend had suggested that he should become a sole trader.

- 1 **Outline** for Simon what it means to be a sole trader.
- 2 **Analyse** for Simon what would be the advantages and disadvantages of adopting this form of business structure for his new catering venture.

Partnership

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

There are two types of business partnership:

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

The *Partnership Act 1958 (Vic)* sets out the rights and duties of the persons involved in a partnership. Most partnerships are based on a formal legal agreement (**partnership agreement**) being entered into by the parties.

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

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

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 1.3 For success it is important that business partners work collaboratively.

A partnership does not have an ongoing life: if one partner leaves or dies, 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.

perpetuity having ongoing life (that is, never-ending)

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 for all debts and obligations of partnership
Risk is shared between partners	Partners act as an agent of the firm and bind other partners by their actions
Government regulations are minimal; they require separate tax file numbers, an Australian Business Number (ABN) and lodgement of annual tax return with the Australian Taxation Office (ATO)	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	Required to retain partnership records for a period of seven years

Company

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

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 per cent on most goods, services and other items sold or consumed in Australia

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 owners 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 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.



Figure 1.4 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
- must keep financial records for at least seven years after the transaction was completed.

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:

- shareholders – the company has a minimum of one shareholder and is restricted to a maximum of 50 non-employee shareholders
- shares – can only be traded with the permission of other shareholders, which must be given before any transaction takes place
- directors – at least one (who lives in Australia)
- company secretary – optional.

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) for company debts	Higher degree of complexity in establishing
Flexibility to gain extra capital by issuing more shares	Higher establishment and compliance costs
Separate legal entity	Higher degree of government control and reporting requirements
Has perpetuity – existence not threatened by death or removal of a director or shareholder	Must ensure that company directors comply with directors' duties (a list of these duties is available on the ASIC website on their 'Small business company directors' page)
Tax efficiency – flat company tax rate, able to carry forward losses into future more profitable years	Can't claim tax-free threshold available to individuals

ACTIVITY 1.2

Barry and his family run a red gum furniture manufacturing business in country Victoria. They make large items of furniture, such as tables, chairs, sideboards and bookshelves, with the offcuts of wood being made into chopping boards and bowls. Established initially by Barry as a family partnership with his two sons, the business now employs five other craftspeople in the factory to help them keep up with orders. The sales showroom is in the main street of the town and is very popular with both locals and tourists. Barry does not feel comfortable dealing directly with customers, preferring to leave the sales negotiations to his five sales staff. Some of the family members have expressed a desire that the business now change from being a partnership to become a private limited company.

Barry would like your advice as to the advantages and disadvantages of changing the structure of the business from a partnership to a private limited company. What would you **propose**?

Public listed company

As businesses grow in the size of their operations, they may look to the option of becoming a public company as a means of increasing their number of shares and access to more capital. To do this the business 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



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

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.

There are some restrictions on how this type of company operates:

- shareholders – at least one (no limit on the total number)
- directors – at least three (two of which must live in Australia)
- company secretary – at least one (living in Australia).

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

Advantages	Disadvantages
Limited liability for the shareholders (owners)	Highly complex structure
Able to gain additional 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)
Has perpetuity – existence not threatened by death or removal of a director or shareholder	Additional compliance costs
Experienced management team and board of directors	Must ensure that company directors comply with directors' duties
Easy transfer of ownership by selling and buying shares on listed securities exchanges	
Company tax rate is lower than personal income tax rate	

Social enterprises

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

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

A **social enterprise** is a type of business that uses strategies to maximise improvements in human wellbeing or the environment, rather than to maximise profits for its **social entrepreneur** owners or shareholders. Whether they are structured as 'for-profit' or 'not-for-profit' entities, social enterprises have two main goals: to achieve social, cultural, community or environmental outcomes, and to earn revenue. 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 across every industry within the Australian economy. The majority operate as small businesses (73%) and target their business activities towards assisting people with disability (35%), young people (33%)

and disadvantaged women (28%). In Victoria, 1.8 per cent of the state's workforce (i.e. 60 000 jobs) is created by social enterprises, contributing \$5.2 billion to the Victorian economy (Source: CSI Swinburne).

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

Many social entrepreneurs have great ideas and a social conscience but need some extra assistance and support to make their enterprise viable and investment-ready. Two groups are prominent in meeting this need. 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. The Alliance of Social Enterprise Networks Australia represents seven social enterprise networks in each state and territory.



CASE STUDY 1.1

Social enterprises: HoMie (Homelessness of Melbourne Incorporated Enterprise)



The idea behind HoMie began in 2013 after a group of friends (Marcus Crook, Nick Pearce and Robbie Gillies) talked to people living on the streets. They then shared these stories via their Facebook page 'Homelessness of Melbourne', created to connect with people experiencing homelessness, thus giving them a platform to be heard and understood.

Marcus and Nick established this social enterprise in 2015 with its primary mission to provide pathways out of homelessness. HoMie places importance on the following values: inclusivity, connection, respect and transparency in all its actions. It does this by providing new clothing, training and job opportunities to people experiencing homelessness. Its other goals are to change negative public attitudes towards homelessness, mobilise human compassion

and make donating easier through innovative platforms.

In mid-2016, HoMie opened a permanent shopfront in Fitzroy where it began selling its own T-shirts, sweatpants and tops that were made in ethically accredited factories in China.

Over time, HoMie has grown to now running two social impact programs. One of these is VIP Shopping days, when it closes the shop to the public one day a month, so people affected by homelessness can come and select five items of clothing and enjoy both a free haircut and lunch. The other program is the HoMie Pathway Alliance Program. Since its inception in 2017, this program has expanded and now partners with Cotton On, the Hanes Group (Champion and Bonds) and the Retail Prodigy Group (Nike and TOMS) to provide training (both on-the-job



Figure 1.5 Sleeping rough in Melbourne

and retail operations certificate) and employment opportunities for homeless people. After paying staff wages, shop rent and paying for their products to be made, 100 per cent 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 launched a range of upcycled garments in 2020 under its sub-brand REBORN. One product is an upcycled bomber jacket that led to the brand winning a Victorian Premier's Design Award. Another development is the recent partnering with US streetwear brand Champion, which has resulted in both brands' logos appearing in a custom-embroidered design.

In 2019–20, HoMie's revenue was approximately \$1.3 million, with 60 per cent coming from sales and 40 per cent from philanthropic contributions. It also received a small contribution from the federal government.

HoMie believes 'that homelessness is a situation you can move out of with the right opportunity, support, and employment'.

Source: Adapted from 'About us', HoMie website

CASE STUDY ANALYSIS

Visit the HoMie website and answer the following questions:

- 1 **Describe** the inspiration behind social entrepreneurs Marcus and Nick starting this social enterprise.
- 2 **Identify** 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 HoMie Pathway Alliance Program 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 deducting operating costs is distributed.
- 7 The HoMie Pathway Alliance Program has created links with industry bodies. Access the HoMie website to **identify** its current industry partners and **describe** the nature of their partnership.

Social enterprises need to be recognised for their important contribution to the economy of Australia in terms of making it more equitable, stable and sustainable. Social enterprises are driven 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.



CASE STUDY 1.2

Social enterprises: Fruit2Work – creating employment opportunities for those impacted by our justice system



Fruit2Work (F2W) is a certified social enterprise delivering a high-quality, personalised fruit and milk service to workplaces in and around Melbourne's CBD and metropolitan areas.

This social enterprise provides meaningful employment opportunities for people who have been impacted by the justice system. F2W allows its employees to gain important skills and experiences to assist them to reset their lives and return to society as contributing members.

Unfortunately, statistics indicate that half of the people released from prison today will reoffend and return to prison in less than two years. By creating chances for meaningful employment opportunity, F2W believes it has reduced the rate of recidivism (returning to crime) by at



Figure 1.6 An award won by Fruit2Work

least 75 per cent, having a positive impact on society.

Source: Adapted from the Fruit2Work website

CASE STUDY ANALYSIS

Read the case study, watch the video and visit the Fruit2Work website to answer the following questions:

- 1 **Identify** the primary mission of Fruit2Work.
- 2 **Describe** the benefit Fruit2Work would have gained by being recognised as 'SocialTrader of the Year 2020 Small' category winner.
- 3 Use a search engine to find the 2020 Social Enterprise Awards winners page on the Social Traders website. Choose two examples of businesses that are partnering with social enterprises. **Describe** the nature of the partnerships.



Video 1.1
Fruit2Work

Government business enterprises

government business enterprise (GBE)

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

A **government business enterprise (GBE)** operates in the public sector of the Australian economy. The Australian Government, the six state governments and the two 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), energy security (Snowy Hydro), and employment and health services. There are three characteristics that identify GBEs:

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



CASE STUDY 1.3

Three different government business enterprises



Snowy Hydro Limited

Snowy Hydro was created as a government business enterprise on 1 July 2018. It operates on a strictly commercial basis governed by a board of directors. The Commonwealth Government is its sole shareholder, receiving an annual dividend. Its role is to ensure energy security, underpin the transition to renewables, and increase competition in energy markets. The Snowy 2.0 project commenced in 2019 as a major nation-building project that will underpin Australia's transition to renewables. Its renewable portfolio has been expanded to include contracted energy with 10 wind and solar projects.

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



Figure 1.7 The National Broadband Network is a GBE

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 that 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 – the collection, processing and distribution of letters to Australia and overseas.

- Parcels and logistics – the collection, processing and distribution of parcels. It also offers a courier mail service and an integrated logistics service to business for both domestic and international needs.
- Agency services and retail merchandise – 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.



Figure 1.8 Australia Post is another GBE

CASE STUDY ANALYSIS

- 1 **Identify** characteristics that these GBEs have in common.
- 2 **Describe** how NBN and Australia Post earn their revenue.

SAC AND EXAM TIPS – LINKED TO KEY SKILLS

Identify – requires you to determine or establish as being a particular thing; determine the key characteristics or features.

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.



ACTIVITY 1.3

Analysis of business structures/types

Copy and complete the table using information from the article 'Choose the right business structure' on the Business Victoria website and your class notes.

Type of business structure	Sole trader	Partnership	Private limited company	Public listed company	Social enterprise	Government business enterprise
Establishing						
Ownership						
Liability						
Raising funds						
Profits						
Taxation						
Regulation/ compliance						
Decision-making						



REVIEW ACTIVITY 1.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- Define** the term 'sole trader' as a type of business.
- Define** the term 'limited liability'. Identify which business structures offer limited liability to a business owner/shareholder.
- Explain** how a partnership differs from a company.
- Compare** the characteristics of a private limited company and public listed company.
- Analyse** the difference between a public listed company and a government business enterprise.
- Compare** the differences and similarities between a private limited company operating as a for-profit business and a social enterprise such as HoMie.

1.2 Business objectives

Learning intentions – at the end of this chapter section I will be able to:

1.2.1 Identify, define and describe specific listed business objectives

1.2.2 Apply specific listed business objectives to practical and/or simulated business solutions

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
statements of desired achievement that provide direction for the business

Businesses need to put in place multiple objectives that are operational, making use of resources and efforts, while being convertible into specific strategies, targets and outcomes. Objectives cover a wide range of areas relating to making a profit, increasing market share, meeting shareholder expectations and fulfilling the needs of both the market and society. Other important objectives include improving the efficiency and effectiveness of the business operations. 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 should be set using the **SMART** principle.

SMART stands for:

- **Specific** – the objectives are set and are explicit
- **Measurable** – the outcome and objective can be measured
- **Attainable/Achievable** – the objective is one that can be reached
- **Realistic/Relevant** – objectives are goals that can be reached within the time frame
- **Timely/Time-bound** – the objectives will be reached within a certain period of time.

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

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

ACTIVITY 1.4

Evaluate whether the following statements meet the SMART test:

- 1 Nicole has recently moved from working in the city to a country town to experience a change in lifestyle. She plans to open a garden nursery business next year and aims to achieve a 60 per cent market share within two years of commencing operations.
- 2 Mohammad, who has worked for 10 years for an IT software business in the CBD, has decided to start up a small IT software business operating from his home office. He would like the business to make a small profit within four years.
- 3 Hawa is in Year 12 and would like to gain a high enough ATAR to be offered a place in an Event Management 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.



vision statement

a statement that outlines the aspirations and values of the business

mission statement

a statement that defines what the business wants to achieve now

values statement

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

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 and reason the business exists and what it aspires to in the future. Virgin Australia, which operates an extensive network of domestic and international services from its base in Brisbane, states its vision as being 'to revolutionise air travel again, this time across all market segments. We will do this by providing a seamless experience across all international and domestic markets, while retaining the same excellent service' (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.
- 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.

All of the objectives align to achieve the goals of the business.

**ACTIVITY 1.5**

- 1 **Explain** the difference between a vision statement, a mission statement and a values statement.
- 2 **Identify** the importance for a business of developing a mission statement and a vision statement.
- 3 **Evaluate** the importance of developing a values statement.

**CASE STUDY
1.4****Woolworths: Our approach – our purpose and key priorities**

'Woolworths Group is a diverse group of retail businesses on a journey to becoming a purpose-led organisation. United by our Group purpose, *we create better experiences together for a better tomorrow, creates the framework for how we aspire to operate, to be better; for our customers, our team, the communities we serve and our shareholders.*'

F21 strategic priorities

In 2020/21, the six key priorities reflect the Group's transformation into a Food and Everyday Needs Ecosystem, with complementary adjacencies for growth and partnerships that extend the Group's range and services. Our purpose, *to create better*

experiences together for a better tomorrow, brings our Food and Everyday Needs Ecosystem together, and our customer and team-first culture is at the core of any decision-making. Team member performance measures continue to include Agile Ways-of-Working to align with the Group's Core Values and the commitment to being a purpose-led organisation.

2020/21 key priorities:

- Better Together for a Better Tomorrow for our customers, teams and communities
- Accelerate Digital, eCom and convenience for connected customers
- Differentiate our food customer propositions
- Stand-up Endeavour Group
- Evolve our Portfolio and build adjacencies
- Keep our business COVIDSafe and future proof our E2E operating model.



Figure 1.9 Woolworths Group Purpose. Source: Woolworths Group website.

Source: Adapted from 'Our purpose and key priorities', Woolworths Group website



Figure 1.10 Woolworths Group: six key priorities

CASE STUDY ANALYSIS

Discuss whether you believe that the purpose and the six priority areas identified by Woolworths will assist the business to meet the challenges currently being experienced by businesses in the food retail sector.

Typical business objectives



Figure 1.11 Typical business objectives

To make a profit

profit the difference between revenue and expenses. If a business makes a profit, it may be considered successful.

Profit, being the difference between revenue and expenses, is regarded as the lifeblood or primary objective of a business. Profits must be earned to ensure the survival of the business (both short-term and long-term), its growth and its expansion over time. To make a profit is a financial objective and relates directly to the desired financial performance of the business. 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).

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 'to make a profit'. A variety of strategies can then be put in place to achieve this objective, such as reducing 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.

To increase market share

market share proportion or percentage of the market (and total sales) controlled by the business

Market share is the proportion or percentage of the market (and total sales) controlled by the business. When a business sets the objective of increasing its market share, it is aiming at gaining a greater percentage of the market through its sales, resulting in an increased revenue stream.

Businesses produce goods and services. If there is not a demand or need for the product or service, the business is unlikely to achieve this objective. 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 do this very well.

ACTIVITY 1.6

- 1 **Identify** some typical ways in which businesses market their products.
- 2 Research a well-known business and **identify** its marketing methods.
- 3 **Evaluate** whether you believe the marketing methods identified in Question 2 would result in an increased market share for that business.


CASE STUDY
1.5
Targeting a niche market: Twins Pantry


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 and no preservatives, and were dairy free and kosher. 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.

Two of their successful marketing strategies at these markets are 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.

CASE STUDY 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 The primary marketplace for Twins Pantry has been regional farmers' markets. **Identify** the difficulties this business would have experienced due to the changed operating conditions placed on businesses by the COVID-19 pandemic.

efficiency the best use of resources in the production of goods and/or services

To improve efficiency

Efficiency relates to the best use of resources in the production of goods and/or services. To achieve an improvement in efficiency, the business needs to achieve more output (goods produced or services provided) for each unit of input, often referred to as productivity levels.

In the quest to improve efficiency, a business should review and evaluate all its operations to determine whether improvements can be achieved without leading to additional costs to the business. A business must work within the constraints of its finances and budgets, as this is an essential element to business success.

effectiveness the degree to which a process or system is successful in achievement of business objectives

To improve effectiveness

Effectiveness relates to the degree to which a business achieves its stated objectives – ‘doing the right things’, which will ultimately yield positive results for the business. To achieve its stated objectives, the business must ensure that it has in place strategies related directly to those specific objectives, and measurement tools to assess whether the outcome meets the stated objective.

For example, if a retail business establishes an objective of increasing market share, it may decide to purchase new technology to reduce customer handling time at the checkout. The staff are trained in the new equipment; however, a review of monthly sales data does not reveal an increase in sales revenue. Feedback from customers also reveals that they feel the use of this new technology is impersonal and detracts from their shopping experience. If, following the implementation of the new technology, market share does not increase, the outcome would be judged as not being achieved and the strategy would be considered ineffective.

market set of actual or potential buyers of a product or service

To fulfil a market need

It is important for a business to recognise and satisfy the needs of its **market**, which is the set of actual or potential buyers of a product or service. The market could be one that is physical, social or individual. The physical market relates to providing food, clothing, shelter and safety.

The social market relates to satisfying the need for belonging and affection. The needs of the individual market relate to gaining knowledge and allowing for self-expression.

For a business, satisfying the needs of its market is an easy way to increase profits and sell more products and services. Its objectives may be to expand a current product or service into a new market or to create a new product to meet the need of an existing or new market. Strategies would need to be put in place to fulfil the different needs to get the consumer to purchase the business’s product or use its service. A business not only needs to identify its market, but also needs to assess the potential size of the market and identify which part of the market to concentrate on.



Figure 1.12 A woman selling fruits and vegetables at a produce stand, fulfilling physical market needs.



CASE STUDY 1.6

Identifying a gap in the market for children's clothing featuring Australian animals: Bandicute



Mother and daughter team Ellen and Jess, who live together on their rural property in Gunning, New South Wales, commenced the business after they identified a gap in the children's clothing market.

Both Ellen and Jess have a background in illustration and printmaking and are keenly interested in nature and animals. Bandicute started partially from a creative itch they needed to scratch, and a gap in the market that they discovered after Jess's two daughters, Lilly and Hannah, were born. They noticed many baby and children's clothing items with designs featuring foxes, rabbits, deer, raccoons,

bears and safari animals. Why was this, when Australia has the most amazing animals that deserve to be celebrated and worn with pride?

Bandicute specialises in creating and manufacturing unisex, quality, modern, colourful designs featuring many favourite Aussie icons. Functionality and style are at the core of every decision made. Bandicute's garments are designed to be long-lasting and versatile, so you can get as much wear out of them as possible and hand them down to future siblings and beyond.

Source: Adapted from the Bandicute website

CASE STUDY ANALYSIS

- 1 **Identify** and **describe** the 'market need' that the creators of Bandicute believed they would fulfil and work towards creating a profitable business.
- 2 **Discuss** which is the more important factor when buying clothing: 'functionality and style' or price.

To fulfil a social need

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

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 that exceed their legal obligations.

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



CASE STUDY 1.7

Sustainability objectives to make a positive difference to the environment: Officeworks



Officeworks has identified a social need in making a positive difference to the environment and giving customers the opportunity to make more sustainable decisions to reduce their environmental impact.

Officeworks has developed a People and Planet Positive 2025 Plan, which outlines its goals (objectives) to support its team, enhance its contribution to communities, source products in sustainable and responsible ways, and reduce its environmental impact.

Officeworks' long-term commitment to making a positive difference to the environment includes strategies to plant native trees, undertake land restoration projects, focus on operational waste reduction growing the circular economy, and reducing energy consumption, as well as its customer recycling programs.

In 2017, Officeworks partnered with Greening Australia, through its Restoring Australia initiative, to plant two trees for every one used, based on the weight of paper-based products customers buy at Officeworks. By now over one million trees have been planted, with a goal to plant two million trees across Australia by 2025.

Source: Adapted from 'Restoring Australia', Officeworks website



Figure 1.13 Officeworks undertakes sustainability actions to support local landholders and communities.



CASE STUDY ANALYSIS

Read the case study, watch the video and visit the Officeworks website to answer the following questions:

Video 1.2 Officeworks

- 1 **Describe** some of the social objectives and results Officeworks have achieved that are mentioned in the video.
- 2 Visit the Officeworks website and look at the 'Restoring Australia' page. **List** other actions the business is undertaking as part of its social objectives to make sustainable living more commonplace.
- 3 **Evaluate** whether these social objectives of Officeworks will contribute to the overall profitability of the business.

ACTIVITY 1.7

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



To meet shareholder expectations

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, for any shares purchased to increase in value, and for 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 shown that it can contribute to greater profitability in the long term and therefore increased financial returns for shareholders.

shareholder
owner of a
company

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

ACTIVITY 1.8

Identify the key expectations of shareholders and analyse their power to influence 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 them.

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.

Apply business management knowledge to practical and/or simulated business situations – using theory to show or make links, relationships or connections to business situations either real or simulated.

REVIEW ACTIVITY 1.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Describe** why it is important for a business to set clear, specific and measurable objectives.
- 2 **Analyse** why a profit-based business would continually look at ways to increase efficiency and productivity.
- 3 **Explain** why it is important for a business to establish a broad range of business objectives.
- 4 **Analyse** why it is useful for a business to adopt the SMART principle when setting its objectives.
- 5 **Explain** how businesses use their vision, mission and values statements as a way to assist them in establishing their direction when setting their objectives.

Chapter 1 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 3 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Sole trader	Partnership	Private limited company
Public listed company	Social enterprise	Government business enterprise (GBE)
Objectives	Shareholder	Profit
Market share	Efficiency	Effectiveness

Examination preparation

- 1 Discuss** the implications of a business adopting a legal structure of a partnership rather than that of a private limited company. **(4 marks)**
- 2 Describe** 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 Compare** the characteristics of a government business enterprise and a partnership. **(4 marks)**
- 4 Evaluate** why it is important for all businesses, regardless of their size, to ensure that they have clearly articulated business objectives. **(4 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
1.1 Types of businesses	1.1.1 Identify and describe types of businesses in Australia, including: <ul style="list-style-type: none"> • sole traders • partnerships • private limited companies • public listed companies • social enterprises • government business enterprises 	Activity 1.1 Activity 1.2 Case study 1.1: Q1–6 Case study 1.2: Q1–2 Review activity 1.1: Part 1 & Part 2 (Q1)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	1.1.2 Discuss, compare and evaluate the different types of businesses in Australia	Activity 1.3 Case study 1.3: Q1 Review activity 1.1: Part 1 & Part 2 (Q3) Examination preparation: Q1–3	Yes No <input type="checkbox"/> <input type="checkbox"/>
	1.1.3 Describe and apply relevant business management concepts and terms	Case study 1.3: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
1.2 Business objectives	1.2.1 Identify, define and describe specific listed business objectives: <ul style="list-style-type: none"> • to make a profit • to increase market share • to improve efficiency • to improve effectiveness • to fulfil a market need • to fulfil a social need • to meet shareholders' expectations 	Activity 1.2 Activity 1.3 Activity 1.4: Q1–3 Activity 1.5: Q1 Activity 1.6: Q1 Case study 1.4 Case study 1.5: Q1–3 Case study 1.6: Q1–2 Case study 1.7: Q1–2	Yes No <input type="checkbox"/> <input type="checkbox"/>
	1.2.2 Apply specific listed business objectives to practical and/or simulated business solutions	Case studies 1.1–1.7 Review activity 1.2: Part 1 & Part 2 (Q1–4) Examination preparation: Q4	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 2

Stakeholders and corporate culture

'I think it is going to be very difficult to be a company in silos. I think the game has changed. We won't define our success by looking at the competitors but at how satisfied are our customers, how engaged are our internal stakeholders, and how good is our product pipeline.'

Michael Dell (1965–)

About the author:

Michael Dell is the founder, chairman and CEO of Dell Technologies, one of the world's largest technology infrastructure companies.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about business stakeholders and discuss your response to the following questions:

- 1 What does the concept of 'silos' mean when referring to businesses?
- 2 What approach does Michael Dell put forward as the key to success of the modern business?

CHAPTER OVERVIEW

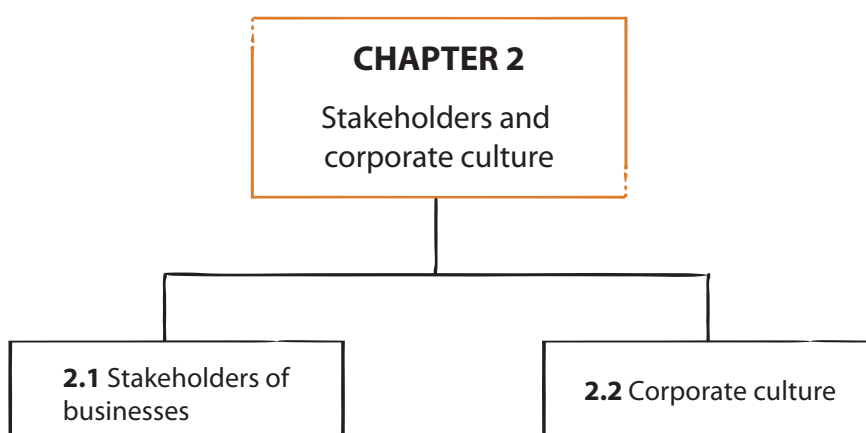
This chapter examines the key characteristics of the stakeholders of a business. Regardless of the size of the business, some stakeholders may influence the business in a positive way while others may experience conflict with the business. Both groups of stakeholders, however, have an effect on the success 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.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Characteristics of stakeholders of businesses including their interests, potential conflicts between the stakeholders, and corporate social responsibility considerations	2.1 Stakeholders of businesses 2.1.1 Identify stakeholders of businesses 2.1.2 Identify and describe interests of stakeholders 2.1.3 Identify, describe and discuss potential conflicts between stakeholders 2.1.4 Identify and describe corporate responsibility considerations 2.1.5 Apply business management knowledge to case studies and contemporary examples of business management
Corporate culture, both official and real	2.2 Corporate culture 2.2.1 Define and describe corporate culture 2.2.2 Describe and compare official and real corporate culture 2.2.3 Analyse and apply business management knowledge to case studies and contemporary examples of business management

Source: Adapted from VCE Business Management Study Design © VCAA; reproduced by permission

What's ahead



2.1 Stakeholders of businesses

Learning intentions – at the end of this chapter section I will be able to:

2.1.1 Identify stakeholders of businesses

2.1.2 Identify and describe interests of stakeholders

2.1.3 Identify, describe and discuss potential conflicts between stakeholders

2.1.4 Identify and describe corporate responsibility considerations

2.1.5 Apply business management knowledge to case studies and contemporary examples of business management

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 (e.g. a **competitor**) 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 the 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.



Figure 2.1 Stakeholders can have a significant effect on the success of a business.

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



Figure 2.2 Examples of stakeholders of a business

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

Stakeholder	Interests and issues	Level of business environment
Owner (either as a sole trader or partner) or shareholders (of a company)	<ul style="list-style-type: none"> To aim for the profitability of the business; to ensure that its business operations are ethical; to adopt socially responsible behaviour Shareholders – to receive dividends (dividend yield); to see increase in value of shares (capital appreciation) 	Internal environment
Directors of a company or partners in a partnership	<ul style="list-style-type: none"> To develop and direct major business decisions and strategies To ensure strict adherence to corporate governance, social responsibility, and ethical and honest behaviour To gain personal power and status by being a director/partner of a business To be well remunerated (money and share options) 	Internal environment
Management	<ul style="list-style-type: none"> To be involved in setting goals and objectives To achieve goals and objectives To secure their position within the business and work on their career development To receive a fair remuneration package (pay and fringe benefits) To gain job satisfaction To work for a business that is ethical and socially responsible 	Internal environment

fringe benefits benefits received by employees in addition to their normal wage or salary (e.g. company car, child care, higher superannuation rates)

(continued)

(continued)

Employees	<ul style="list-style-type: none"> • 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
Customers	<ul style="list-style-type: none"> • To obtain quality goods and services • To receive high levels of customer service (pre-sale 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	<ul style="list-style-type: none"> • To ensure that 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
Competitors	<ul style="list-style-type: none"> • To ensure that 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	<ul style="list-style-type: none"> • 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 that the business is ethical in its operations • To ensure that the business operations are environmentally responsible and sustainable 	Macro environment

Table 2.2 sets out examples of some stakeholders who may be in conflict with each other.

Table 2.2 Examples of stakeholders and potential areas of conflict

Stakeholder	Stakeholder	Potential areas of conflict
Business owners/ directors	Shareholders	The amount of profit to be distributed at the end of the year. The 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	Suppliers	Suppliers want to be ensured a guaranteed supplier relationship where the price paid is fair and is 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	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 wants to live in an environmentally friendly area with no danger to community from pollutants.
Management	Customers	Reduced 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).

ACTIVITY 2.1

Changing retail environment in Australia

The impact of the COVID-19 pandemic on the operating conditions of retailers has been substantial. Long-established department stores such as Myer, David Jones and Harris Scarfe, and their discount equivalents Kmart, Big W and Best & Less, are in a state of uncertainty about future viability. Added to this uncertainty is the further pressure as online stores, such as Temple & Webster and Kogan, increasingly gain market share. This is, however, not just an Australian issue but is happening worldwide.

The following 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 that large flagship stores carry stock that is appealing to customers and create a point of difference from online stores.
- Be prepared to take one large write-down or readjustment of the business operations to ensure that 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.
- Increase the online presence of the traditional retail stores.





- 1 **Identify** the stakeholders of the major department stores and their discount equivalents. **Describe** the nature of the interests that the above stakeholders have with these businesses.
- 2 **Identify** the stakeholders of the online stores.
- 3 **Compare** the interests of the stakeholders of the major department stores and online stores.
- 4 **Identify** and **describe** any potential conflicts that may occur between the large department stores and the online stores.



ACTIVITY 2.2

Retail environment in Australia

- 1 **Identify** and **describe** the stakeholders that you believe would have a particular interest in the operations of the following smaller-sized businesses:
 - a online clothes designer shop
 - b online catering company
 - c florist shop in local strip shopping centre
 - d local family-run restaurant.
- 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, if the business is a local fruit shop, the customers 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.

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

Corporate social responsibility is traditionally broken into four areas: environmental, philanthropic, **ethical** and economic responsibility. Both internal and external stakeholders of a business can be affected by the activities of that business in the way they address these four areas of corporate social responsibility. A business that acts in a socially responsible manner and has sustainable business operations creates a series of benefits for the community and the environment. To be perceived by the community as socially responsible potentially creates a positive reputation for the business. Additionally, it creates more possibilities for retaining quality employees (internal stakeholders) by positively affecting their levels of satisfaction, motivation and loyalty to the business. This aligns with human resource objectives of reducing levels of staff turnover and improving levels of employee satisfaction.

If the business can communicate its positive socially responsible activities to external stakeholders (e.g. its customers and the community), attaining objectives such as increasing levels of consumer satisfaction and trust will be easier, and will result in creating an improvement in customer loyalty to both the business and its products and services. Establishing that a business exhibits a high level of corporate social responsibility provides that business with a point of differentiation from its competitors.

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

Stakeholders want businesses to recognise the importance of these four areas 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 and **packaging**, and the form and manner in which this information is included with the goods when sold. Many businesses take their responsibility to the community and the environment very seriously by

going beyond being legally compliant to becoming signatories to the Australian Packaging Covenant. The Australian Packaging Covenant Strategic Plan 2017–2022 was created and 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. Revised targets (2025 Targets) have now been developed, providing a framework for collective, national action on waste management, recycling and resource recovery for product packaging. They include:

- 100 per cent reusable, recyclable or compostable packaging
- 70 per cent of plastic packaging being recycled or composted
- 50 per cent of average recycled content included in packaging (revised from 30 per cent in 2020 target)
- the phasing out of problematic and unnecessary single-use plastics packaging.

These new targets were developed following extensive industry and government consultation and align with global packaging initiatives. If achieved, they will be an important step on Australia’s journey towards a circular economy for packaging.

To help our community overcome this complex issue, businesses of all sizes need to adopt corporate social responsibility objectives and strategies. One large business wholeheartedly adopting this approach to help our planet is Woolworths. Adopting the mantra ‘Growing greener every day’ as part of its CSR strategy to create a healthier planet, Woolworths has redesigned packaging to use 75 per cent less plastic than previous packaging, and implemented its REDcycle Program, which, since its inception in 2017, has collected in excess of 900 million pieces of soft plastics (i.e. 3700 tonnes). This soft plastic is being upcycled to make customer benches and car-park bollards. Woolworths has set a target of having 100 per cent of its Home Brand packaging being reusable, recyclable or compostable by 2023. Woolworths is also ensuring that its own brand tissues, toilet paper and kitchen towels are responsibly sourced and independently certified by the Forest Stewardship Council.

In June 2022, Woolworths announced that it would completely remove plastic shopping bags. In 2018, free single-use plastic bags were replaced by 15-cent reusable bags, and the 2022 announcement said that these would now be phased out over a 12-month period.

ACTIVITY 2.3

- 1 **Identify** and **describe** the CSR strategies adopted by Woolworths to assist in creating a healthier planet.
- 2 Visit the Woolworths Group website and look at the ‘Corporate Responsibility Strategy’ page. Choose one stakeholder group (customers, team members, suppliers or communities) and **describe** the actions that the business is taking to implement this strategy for that group. For example, Woolworths’ Free Fruit for Kids program aims to inspire its customers to make healthier food choices. This program encourages children to eat a piece of fruit while in its stores. In the past year, Woolworths gave away more than \$9 million of free fruit nationwide.



Figure 2.3 Woolworths offers free fruit to children as part of its CSR approach to increase healthy food options.





CASE STUDY 2.1

Signet: a packaging company proactively assisting its customers to source sustainable materials and meet the 2025 targets on waste management



An Australian-owned family business, founded in 1968 as an ink and marking company, changed its name to Signet in 1989 when it expanded its product range into packaging supplies and warehouse, construction and safety supplies.

The business is committed to providing its customers with environmentally friendly products and solutions that have minimal impact on the environment. Each product within its eco-friendly range has characteristics such as being compostable, recyclable, biodegradable, reusable and/or made from recycled or renewable resources. The business's customers include some of Australia's largest logistics companies (e.g. Toll) and many major

retailers (e.g. Swisse, Aldi, Asahi, Chemist Warehouse, Ikea and Woolworths).

Signet is a signatory to the Australian Packaging Covenant, and is working towards the 2025 National Packaging Targets, which focus on sustainable material sourcing and manufacturing, right through to the end-of-life product disposal.

The business adopts a customer-centric philosophy in the way it operates, with a continuous focus on ensuring customer satisfaction with its products, ensuring reliable and fast supply and good customer service.

Source: Adapted from the Signet website

CASE STUDY ANALYSIS

Identify and **describe** the approach being taken by Signet to assist its customers (stakeholders) to meet the 2025 targets for Australia's waste management, recycling and resource recovery.

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, one of Australia's largest banks, 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 behaviours that underpin its everyday activities in how it conducts its dealings with its internal and external stakeholders, namely its people (employees), customers and the community.

Westpac also 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'.

ACTIVITY 2.4

- 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.



CASE STUDY 2.2

Coles: sustainability initiatives to reduce its environmental impact



Coles is working to reduce its carbon footprint, divert food waste from landfill, and adopt more sustainable packaging options.

It has created a new sustainability strategy around the concept of 'Together to Zero', setting targets to commit to 100 per cent renewable electricity and work towards net zero greenhouse gas emissions. It has committed to ensuring that by June 2025 the entire Coles Group will be powered by renewable electricity.

The 'Together to Zero' concept also extends to reducing hunger by collecting unsold food from its supermarkets and donating it to

community groups and volunteer services, such as SecondBite. It has been estimated by SecondBite that over the past decade the food donated by Coles has provided 136 million meals to Australians in need.

Another initiative is reducing single-use plastic tableware. From July 2021, Coles stopped selling single-use plastic tableware products such as cups, plates, bowls, straws and cutlery. Customers are now offered a range of FSC certified (a global forest certification system that guarantees that forest products come from responsibly managed sources) tableware

and reusable options made from responsibly sourced paper and recycled materials.

Coles estimates that this initiative will divert more than 1.5 million kilograms of plastic from landfill each year. In 2011, Coles entered into a partnership with REDcycle, a soft plastics recycling organisation. Customers can return

soft plastic packaging to all Coles supermarkets for processing by REDcycle. Since that program commenced, customers have returned more than 1.3 billion pieces of soft plastic to Coles.

Source: Adapted from 'Coles' bold new ambitions to reduce its environmental impact', Coles website, 17 April 2021

CASE STUDY ANALYSIS

Read the above case study and visit the Coles Group website. Answer the following questions:

- 1 **Identify** the stakeholders that will be impacted by Coles' 'Together to Zero' initiatives.
- 2 Choose two of those initiatives and **analyse** the effects that they will have on the stakeholders they will directly impact.
- 3 **Evaluate** whether you believe that Coles' 'Together to Zero' sustainability strategy will assist it to be successful.



REVIEW ACTIVITY 2.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1
 - a **Identify** the main stakeholders that are in the external (macro) environment of a business.
 - b **Describe** the area of interest or possible conflict they may have with a business.
- 2
 - a **Identify** the main stakeholders that are in the external (operating) environment of a business.
 - b **Describe** the area of interest or possible conflict they may have with a business.
- 3
 - a **Identify** the main stakeholders that are in the internal environment of a business.
 - b **Describe** the area of interest or possible conflict they may have with a business.

Figure 2.4 More and more customers are looking for sustainable packaging options.



2.2 Corporate culture

Learning intentions – at the end of this chapter section I will be able to:

2.2.1 Define and describe corporate culture

2.2.2 Describe and compare official and real corporate culture

2.2.3 Analyse and apply business management knowledge to case studies and contemporary examples of business management

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

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

One business leader putting this into practice is Ken Boal, vice-president of Cisco Australia and New Zealand, proud winner of the 50 Best Places to Work in Australia 2020 (more than 1000 employees category). He believes that Cisco's improved workplace culture has come about through increased transparency and trust, and the company's greater purpose to power an inclusive future.

Peter Drucker, hailed as the father of modern management, believed that managers above everything else should be leaders within their businesses and are duty-bound to ensure that a desired corporate culture is established and maintained in a business. Stakeholders – and in particular, employees – should be able to discern the differences between the official culture and the 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.

Corporate culture is:

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

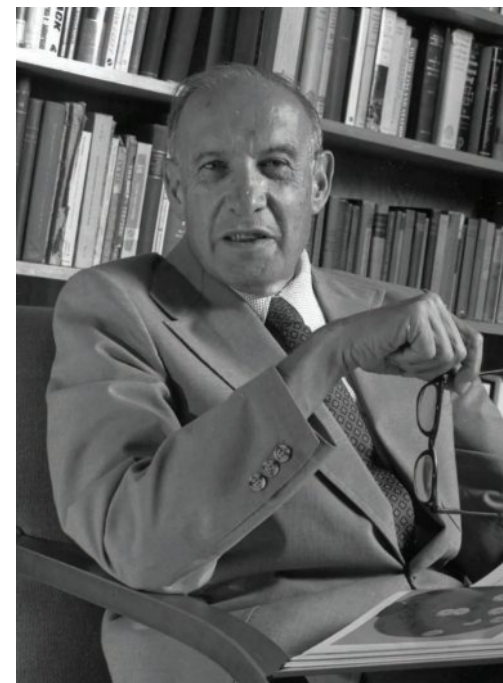


Figure 2.5 Peter Drucker argued that 'culture eats strategy for breakfast'.

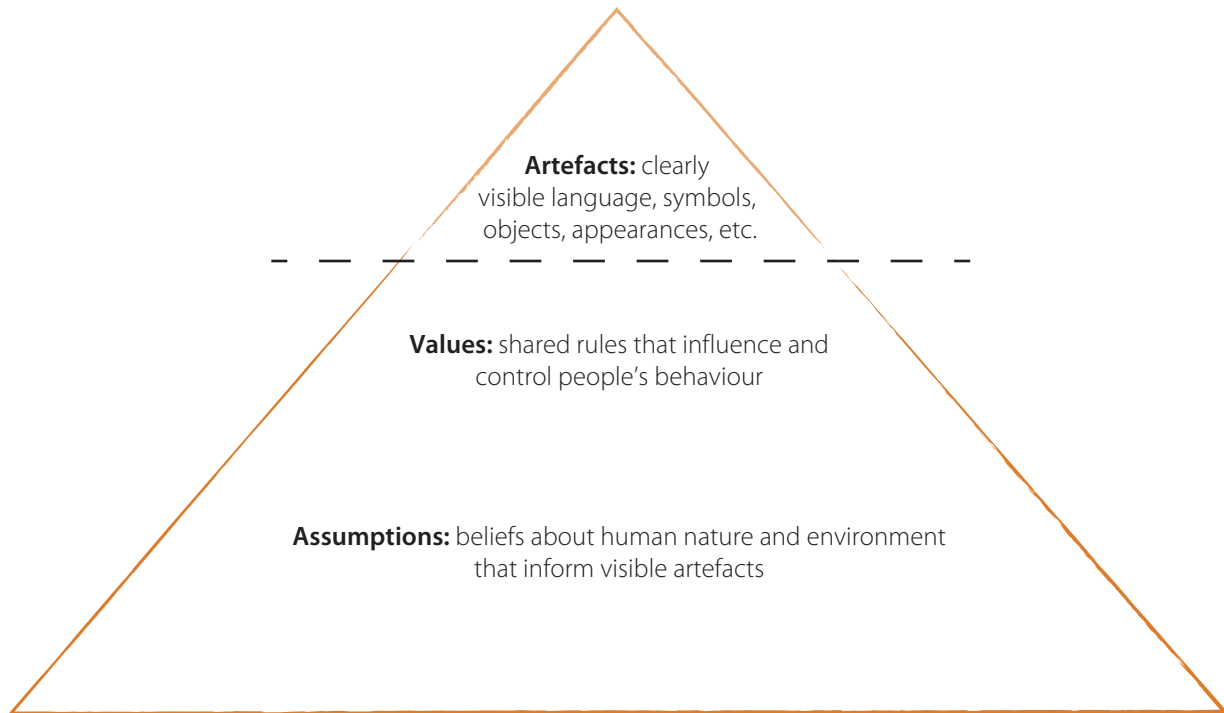


Figure 2.6 Corporate culture includes observable and non-observable elements.



CASE STUDY 2.3

Two businesses nailing corporate culture



Insentra – named as a winner in the 50 Best Places to Work in Australia 2020 (under 100 employees category)

Ronnie Altit, co-founder and chief executive of Insentra, an Australian IT provider, states that 'culture is at the top of my list as CEO, it's the number one thing I focus on'. During the COVID-19 pandemic, Insentra, which employs 54 people, was able to retain all of its employees. Looking after those employees involved 'a whole bunch of things' to keep the

crew motivated and in touch with each other, such as weekly cooking challenges, an 'iso fit' health challenge and virtual trivia. Altit says he makes a conscious effort to make himself as accessible as possible to everyone. He had weekly '45 minutes with Ronnie' team calls, which provided an opportunity for employees to ask questions and banter with each other, and allowed Ronnie to find out more about his team. It has meant that the casual 'water cooler' chats now occur virtually.



Canva – named as a winner in the 50 Best Places to Work in Australia 2019 and 2020 (under 100–999 employees category)

Canva is an online design business established in 2013 that has based its ethos on keeping its corporate structure simple and being a

business that co-founder Melanie Perkins would like to work for. 'Canva's culture is about creating a place where everyone loves coming to work, where everyone is striving to do the best work of their lives and create the most outstanding product and company we can,' says Melanie.

CASE STUDY ANALYSIS

- 1 **Define** the term 'corporate culture'.
- 2 **Analyse** the reasons why both Insentra and Canva would have been recognised in their respective categories as among the 50 best workplaces in Australia.

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**. The official or desired culture is, however, not always reflected in existing **real (unofficial) culture**.

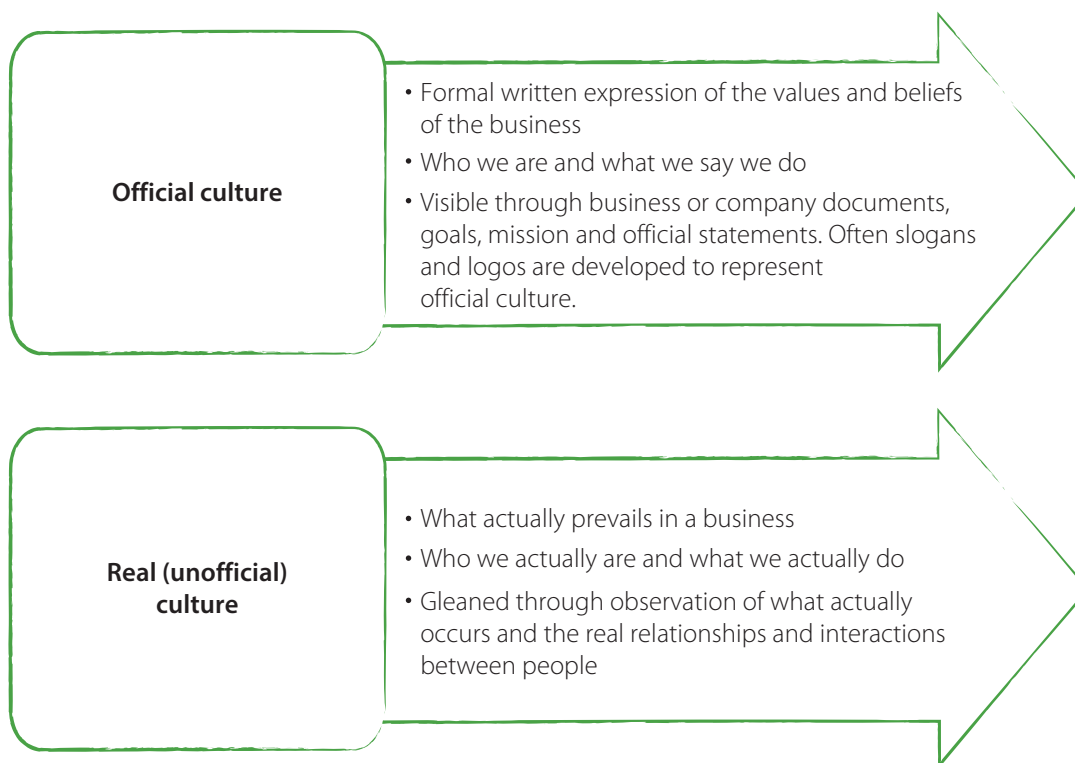


Figure 2.7 Official and real (unofficial) corporate culture of a business

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 a positive corporate culture for a business relies on the **strategies** or factors shown in Figure 2.8.

official corporate culture desired culture that a business wishes to establish

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

strategies methods and plans that are implemented to develop and grow a business and to meet business objectives

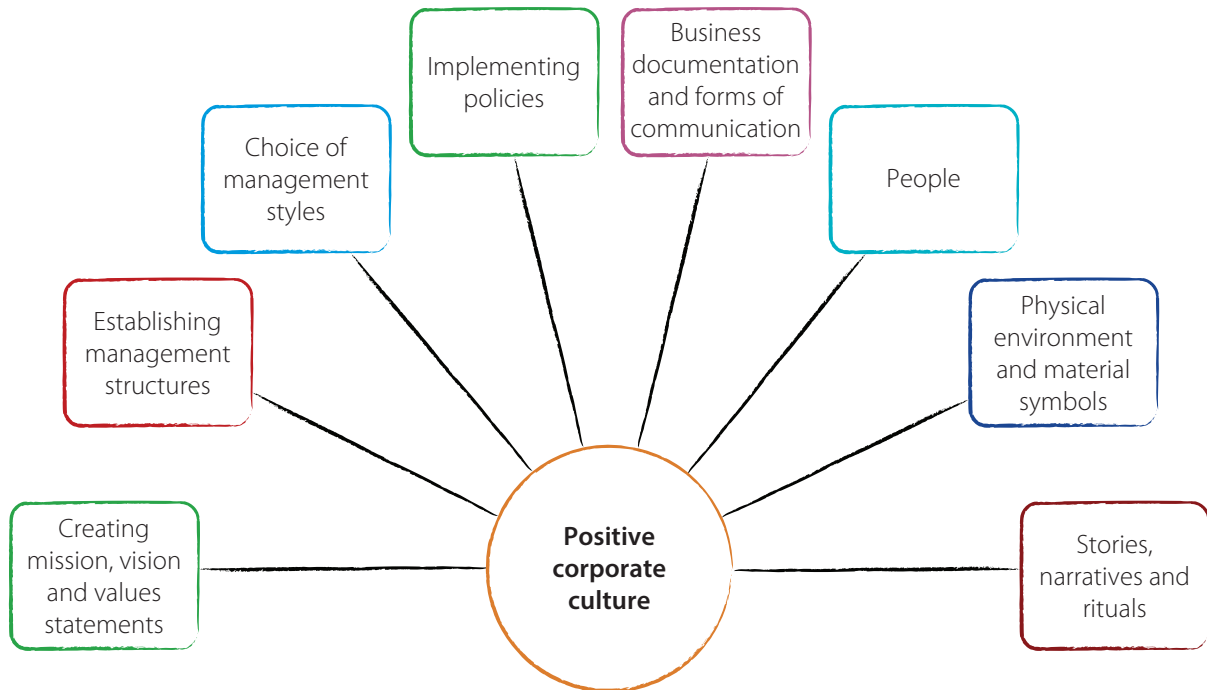


Figure 2.8 These strategies are crucial to developing a positive corporate culture.

The creation of formal written mission, vision and values statements

Many businesses refer to their corporate culture as 'organisational culture', which encompasses their mission, objectives, expectations and values that guide their employees. Businesses that adopt an organisational culture tend to be more successful than less structured businesses because they have systems in place to promote employee performance, productivity and engagement.

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 example, integrity, honesty, fairness and responsibility. The values identified in this statement are those that are held to be 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 2.9 The values of an organisation are the foundation of its corporate culture.

Establishing management structures

The way in which the different parts of a business are formally arranged, linking management, employees and their functions, can help to shape its 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 – who does what
- segmentation of employees into departments or divisions
- **chain of command**, control and authority – who is responsible to whom and for what
- communication channels – downward, upward and 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** that 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 required 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: each manager is 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 (**delaying**) 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 and transparency
- 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).

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 delaying can assist a business with meeting its goal of reducing its employee turnover rate.

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

the people involved in the strategic planning and decision-making of the business

middle-level managers

the people who 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

delaying

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





CASE STUDY 2.4

Cotton On Group: its culture and product are important keys to its success



This case study is available in the Interactive Textbook.

Choice of management styles

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

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

A business that adopts a management style 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.

Implementation of policies

A **policy** is a written statement detailing processes, procedures, rules and regulations that must be observed in a given situation. In effect, a policy tells employees what to do and how to do it in a given situation. 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, suppose a business sets out a 'social media usage' policy that establishes the guidelines for the non-usage of Facebook, Twitter, Instagram, TikTok 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. Procedures are 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.

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

- 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 a letterhead or a logo, that it clearly represents the public 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.

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 of different genders, with different ethnic backgrounds and with differing ages, skills and levels of experience. Diversity acts to enrich the corporate culture.

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

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.



Figure 2.10 Diversity enriches corporate culture, and it is imperative that businesses strive to hire people from diverse backgrounds, ages and skill sets.

diversity human characteristics that make people different from one another

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

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 2.5

Bunnings: a diverse workforce



Bunnings is Australia and New Zealand's leading retailer of home improvement and outdoor living products, and a major supplier to project builders, commercial tradespeople and the housing industry.

It employs more than 50 000 team members (June 2022), and has a stated ambition to provide its customers with the widest range of home improvement products in accordance with its lowest prices policy, backed with the best service.

Bunnings recognises its team members as being the heart and soul of its business. Its team's guiding principles are integrity, respect, teamwork, achievement and innovation, which are the keys to its culture and achieving its vision.

Bunnings pursues sustainability within its operations by striving to make itself socially responsible, environmentally aware and economically viable.

Bunnings engages with the communities in which it operates, and actively contributes to causes and organisations that benefit these communities.

It seeks to lessen its environmental impact in ways that are measurable, including achieving better and more efficient use of resources, ensuring that its suppliers operate sustainably and ethically, encouraging and educating customers about environmentally friendly alternatives, and focusing on the 'reduce, reuse and recycle' waste management principles.

Bunnings values its team members' contributions, recognises and rewards their efforts and provides a fun, satisfying and safe workplace.

Bunnings believes that '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: Adapted from 'About us', Bunnings website

CASE STUDY ANALYSIS

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

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 from a business located in an outer suburban area. Similarly, a traditional CBD location will promote a different culture from 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? Are there separate cafeterias 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 2.11 Informal work environment – open-plan office with workers in casual dress.

ACTIVITY 2.7

- 1 Brainstorm some examples of the observable elements of corporate culture. Then, select a business you are familiar with 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 judged as being 'toxic'.



Stories, narratives and rituals

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

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

A positive corporate culture is a vital component for any business in developing and maintaining its competitive edge. While a business will have developed an official corporate culture by implementing the strategies outlined in this chapter, observing the real culture will show what is actually occurring. The COVID-19 pandemic has been among the most stressful and challenging times that current businesses and employees have experienced. Hard times reflect character in both individuals and businesses. If a business has survived, and adapted in the way it serves its customers, employees and stakeholders during this challenging period, then it is demonstrating a positive culture in action.



Figure 2.12 Office celebrations strengthen employee relations and highlight the importance of acknowledging good work.



ACTIVITY 2.8

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

- 1 The receptionist and office staff wear uniforms bearing the company name and logo.
- 2 Staff address each other as Mr or Ms, never by first names, and correct procedures must be followed without fail.
- 3 A values statement and environmental policy for the business are displayed in the reception area.
- 4 Staff are rewarded for increased sales figures with bonuses.
- 5 Staff may work flexible hours or 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 The workers employed at the business come from a diverse group.



CASE STUDY 2.6

Moose Toys: creating community to foster creativity and collaboration



Talk about a company that lives and breathes its values. To make magic for its customers (the kids using its toys), Moose Toys employees embrace a fun and relaxed environment and use every opportunity to bring people together and stimulate both the mind and body.

ideas on whiteboard walls and there is a 'no lunch at your desk' rule, because 'great ideas don't always come from sitting in front of a computer'. There are also bi-monthly talks followed by an all-team lunch, as well as art exhibition visits and karaoke nights.

All these efforts encourage employees to strengthen relationships across departments, and help each employee see that at the end of the day, the company's success relies on them.

'The people are the highlight in our business – without them, there's no Moose,' senior manager of people and culture Kate Zahra says.

Staff are offered an on-site gym, yoga classes and table tennis, and are encouraged to look after their health, especially during busy holiday seasons.

To encourage creativity (something a toymaker definitely needs), the team can scribble their

The MooseToys website states: 'At Moose, we truly believe in One company, One culture. Our values are the essence of our identity – our DNA – "The MooseWay". They are our guiding principles that underpin everything we do – both internally and externally. They are the behaviours

and actions that define the way we operate; they help guide our decisions and achieve our vision. It is what makes Moose ... well, Moose!

'We demonstrate kindness as a part of the Moose Family by treating others the way we want to be treated. We are all about welcoming your wacky, weird and wonderful self at work. Moosies pride themselves on taking personal responsibility for their actions and outcomes, always acting ethically, professionally and with a smile. We know there is no "I" in team

and are committed to hitting team goals way out of the park. We also have got each other's backs, supporting each other with no politics or personal agendas, and we are non-judgmental. We value diversity of thinking, and the benefits this brings, and are open to all wow ideas.'

Sources: Adapted from 'Five Australian companies with amazing company cultures', Reward Gateway website; and 'Moose Toys company values', Moose Toys website

CASE STUDY ANALYSIS

Read the case study, watch the video and visit the Moose Toys website to answer the following questions:

- 1 **Describe** what is meant by the term 'The Moose Way'.
- 2 Using the case study and video, **identify** examples of Moose corporate culture that bring its people together.
- 3 Access the Moose Toys website and **identify** a list of toys and games that are produced by the company. **Analyse** whether you believe these toys align with the fun corporate culture associated with the company.



Video 2.1
Moose Toys

REVIEW ACTIVITY 2.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** what the term 'culture' means in terms of a business.
- 2 **Identify** three observable factors that indicate aspects of the culture of a business to an outside observer.
- 3 **Identify** three non-observable factors that indicate aspects of the culture of a business.
- 4 **Describe** three strategies that management can use to develop the corporate culture of a business.



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 2 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 3 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Stakeholder	Competitor	Ethics	Policy
Mission statement	Corporate culture	Strategy	Delaying
Management structure	Chain of command	Diversity	Values

Examination preparation

- Discuss** this statement: 'Businesses that choose to ignore the interests or issues of their stakeholders are doomed to fail!' **(5 marks)**
- Carrington Pty Ltd, a real estate agency operating in the eastern suburbs of Melbourne with 50 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 one of the main reasons was that the corporate culture of the business was poor and negatively impacting on the level of customer service provided by its representatives. It reported that agents were not interested in attracting clients to list their properties with the business, either for sale or rental. It was seen that the real culture was significantly different from the official culture.
 - Define** and **explain** the key differences between:
 - real (unofficial) corporate culture
 - official corporate culture. **(2 marks)**
 - Discuss** the effect each of the following is likely to have on the corporate culture, competitiveness and market share at Carrington Pty Ltd:
 - a vision/values statement that states 'Happy clients are our first priority'
 - staff arriving late or forgetting to meet clients
 - raising the profile of the business in the local community by sponsoring local sporting clubs
 - greater input from the agents in the decision-making of the agency. **(8 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
2.1 Stakeholders of businesses	2.1.1 Identify stakeholders of businesses	Activity 2.1: Q1–2	Yes No <input type="checkbox"/> <input type="checkbox"/>
	2.1.2 Identify and describe interests of stakeholders	Activity 2.2: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	2.1.3 Identify, describe and discuss potential conflicts between stakeholders	Activity 2.1: Q3–4 Activity 2.2: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>
	2.1.4 Identify and describe corporate responsibility considerations	Activity 2.3: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	2.1.5 Apply business management knowledge to case studies and contemporary examples of business management	Activity 2.1: Q1–3 Activity 2.2: Q1–2 Activity 2.3: Q2 Activity 2.4: Q1–3 Case study 2.1 Case study 2.2: Q1–3 Review activity 2.1: Part 1 & Part 2 Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
2.2 Corporate culture	2.2.1 Define and describe corporate culture	Case study 2.3: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	2.2.2 Describe and compare official and real corporate culture	Activity 2.5: Q1 Activity 2.7: Q1–3 Activity 2.8: Q1–8	Yes No <input type="checkbox"/> <input type="checkbox"/>
	2.2.3 Analyse and apply business management knowledge to case studies and contemporary examples of business management	Activity 2.6: Q1–3 Case study 2.3: Q2 Case study 2.4 Case study 2.5: Q1–2 Case study 2.6: Q1–3 Review activity 2.2: Part 1 & Part 2 Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 3

Management styles and skills

'The most successful entrepreneurs I know are optimistic. It's part of the job description.'

Caterina Fake (1969–)

About the author:

Caterina Fake is an American entrepreneur and businessperson. She co-founded the websites Flickr in 2004 and Hunch in 2007.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about leadership and discuss your response to the following activity:

Create a list of the qualities you consider to be those needed to be judged an 'effective leader'.

CHAPTER OVERVIEW

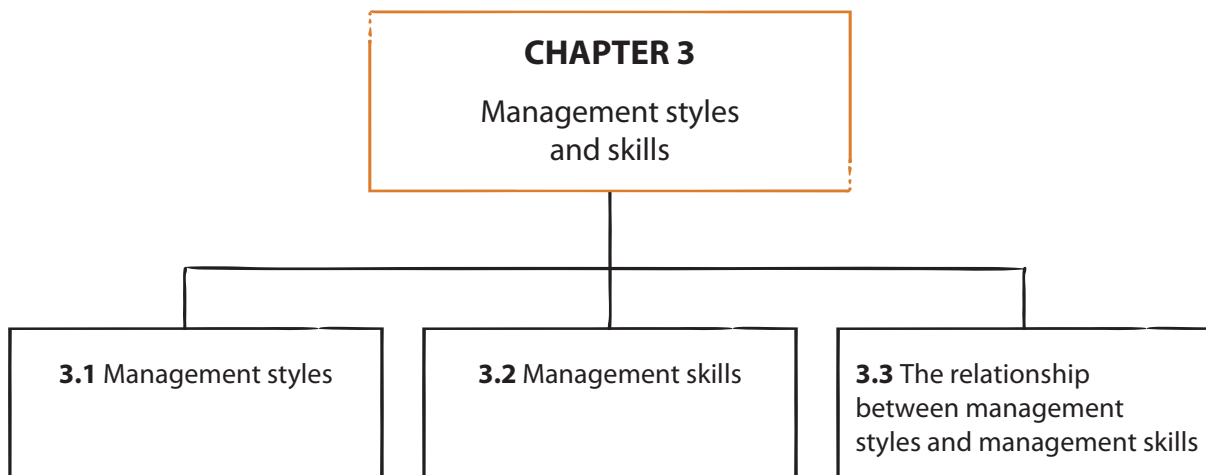
Managing a business of any size can be a complex and challenging task for the business's owners and managers. The majority of businesses will establish as one of their main objectives 'growing the value of the business'. The leaders or senior managers of that business must set a clear vision and be able 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.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Management styles including autocratic, persuasive, consultative, participative and laissez-faire	3.1 Management styles 3.1.1 Identify the various management styles 3.1.2 Describe the characteristics of the individual styles 3.1.3 Compare the characteristics of the individual styles 3.1.4 Propose and evaluate appropriate management styles 3.1.5 Apply business management knowledge to case studies and contemporary examples of business management
Management skills including communicating, delegating, planning, leading, decision-making and interpersonal	3.2 Management skills 3.2.1 Identify and describe the different management skills 3.2.2 Propose and evaluate appropriate use of management skills 3.2.3 Apply business management knowledge to case studies and contemporary examples of business management
The relationship between management styles and management skills	3.3 The relationship between management styles and management skills 3.3.1 Identify and describe relationship

Source: Adapted from VCE Business Management Study Design © VCAA; reproduced by permission

What's ahead



3.1 Management styles

Learning intentions – at the end of this chapter section I will be able to:	3.1.1 Identify the various management styles
	3.1.2 Describe the characteristics of the individual styles
	3.1.3 Compare the characteristics of the individual styles
	3.1.4 Propose and evaluate appropriate management styles
	3.1.5 Apply business management knowledge to case studies and contemporary examples of business management

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 employees/people. The other end places greater importance on the people, while not forgetting the importance of task achievement.

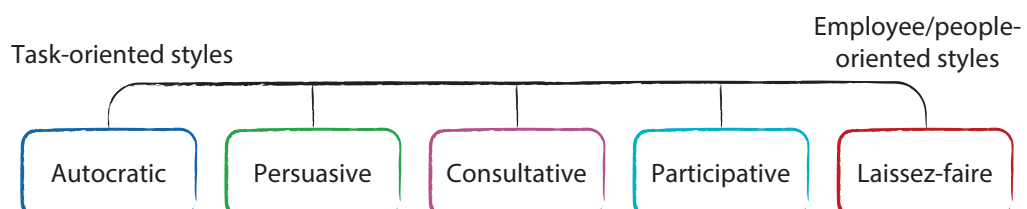


Figure 3.1 Management style continuum

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

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

The characteristics of the autocratic management style are outlined in Table 3.1.

Table 3.1 The characteristics of the autocratic management style

Characteristic	Description
Control and authority	Managers want to be in control and retain authority, particularly when undertaking planning, coordinating and monitoring various human and physical activities of the business. They want to be the main person guiding employees towards achieving the objectives of the business.
Task-oriented	Great importance is placed on achieving the task and following established process. Policies and procedures are maintained in detail and enforced by frequent checks.
Motivating factor	Main motivator for work performance is payment (i.e. money)
Decision-making	Centralised and controlled by the manager with decision or orders then passed on or told to subordinates
Employees' contribution	Little value is placed 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	Centralised with a strict top-down or hierarchical chain-of-command approach to management

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

centralised decision-making management makes decisions and passes on directions to those below it 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, which 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 3.2 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
Roles and expectations of employees 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 employees as people with needs; does not take account of needs of generations X and Y and 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

One industry that focuses on results and efficiency as being paramount is hospitality – in particular, restaurants. Diners expect to receive timely, orderly service and quality food, while restaurants are generally being run on slim margins, relying heavily on positive reviews and return customers. Their business will suffer even from small mistakes. In the kitchen, it can be the head chef adopting all the characteristics of an autocratic manager, ordering and ruling over the kitchen staff with an iron hand. One extreme example is renowned chef Gordon Ramsay. The maître d'hôtel responsible for the waiting staff will often also adopt this style.



ACTIVITY 3.1

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

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.

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

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.

The characteristics of the persuasive management style are outlined in Table 3.3.

Table 3.3 The characteristics of the persuasive management style

Characteristic	Description
Control and authority	Centralised
Task-oriented	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.
Motivating factor	Believes that payment (money) for tasks performed is the main motivator for work performance
Decision-making	Centralised or controlled by management, with the decision or order then explained or presented to subordinates
Employees' contribution	Some value placed on contribution of employees to overall performance of the business. The objectives, aims and operating environments still, however, reflect the ideas, beliefs and values of the manager.
Communication	Centralised, with a strict top-down or hierarchical chain-of-command approach to management

Table 3.4 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, redundancies)	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

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

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. Another example is when a team leader of a project holds weekly meetings with the team members where they are given the opportunity to share progress of their job tasks and responsibilities. The meetings allow team members the opportunity to provide feedback on areas needing improvement. The team leader can then use this feedback to review and set schedules, allocate resources and prioritise tasks and goals for the coming week.

The characteristics of the consultative management style are outlined in Table 3.5.



Figure 3.2 A consultative manager seeks input from their staff.

Table 3.5 The characteristics of the consultative management style

Characteristic	Description
Control and authority	Centralised and exercised by the manager. More employee-based and less centralised than autocratic and persuasive styles. Ideas and concepts provided by employees.
Task achievement	Important driving factor, balancing with understanding of 'people factor'
Motivating factor	Reasonable level of employee involvement, resulting in more motivated employees wanting to perform at their best. Values employees' contribution to overall performance of the business.
Decision-making	Centralised, with manager making decisions following consultation with employees
Communication	Two-way , top-down by management to subordinates and upwards from subordinates to management when their opinions and feedback are sought

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

Table 3.6 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

Participative management style

The **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 the participative management style are outlined in Table 3.7.

Table 3.7 The characteristics of the participative management style

Characteristic	Description
Control and authority	Decentralised approach. Corporate objectives, while determined by senior management, are followed by setting departmental, team and individual objectives, so allowing for group ownership of the corporation direction.
Orientation or focus	People – if the employees are satisfied and productive, this will result in an increase in productivity
Motivating factor	Belief that motivation of employees relates to an understanding of how to satisfy the employees' broad range of needs
Decision-making	Decentralised , with management and employees sharing the decision-making and problem-solving tasks, and decisions being made after consultation with employees
Employees' contribution	Great value is placed on the importance of the employees' contribution to the overall performance of the business
Communication	Open, being top-down from management to subordinates, upwards from subordinates to management when their opinions and feedback are sought, and lateral when communicating with team members

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

Table 3.8 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 encourage 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

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



Figure 3.3 Sharing creative and innovative ideas with team members is an important characteristic of the laissez-faire management style.

Laissez-faire management style

The **laissez-faire management style** can also be called 'free-rein' or 'hands-off' style. It is a style in which management provides little direction to employees. Management's involvement and responsibility often relate 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 require little direction and have 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, and 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.

Table 3.9 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.



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

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

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.

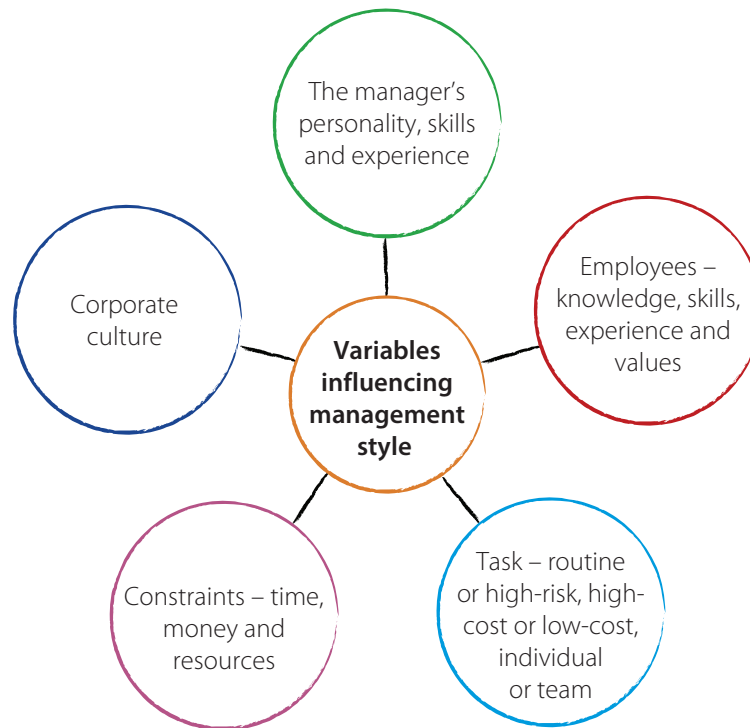


Figure 3.4 Variables influencing the choice of management style

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 and 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.



CASE STUDY 3.1

Richard Murray moves from electronics and entertainment to fashion clothing



In August 2021, Richard Murray, formerly CEO of JB Hi-Fi, took over as CEO of Premier Retail from Mark McInnes, who had held the CEO position for the previous 10 years.

Premier Retail owns a suite of retail brands and chain stores that includes Just Jeans, Dotti, Smiggle, Peter Alexander, Portmans, Jacqui E and Jay Jays. Premier Retail trades from more than 1200 stores located in seven countries. It also has a wholesale and online presence.

When appointing Murray to the position of CEO, Chairman of the Premier Retail board, Solomon Lew, described him as 'one of the best retailers in Australia', having delivered significant growth, transformation and shareholder value during his career at JB Hi-Fi Group.

Murray's success as a leader can be recognised by his financial achievements at JB Hi-Fi. When listed on the ASX in 2003, one share was worth

\$2.17. Under Murray's leadership, a 25-fold increase in the share price occurred, with a share's value now being in excess of \$47.

Murray believes it is important to meet regularly with his teams, undertake corridor conversations, meet for coffee and make connections while also getting out and visiting the JB Hi-Fi and Good Guys stores.

Changed trading conditions due to the COVID-19 pandemic confirmed the business was able to transform its operations quickly. Stores were converted into dark stores to fulfil online orders, and an internal delivery system was launched where store staff delivered online orders to customers' homes in a fleet of 75 hire cars and 25 vans. This initiative enabled JB Hi-Fi to keep all Melbourne store staff employed while meeting its 155 per cent spike in online sales. It also meant that the business met its objective of maintaining jobs, as people are its number one asset.

CASE STUDY ANALYSIS

- 1 **Identify** the management style that you believe Richard Murray adopted in his role as CEO of JB Hi-Fi.
- 2 **Describe** the characteristics of the style and **justify** your choice of style.
- 3 **Explain** and **justify** whether you believe that Richard Murray's management style would be appropriate for his new role as CEO of Premier Retail.



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 Ian is an experienced business analyst at a major bank. He has been appointed as project manager of a team of four employees who have the task of developing and implementing a new risk management policy. His team members have been drawn from a variety of functional areas within the bank (e.g. retail banking, information technology, legal and finance). All members of his team are highly skilled and knowledgeable and capable of working unsupervised. Ian does, however, feel that final decisions must be checked by him before they present the new risk management policy to senior management for approval prior to implementation.
- 2 Safiya decided that she wanted to start up and run a social media company. At university she had studied a double degree – Business Studies (majoring in Marketing) and Computer Science. While working in casual jobs during her five years of study, she found that she did not have sufficient start-up capital to fund the business. Safiya was aware of the growing popularity of crowdfunding as a way to raise capital. She discussed her business idea with a group of her fellow university students, who were excited by her idea and keen to join her in this entrepreneurial venture.



ACTIVITY 3.4

- 1 Construct your own summary table setting out the five management styles and their characteristics based on the acronym COMDAC (control, orientation, motivation, decision-making, attitude, communication).
- 2 Construct a separate table showing the advantages and disadvantages of each of the five styles.
- 3 Watch the video. **Describe** and **justify** the management style of Asil Attar, CEO of Lead Associates.



Video 3.1
Asil Attar



REVIEW ACTIVITY 3.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1
 - a **Identify** ways in which the autocratic management style is similar to the persuasive management style.
 - b **Identify** ways in which the two styles are different.
- 2
 - a **Identify** ways in which the consultative management style is similar to the participative management style.
 - b **Identify** ways in which the two styles are different.
- 3 **Compare** the characteristics of the autocratic and laissez-faire management styles.
- 4 **Explain** what is involved in choosing an appropriate management style for managing a given situation.
- 5 **Evaluate** whether adopting an appropriate management style is important if a business wants to be effective in achieving its goals and objectives.
- 6 A manager was overheard to say: 'During team meetings I will actively listen, to demonstrate to my team that I value what they have to say during that meeting. I will do this by putting my smartphone away while I'm having a conversation, asking open-ended questions and maintaining open body language'. **Identify** what you believe the action of the manager is demonstrating to the team members about the management style he is adopting.

3.2 Management skills

Learning intentions – at the end of this chapter section I will be able to:

3.2.1 Identify and describe the different management skills

3.2.2 Propose and evaluate appropriate use of management skills

3.2.3 Apply business management knowledge to case studies and contemporary examples of business management

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.

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

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

No matter what the size of the business, their management level (senior, middle or front-line management) or their area of management responsibility (operations, human resource management, finance, 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 and managers of small businesses need to look beyond their own skill set if they want their businesses to grow.

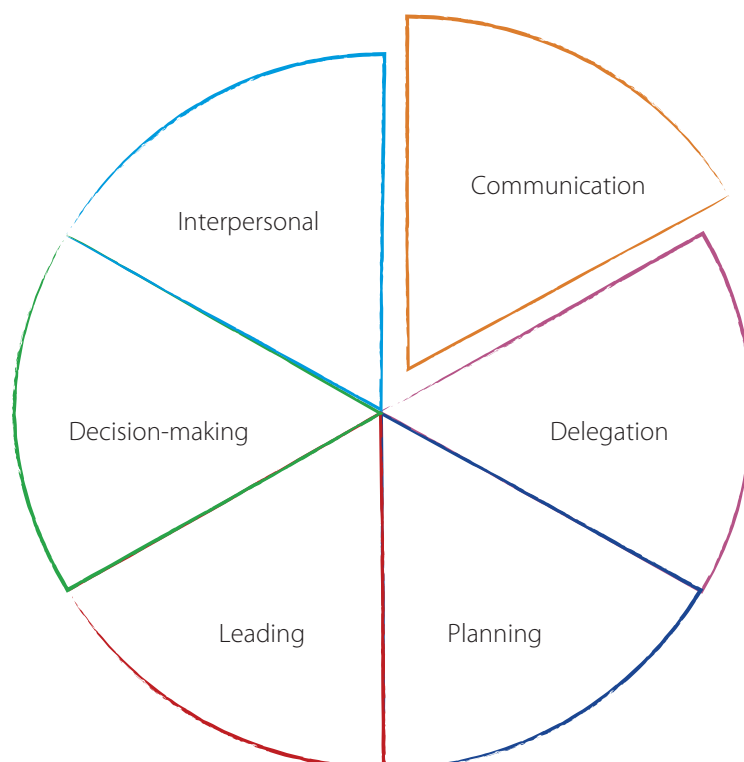


Figure 3.5 Six important management skills

Communication skills

A renowned management consultant and author, Peter Drucker, said: 'Management is doing things right; leadership is doing the right things.' He believed that the most important thing in communication is to hear what isn't being said: 'Unless commitment is made, there are only promises and hopes; but no plans.'

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

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:

- personal communication – which involves sharing information and understanding between the manager and a subordinate or a small group or work team. It is estimated that managers spend between 60 per cent and 80 per cent 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.

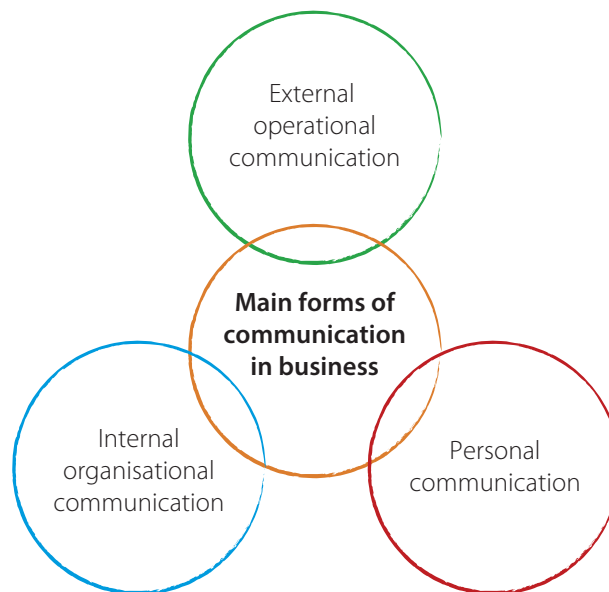


Figure 3.6 Main forms of communication used by managers

To achieve the vision of the business, open communication is vital if a manager wishes to gain employee involvement in the expression and development of ideas. Frustration, lack of motivation, inadequate direction and poor feedback between management and its subordinates can result from weak or restricted communication flow.

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

- reading – managers need to be able to locate, understand and interpret written data and information, such as letters, reports, emails, documents, policies, procedures, codes of practice, contracts and graphs

- writing – to express thoughts and ideas, information and messages through emails, word-processing documents, manuals and reports
- speaking – to communicate orally by talking to people individually or in groups (small or large) to disseminate information and gain feedback. Listening to oral messages is an essential form of communication as a manager receives, attends to, interprets and responds to oral messages. If managers do not develop the skill of listening, they may not hear the suggestions or information from the most valuable employees.

ACTIVITY 3.5



Scenario 1

Aussie Home Delivery is a food home delivery business that has supplied fresh dairy, meat, bread, vegetables and fruit to homes on a weekly basis for the past 10 years. Its general manager needs to advise its staff that, due to increased competition from the online ordering and delivery facility now provided by the major food retailers, Aussie Home Delivery will need to close down its business. This closure will result in all its valued staff being made redundant.

Scenario 2

Chen 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. The business employs three qualified and very experienced bakers, three apprentice bakers and eight shop assistants. To ensure that the business runs smoothly, Chen needs to plan to have sufficient basic supplies (flour and 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.



Figure 3.7 The owner and staff at a busy bakery need to effectively communicate with all its stakeholders.

Chen now works on a part-time basis and is planning to fully retire from the business in the next couple of years. To ensure that the business still runs productively, he must communicate with his staff on matters such as their days and hours of work. Additionally, at the end of trade each day, he needs to be advised of the bakery's daily sales and stock levels so that stock can be replenished. Chen 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. With the COVID-19 pandemic, it has become important that he ensures that all staff wear their face masks and that they actively control the number of customers permitted into the shop at any one time.

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

Delegation

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

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

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

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, who will then instruct the workers in their tasks. 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.

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.

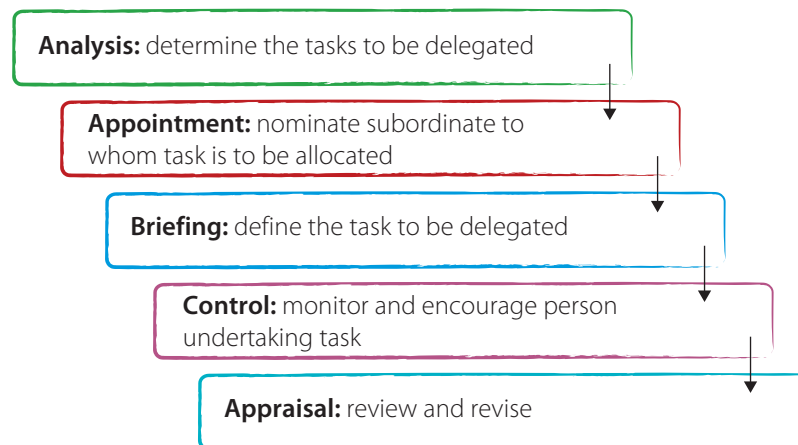


Figure 3.8 Five steps of the delegation process

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

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

The 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.

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.

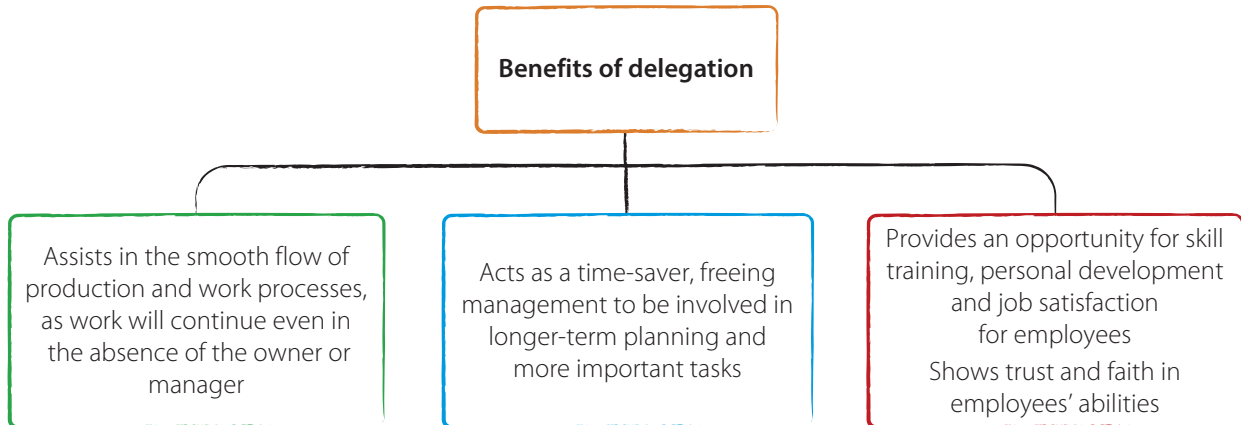


Figure 3.9 Benefits of delegation

Not all tasks and actions to be undertaken by management are suitable for delegation. Table 3.10 identifies some of those tasks that are suited to delegation and others where delegation would be ill-advised.

Table 3.10 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. Steps in the planning process are outlined in Table 3.11.

Table 3.11 Steps in the planning process

Steps	Explanation
1 Set the goal(s)	When establishing goals, consider the values held by management and approach of the business to its social responsibility
2 Gather information using SWOT	Analyse the internal and external environment of the business. A SWOT analysis (Figure 3.11) 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 face the business currently or in the future
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 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

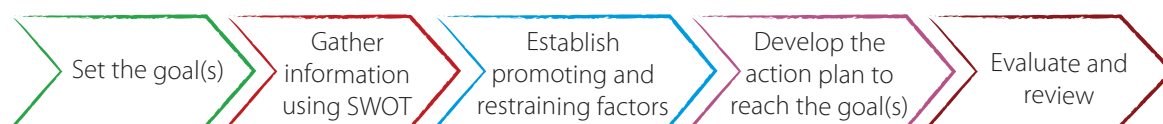


Figure 3.10 Five steps of planning

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

A **SWOT analysis** is a management tool used to determine the current state of a business. By identifying the current 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.

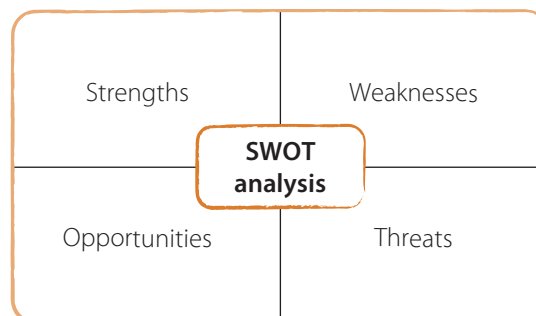


Figure 3.11 SWOT analysis – a vital planning tool

ACTIVITY 3.6

The principal and school council of your school 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.



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 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, and 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 3.12 Planning is essential for reducing uncertainty in business.



Figure 3.13 Levels of planning and management

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



ACTIVITY 3.7

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 and in New Zealand		
A soft drink manufacturer, in response to consumer pressure, is changing its product range to concentrate on water and low-sugar fruit juices		
A fruit shop operating in a local strip shopping centre has decided to expand its days of operation to seven days per week and to establish a home delivery service		
An Australian clothing designer wants to manufacture its clothes in Indonesia, which will mean establishing production facilities in that country		
A major Australian university wants to trial assessing its students using online examinations in the next academic year		
The manager of women's fashion in a major department store requires the department's sales team to increase sales by 10% over the next six months		
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. Businesspeople, 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.

Figure 3.14 Effective leadership relies on many factors.

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 who is creative, curious, humble, caring and trustworthy, and uses power effectively
- 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.

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.

The EI theory incorporates a set of competencies that 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 competencies outlined in Table 3.12 would be essential.

Table 3.12 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

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.

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

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

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



Figure 3.15 Important team leadership skills

teamwork

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

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: teams.



ACTIVITY 3.8

Think of a leader you hold in high regard.

- 1 Working in pairs, **identify** two people from your community – they could be involved in business, music, sport, politics or your school – who you consider to be 'good leaders'.
- 2 Referring to the list below, **identify** and **analyse** what you consider are the traits that you value and admire the most in each leader:
 - that they are authentic, trustworthy, reliable and demonstrate integrity in their actions
 - that they treat people fairly and are empathetic in their treatment of others
 - that they are decisive and know their own mind, taking time before deciding on an issue and then sticking to their convictions
 - that they are a strategic thinker and happy to be around for a long time and deal with big issues
 - that they demonstrate a high level of transparency, meaning they share information with their staff, are trustworthy and able to communicate, and are willing to be accountable for their actions
 - that they are accessible, friendly and welcoming even though they are very busy people.

- 3 Based on your analysis of the two leaders you have identified in Question 1, **identify** and **describe** the management style that you believe best suits each leader.
- 4 **Identify** and **describe** the management skills that each leader would need to possess to make them an effective leader.

Decision-making

In the day-to-day operations of a business, a manager or business owner can be faced with numerous problems they need to overcome and decisions they need to make 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 the factors outlined in Table 3.13.

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

Table 3.13 Factors to be considered in decision-making

Problem or issue	Explanation
High level of uncertainty	Many of the facts surrounding the problem or issue are unknown
Complexity	A number of interrelated factors need consideration
High-risk consequences	Resulting from the outcome of the decision
Interpersonal	Issues related to how people involved in the decision will react
Possible alternatives	Choices to be reviewed are numerous

Using a systematic process when trying to reach a decision reduces the likelihood of overlooking important factors that should be considered. Outlined in Table 3.14 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.

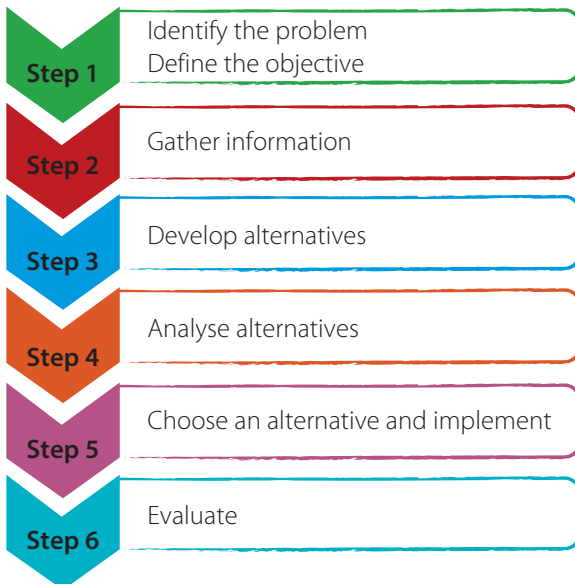
Table 3.14 Systematic approach to decision-making

Steps	Explanation
1 Identify the problem and define the objectives	Be 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.

(continued)

(continued)

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 3.16 Decision-making steps



ACTIVITY 3.9

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

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

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

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

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



Figure 3.17 Interpersonal skills require communication and understanding on all levels.

REVIEW ACTIVITY 3.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Identify** and **describe** the reasons why some business owners and managers are not good at delegating tasks to their subordinates.
- 2 Interpersonal skills are used every day to communicate and interact with other team members. **Identify** three core interpersonal skills that would be important to being an effective team member.
- 3 **Explain** the value of undertaking a SWOT analysis when wanting to determine the current state of a business.
- 4 Decision-making is both a skill and a process. **Identify** in which steps of this process a manager will need to apply their analytical skills.

3.3 The relationship between management styles and management skills

Learning intentions – at the end of this chapter section I will be able to:

3.3.1 Identify and describe 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.

Outlined in Table 3.15 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 3.15 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 and were the tasks appropriate? 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 or open?
Motivation and job satisfaction of staff	Was the management style chosen appropriate to ensure that workers (subordinates) were motivated to achieve? Were the correct motivational strategies implemented?	Were the 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?



CASE STUDY 3.2

Matt Comyn: CEO of the Commonwealth Bank of Australia



Matt Comyn was appointed as CEO of the Commonwealth Bank of Australia (CBA) in January 2018. At the time of his appointment, the board of directors believed that Matt had the best mix of attributes and values needed to lead the CBA.

In announcing Matt's appointment, the board outlined its priorities for his role as CEO:

- to maintain the momentum in the business
- to address the regulatory and reputational challenges the bank was currently facing
- to recognise the evolving expectations of the community
- to transform the business
- to adapt the organisational capabilities to suit the rapidly evolving competitive and technology-centric environment

- to energise the corporate culture and elevate employee pride and confidence.

The board believed that the values held by Matt were demonstrated in him being a person of integrity and openness who has a passion for CBA's vision.

Matt stated that he believes CBA can achieve the right balance in meeting the expectations of customers, shareholders and the community, with a sharp focus on the bank's core purpose, which is to improve the financial wellbeing of its customers and communities.

Source: Adapted from Commonwealth Bank Media Release, 29 January 2018

CASE STUDY ANALYSIS

- 1 **Identify** and **describe** the management style that you believe would be most appropriate for Matt Comyn to adopt in his role as CEO of CBA.
- 2 **Identify** and **describe** the management skills that Matt Comyn would need to possess to be judged as a successful leader.



REVIEW ACTIVITY 3.3

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1
 - a **Identify** the management skills that an autocratic manager is likely to use.
 - b **Describe** the management skills that an autocratic manager is likely to use.
- 2
 - a **Identify** the management skills that a participative manager is likely to use.
 - b **Describe** the management skills that a participative manager is likely to use.
- 3
 - a **Identify** the management skills that a laissez-faire manager is likely to use.
 - b **Describe** the management skills that a laissez-faire manager is likely to use.

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, and 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.

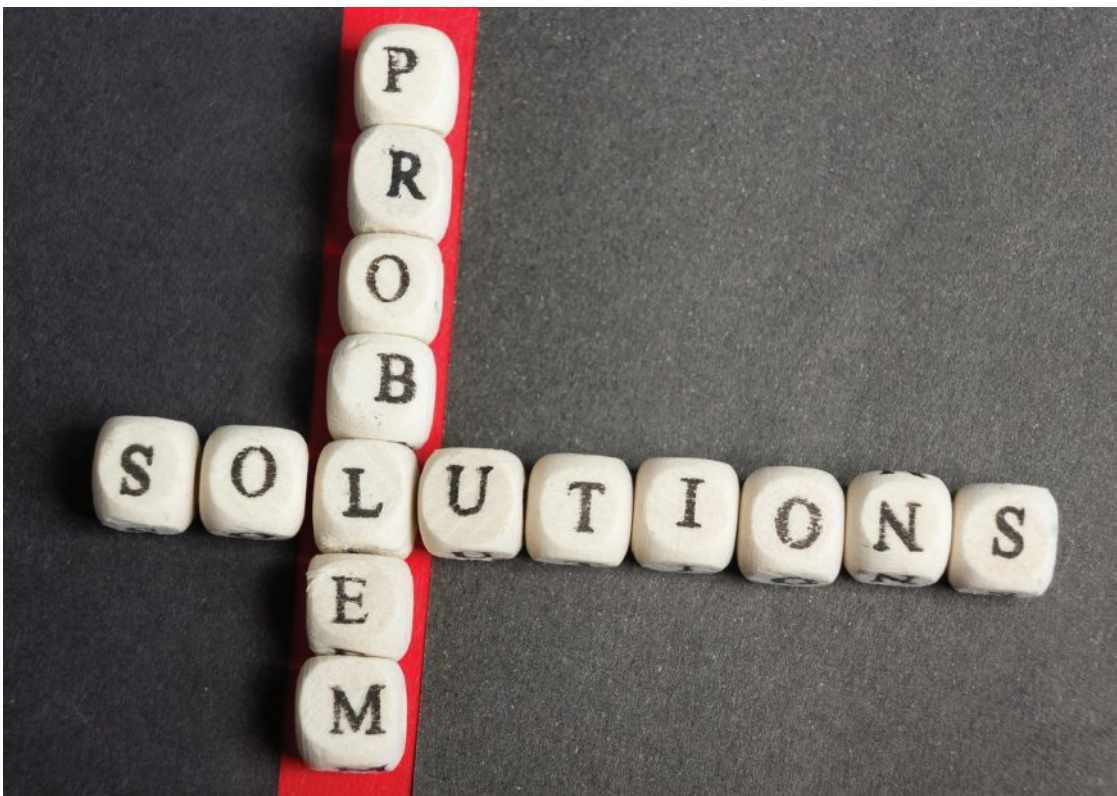


Figure 3.18 Reaching an effective decision is often difficult and requires time to be put into the process.

Chapter 3 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 3 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Management	Management style	Situational/contingency management approach
Autocratic style	Laissez-faire style	Persuasive style
Consultative style	Participative style	Communication
Delegation	Decision-making	Interpersonal

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 and 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 entering 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)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
3.1 Management styles	3.1.1 Identify the various management styles	Activity 3.1 Activity 3.3: Q1–2 Case study 3.1: Q1 Review activity 3.1: Part 1 & Part 2 (Q5)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	3.1.2 Describe the characteristics of the individual styles	Activity 3.1 Activity 3.2: Q1–2 Activity 3.3: Q1–2 Case study 3.1: Q2 Case study 3.2: Q1 Review activity 3.1: Part 2 (Q1–2)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	3.1.3 Compare the characteristics of the individual styles	Activity 3.4 Review activity 3.1: Part 2 (Q1–3, 6)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	3.1.4 Propose and evaluate appropriate management styles	Case study 3.1: Q3 Review activity 3.1: Part 2 (Q3) Examination preparation: Q2, 3, 5	Yes No <input type="checkbox"/> <input type="checkbox"/>

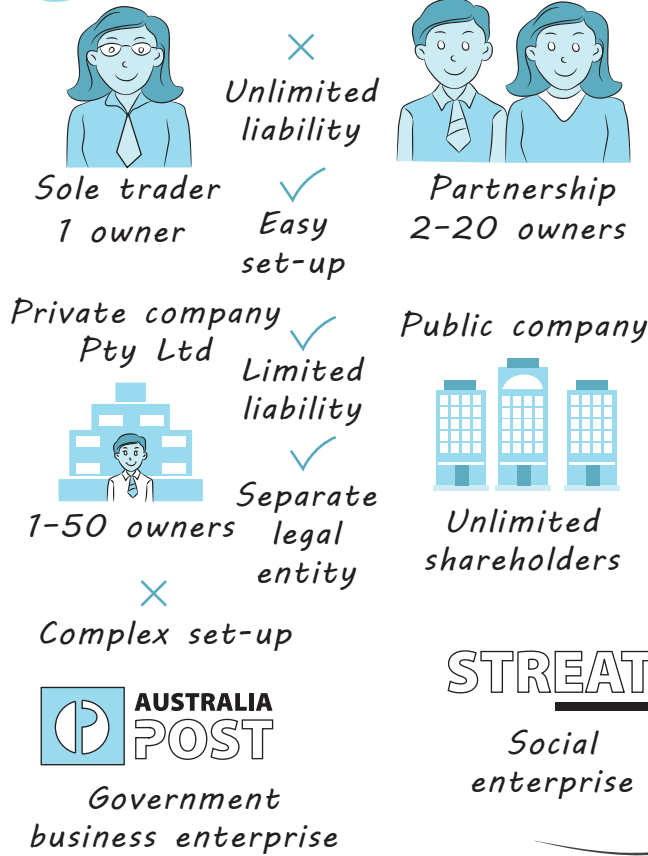
Success criteria – I am now able to:		Linked questions	Completed (Y/N)
	3.1.5 Apply business management knowledge to case studies and contemporary examples of business management	Activity 3.2: Q1 Activity 3.3: Q1–2 Case study 3.1: Q3 Review activity 3.1: Part 1 & Part 2 (Q1–3, 5)	Yes No <input type="checkbox"/> <input type="checkbox"/>
3.2 Management skills	3.2.1 Identify and describe the different management skills, including communicating, delegating, planning, leading, decision-making and interpersonal	Activity 3.5 Activity 3.6 Activity 3.7	Yes No <input type="checkbox"/> <input type="checkbox"/>
	3.2.2 Propose and evaluate appropriate use of management skills	Activity 3.8: Q1–4 Case study 3.2: Q2 Review activity 3.2: Part 1 Examination preparation: Q4–5	Yes No <input type="checkbox"/> <input type="checkbox"/>
	3.2.3 Apply business management knowledge to case studies and contemporary examples of business management	Activity 3.5 Activity 3.6 Activity 3.7 Activity 3.8 Activity 3.9 Case study 3.2: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>
3.3 The relationship between management styles and management skills	3.3.1 Identify and describe the relationship between management styles and management skills	Review activity 3.2: Part 2 (Q 1–3)	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

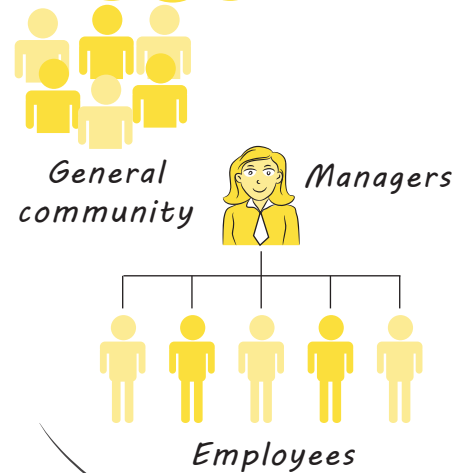
- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

Unit 3 Area of Study 1 review Conceptual summary

TYPES OF BUSINESSES



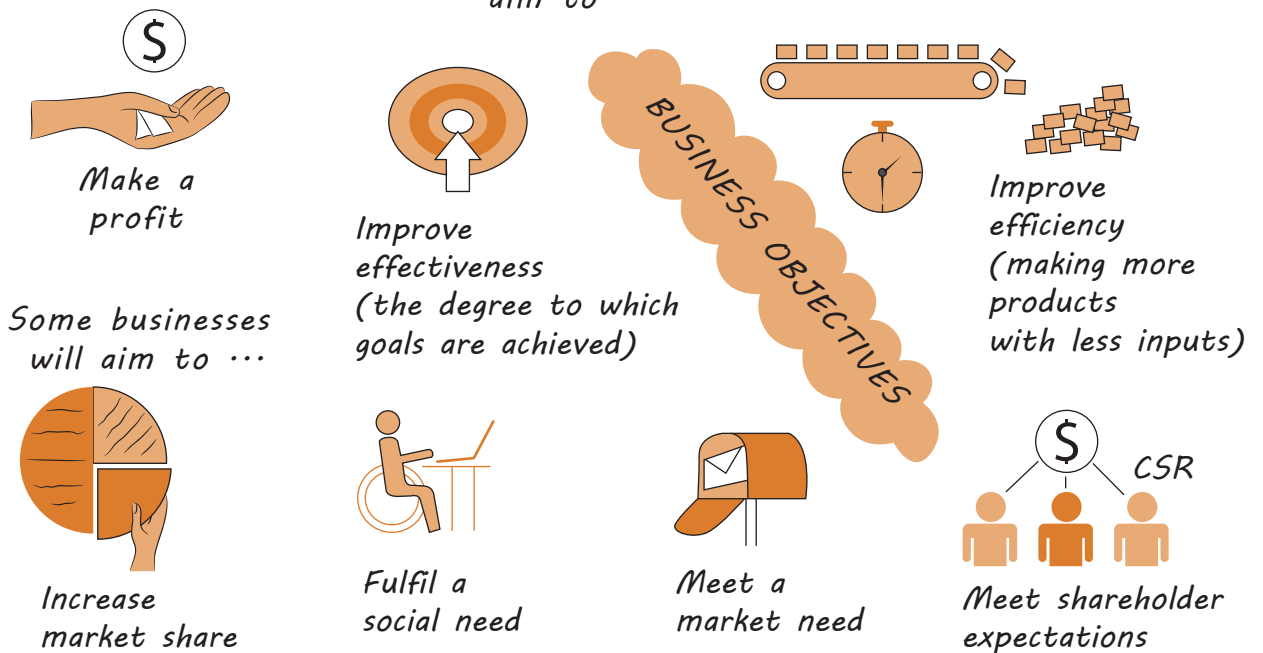
STAKEHOLDERS



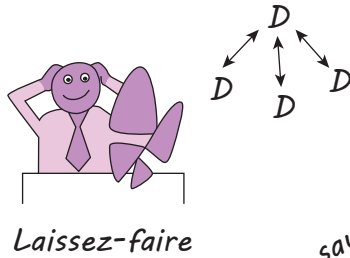
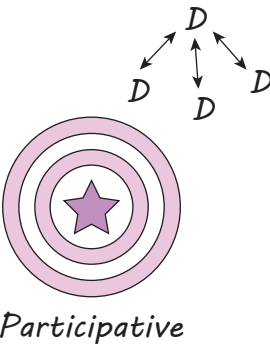
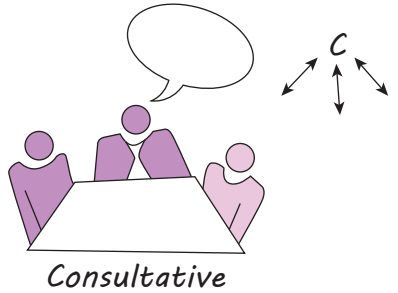
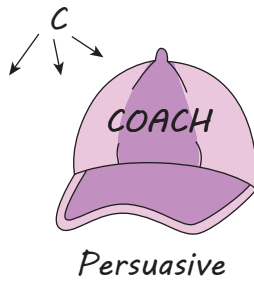
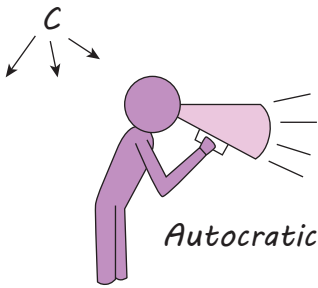
STREAT

Social enterprise

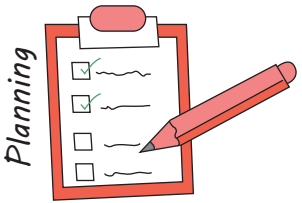
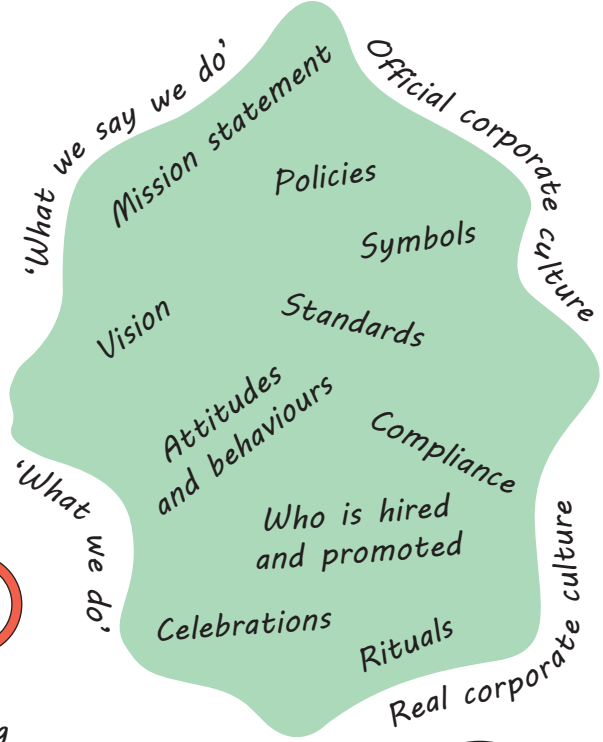
All businesses will aim to ...



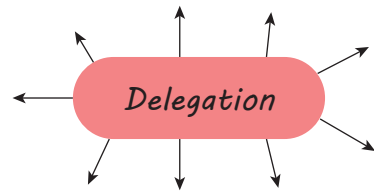
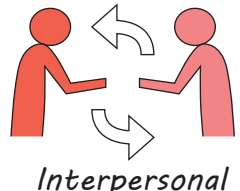
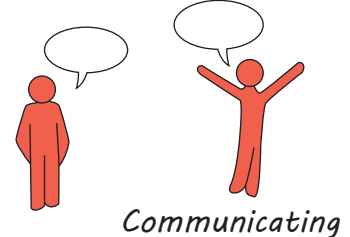
C = Centralised control
 D = Decentralised control
 ↓ = One-way communication
 ↔ = Two-way communication



MANAGEMENT STYLES



MANAGEMENT SKILLS



Key knowledge summary: Unit 3 Area of Study 1

Key knowledge	Summary
<ul style="list-style-type: none"> Types of businesses, including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises 	<ul style="list-style-type: none"> 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 businesses are: <ul style="list-style-type: none"> sole trader partnership company. There are two types of company: <ul style="list-style-type: none"> private limited public 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.
<ul style="list-style-type: none"> Business objectives, including to make a profit, to increase market share, to improve efficiency, to improve effectiveness, to fulfil a market need, to fulfil a social need and to meet shareholder expectations 	<ul style="list-style-type: none"> All businesses must establish aims or objectives. Objectives should be set using the SMART principle. Business objectives can be to make a profit, to increase market share, to improve efficiency, to improve effectiveness, to fulfil a market need, to fulfil a social need and to meet shareholder expectations. 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 their other objectives.
<ul style="list-style-type: none"> Stakeholders of businesses, including owners, managers, employees, customers, suppliers and the general community 	<ul style="list-style-type: none"> 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).
<ul style="list-style-type: none"> Characteristics of stakeholders of businesses, including their interests and potential conflicts between stakeholders 	<ul style="list-style-type: none"> 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.

Key knowledge	Summary
<ul style="list-style-type: none"> • Management styles, including autocratic, persuasive, consultative, participative and laissez-faire 	<ul style="list-style-type: none"> • 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 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.
<ul style="list-style-type: none"> • The appropriateness of management styles in relation to the nature of the task, time, experience of employees and manager preference 	<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • Management skills, including communication, delegation, planning, leading, decision-making and interpersonal 	<ul style="list-style-type: none"> • Management skills are the abilities or expertise required by a manager to achieve their work. • A range of skills is required by managers regardless of their level in the management hierarchy: communication, delegation, planning, leading, decision-making and interpersonal.
<ul style="list-style-type: none"> • The relationship between management styles and management skills 	<ul style="list-style-type: none"> • The interrelationship that exists between management styles and skills provides an opportunity for assessing whether management is effective.
<ul style="list-style-type: none"> • Corporate culture, both official and real 	<ul style="list-style-type: none"> • Corporate culture is an internal factor that 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: <ul style="list-style-type: none"> — 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.

Sample examination questions and advice

Unit 3 Area of Study 1: Business foundations

In this Area of Study, students are introduced to the key characteristics of businesses and their stakeholders. They investigate potential conflicts between the different demands of stakeholders on a business. Corporate culture and a range of management styles and skills that may be used when managing a business are also examined and applied to contemporary business case studies from the past four years.

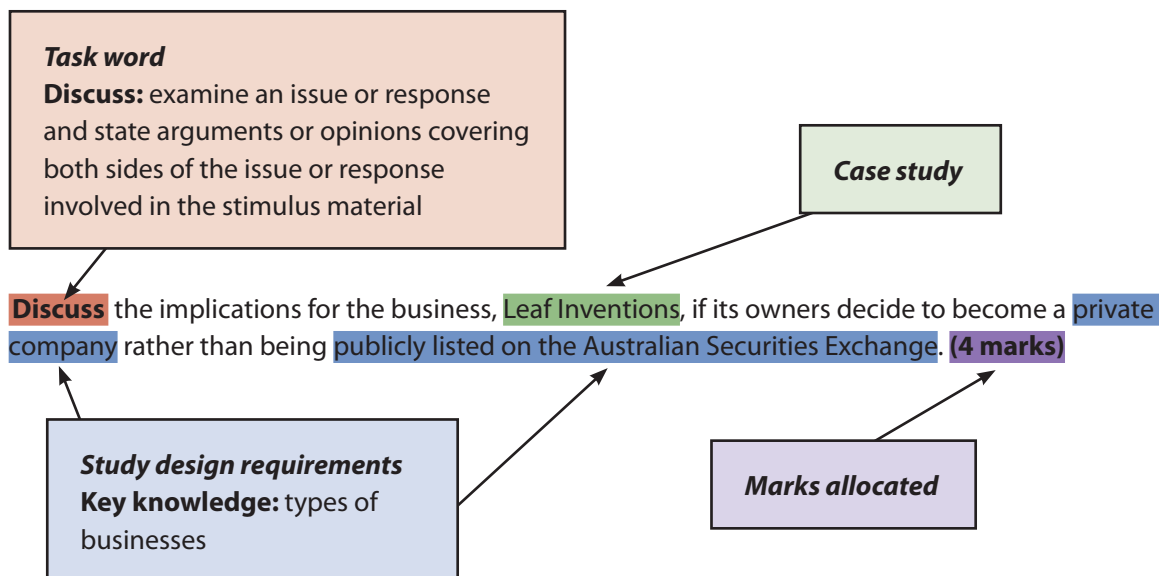
Outcome 1 requires students to be able to analyse the key characteristics of businesses, their stakeholders, management styles and skills, and their corporate culture.

Question 1

Mick and Richard are partners in Leaf Inventions. They have decided that, rather than continuing to operate in their current legal structure of a partnership, they will incorporate their business and form a company. They are, however, uncertain whether to incorporate to become a private limited or public listed company.

Discuss the implications for the business, Leaf Inventions, if its owners decide to become a private company rather than being publicly listed on the Australian Securities Exchange. **(4 marks)**

Extended response question – let's unpack it



Hints:

- First, you need to **identify** the characteristics of each type of company.
- **Discuss** by stating arguments that cover both sides of the issue (implications for the business) related to the stimulus material.

A possible answer to Question 1 might be:

Sample response

By adopting the legal structure of a company, regardless of whether private limited or public listed, Mick and Richard will gain certain advantages. One important implication related to adopting either form of company structure is that it provides Mick and Richard (as shareholders) the protection of creating a separate legal entity and therefore limiting their liability for any debts incurred by the business. It also provides them with perpetuity (ongoing life) for their business. Establishing the business as a public listed company will, however, provide greater opportunity for Leaf Inventions to raise capital through having the ability to have a larger number of shareholders in the business, as it will be listed on the Australian Securities Exchange. While both forms of company structure must ensure that they adhere to legal and compliance requirements, these are less onerous and less costly for a private limited company.

Marking guide:

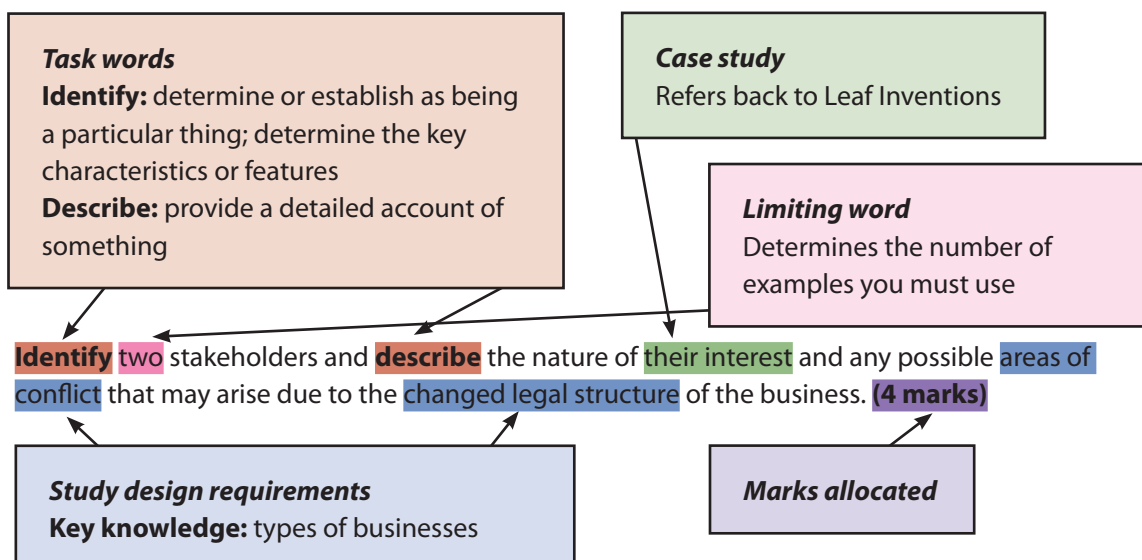
- No marks for a response that only defines the characteristics of a company
- 2–3 marks for a response that states and discusses arguments covering both forms of company structure
- To gain full marks (4 marks), you will need to state and discuss arguments covering implications for adopting both forms of company structure and include reference to the stimulus material (i.e. Mick and Richard and Leaf Inventions).

Question 2

Mick and Richard, owners of Leaf Inventions, have decided to become a private limited company.

Identify two stakeholders and **describe** the nature of their interest and any possible areas of conflict that may arise due to the changed legal structure of the business. **(4 marks)**

Extended response question – let’s unpack it



Hints:

- **Identify** relevant stakeholders to the business.
- Choose two stakeholders and **describe** their interest. (Remember, there are many stakeholders for a business – owners, managers, employees, customers, suppliers and the general community.)
- Determine any potential areas of conflict.

A possible answer to Question 2 might be:

Sample response

Two stakeholders, being either an individual or a group, who have a vested interest in the activities of Leaf Inventions are firstly its shareholders, who would be looking for the business to be profitable and to provide dividends to them based on their shareholding. An area of conflict could arise when Mick and Richard, who are now shareholders, want to retain funds within the business to assist with its future growth, whereas the other shareholders (owners) would like to receive a large dividend yield on their investment.

A second stakeholder to the business is the government, which wants to ensure that the company is correctly registered, is paying the correct forms of taxation, is making superannuation contributions on behalf of its staff and is compliant with any specific regulations relating to operating a company. Conflict may arise between the company and the government if any of the above requirements are not adequately met or are breached.

Marking guide:

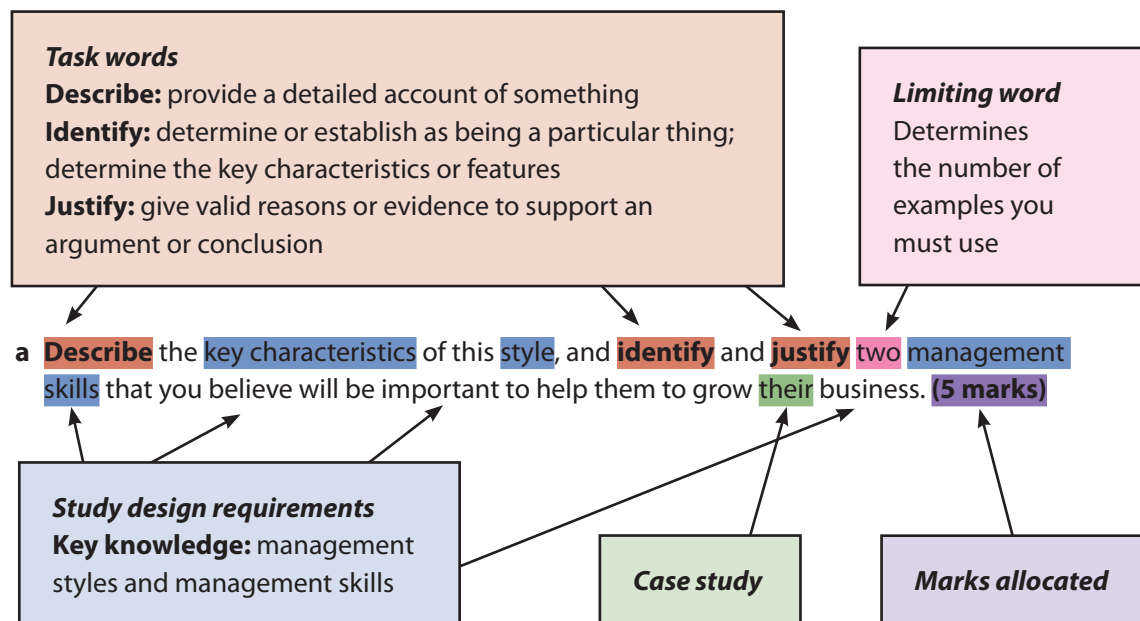
- 1 mark for identifying two relevant stakeholders
- 2 marks for description of two relevant stakeholders and nature of interest
- 3–4 marks for description of two relevant stakeholders, nature of interest and possible areas of conflict.

Question 3

Mick is chief finance officer and Richard is operations manager of Leaf Inventions Pty Ltd. It is the aim of the business to enter a period of growth, and to achieve this they have each agreed the most appropriate management style for them to adopt is consultative.

- a Describe** the key characteristics of this style, and **identify** and **justify** two management skills that you believe will be important to help them to grow their business. **(5 marks)**

Extended response question – let’s unpack it



Hints:

- This question has multiple parts (management styles and skills) and requires all parts to be completed to gain full marks.
- There are a range of other skills that could be identified and justified, including delegation, leadership, decision-making and interpersonal.

A possible answer to Question 3a might be:

Sample response

The consultative management style is characterised by the manager exercising centralised control and authority while taking account of the ideas and concepts provided by employees, particularly in relation to making decisions. The manager considers task achievement to be an important factor, but also understands the importance of the ‘people factor’, which results in employees becoming more motivated and wanting to perform to their best.

Two management skills that would be important are communication and planning. Communication that is open and encourages discussion and feedback would be essential. It would be in the form of top-down information and directions by management (Mick and Richard) to employees (subordinates) related to their growth plans. Upward flow of communication from the employees to management would then be able to provide valuable options and feedback relating to expansion plans.

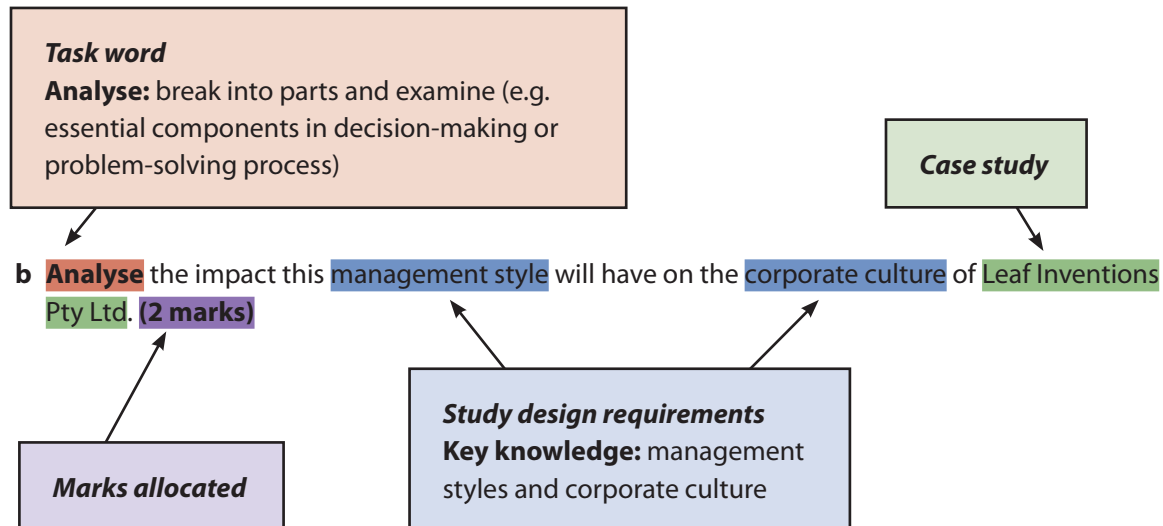
Planning is a skill that relates to future-oriented decision-making. It involves understanding the purpose or aims of the business, then formulating various levels of objectives, plans and strategies to meet the desired outcome. This skill is therefore important if Mick and Richard wish to embark on a growth strategy for their business.

Marking guide:

- 2 marks for describing the key characteristics of the consultative style
- 3 marks for identifying and justifying two management skills that relate to growing the business.

- b Analyse** the impact this management style will have on the corporate culture of Leaf Inventions Pty Ltd. (2 marks)

Extended response question – let's unpack it



Hint:

- Requires breaking the style into parts and examining the relationship of this style to corporate culture.

A possible answer to Question 3b might be:

Sample response

Corporate culture relates to the shared values and beliefs held within a business. By adopting a consultative management style, Mick and Richard are demonstrating that they want to set the approach the business will be taking, as they wish to remain in control of its operations, its communication flow and therefore its official culture. However, by adopting this style they demonstrate that they value their employees and wish them to be motivated and contribute to the success of the business.

Marking guide:

- To gain full marks, students need to establish the impact of characteristics of the style on the corporate culture of the business.



AREA OF STUDY 2

HUMAN RESOURCE MANAGEMENT

AREA OF STUDY DESCRIPTION

In this area of study students investigate considerations for the effective management of employees to ensure business objectives are achieved. They consider employee motivation in terms of Maslow's Hierarchy of Needs, Locke and Latham's Goal Setting Theory, and Lawrence and Nohria's Four Drive Theory. Using these theories of motivation and motivation strategies, students propose and justify possible strategies for employee management in contemporary business case studies from the past four years. Students study an overview of workplace relations, including the main participants and their roles in the dispute resolution process.

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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 and key skills outlined in Area of Study 2. [These are listed at the start of each chapter.]

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CHAPTERS IN THIS AREA OF STUDY

4 Managing employees: business objectives and motivation

5 Training, performance management and termination management

6 Workplace relations

CHAPTER 4

Managing employees: business objectives and motivation

'If you are working on something that you really care about, you don't have to be pushed. The vision pulls you.'

Steve Jobs (1955–2011)

About the author:

Steve Jobs was an American business magnate who was most famous for his roles as chairman, chief executive officer (CEO) and co-founder of Apple Inc.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about motivation and discuss your response to the following question:

Analyse this quote by Steve Jobs and **evaluate** whether you believe his opinion relates to motivation as well as vision.

CHAPTER OVERVIEW

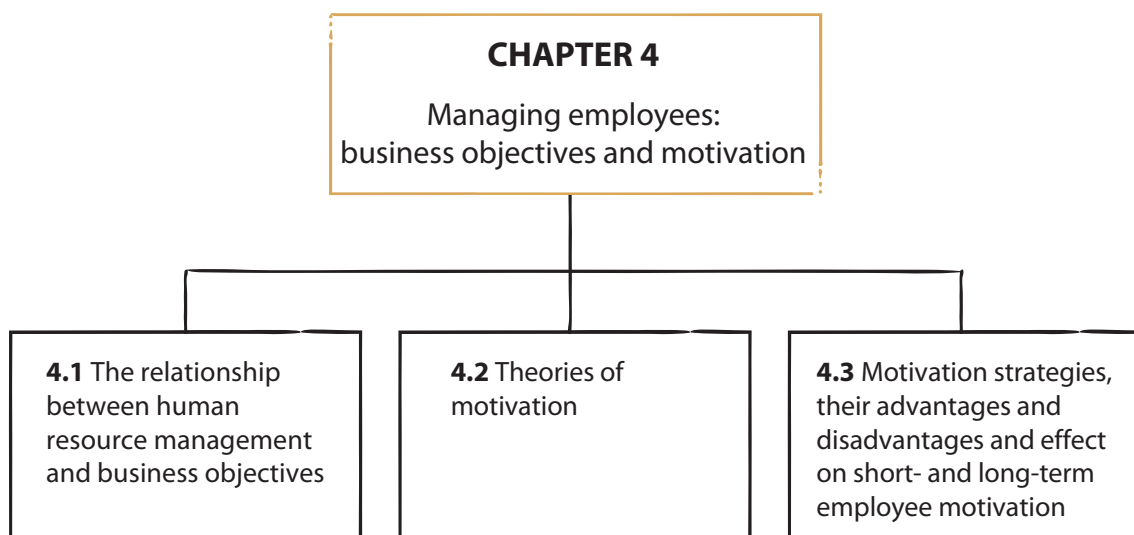
This chapter explores the important relationship that exists between the role that employees play in a business and the achievement of its business objectives. Three motivation theories currently being used by businesses will be examined. In addition, a range of motivation strategies will be studied,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

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
The relationship between human resource management and business objectives	4.1 Managing employees and business objectives 4.1.1 Identify and describe 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)	4.2 Theories of motivation 4.2.1 Identify and describe theories of motivation 4.2.2 Discuss, compare and evaluate theories of motivation 4.2.3 Analyse case studies 4.2.4 Apply business management knowledge to practical and/or simulated business situations
Motivation strategies including performance related pay, career advancement, investment in training, support strategies and sanction strategies Advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation	4.3 Motivation strategies 4.3.1 Identify, describe, discuss and compare motivation strategies 4.3.2 Propose and justify management strategies to improve business performance 4.3.3 Identify and describe advantages and disadvantages of motivation strategies 4.3.4 Analyse the effect of motivation strategies on short- and long-term employee motivation 4.3.5 Propose and justify management strategies to improve business performance

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What's ahead



4.1 The relationship between human resource management and business objectives

Learning intentions – at the end of this chapter section I will be able to:

4.1.1 Identify and describe the relationship between managing employees and business objectives

business objectives

the stated, measurable targets of how to achieve business goals

employee

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

Business objectives are the outcomes that a business sets out and 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, who 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 its employees. A business will usually set objectives that relate to its survival and being profitable, gaining and growing market share, fulfilling both a market and a social need, and meeting the expectations of its shareholders. Employees, as one of the most important assets of a business, play a vital role in ensuring that 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 is 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.

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.

It is the responsibility of human resource managers in larger businesses to support functional managers in ensuring that their staffing needs are met. Once the required workforce is in place, HR managers then work to ensure that all employees are motivated and trained, and that their performance is managed and assessed against the requirements of their role and their individual objectives. In the role of offering advice to other functional managers, they are acting in a staff management capacity since they have no direct authority to make decisions as to what work is to be done in other departments. They do, however, hold a line management

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

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 the business's 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.

Employees are the biggest line-item expense (cost) for any business, as well as being its 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.



Figure 4.1 The human resource manager can support and assist managers in other functional departments.

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 that outcomes are on track. Regular feedback provides opportunities to clarify expectations, adjusting the level of difficulty of the goal and gaining recognition. 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.

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

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.



Figure 4.2 A motivated and engaged employee's impact on a business – performance and productivity up, staff absenteeism down

productivity

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

employee engagement

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

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, knowing and understanding its vision and objectives, and how their own job contributes to the attainment of these objectives. 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.

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 may 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



REVIEW ACTIVITY 4.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Describe** the role of a human resource manager.
- 2 **Analyse** the relationship between employee engagement and achieving business objectives.
- 3 **Identify** potential problems that a small business may run into if it does not have a designated human resource department.
- 4 **Identify** and **describe** some of the positive flow-on effects when employees are tasked with clear objectives and goals.

4.2 Theories of motivation

Learning intentions – at the end of this chapter section I will be able to:

4.2.1 Identify and describe theories of motivation

4.2.2 Discuss, compare and evaluate theories of motivation

4.2.3 Analyse case studies

4.2.4 Apply business management knowledge to practical and/or simulated business situations

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.

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



CASE STUDY 4.1

Bapcor: the passion of our team members is more important than the products we sell



Bapcor Limited (previously Burson Group Limited) is Australia's largest automotive aftermarket group. It spans the supply chain, providing parts, accessories and services from over 750 locations around Australia, with trade, retail, wholesale and service businesses.

Listening to and rewarding its people is proving a sound strategy for Bapcor, demonstrated by a 27 per cent growth in revenue in the first quarter of the 2021 financial year, despite the impact of the COVID-19 pandemic.

Many of the initiatives implemented at Bapcor resulted from the company's 'Have your say' team member engagement surveys, which are underpinned by its four key values: we give a damn; we are in it together; we get it done; and we do the right thing. In October 2020, eligible Bapcor employees received a Visa gift

card (ranging in value from \$150 to \$300) as a gesture of thanks. Also introduced was paid pandemic leave to help staff through the most difficult of years of the pandemic.

Source: Adapted from the Bapcor website

CASE STUDY ANALYSIS

Identify and **describe** the strategies and approach adopted by Bapcor to ensure that employees achieve personal success and contribute to business success.

Key principles of three theories of motivation



Figure 4.3 Psychologist Abraham Maslow

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 (shown in Figure 4.4). 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 4.4 Maslow's 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Creating job security • Ensuring that 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	<ul style="list-style-type: none"> • Friendly work associates • Organised employee activities (e.g. birthday celebrations, meals, parties and sporting activities)
4 Self-esteem needs	External needs of status, recognition and attention; internal needs of self-respect, autonomy and achievement	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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)

ACTIVITY 4.1

Matthew owns and operates a newsagency in country Victoria employing four full-time and six part-time staff. He knows that Heidi, 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.

Matthew wants to know which factor (from the list below derived from Maslow's theory) he should now consider as a way of motivating Heidi to enhance her job performance and commitment to his business. **Justify** your choice.

- Promote her to week-day supervisor of staff.
- Involve her in decisions relating to stock to be ordered for the newsagency.
- Make her responsible for organising employee activities.
- Increase the rate of employer contribution to her superannuation scheme.

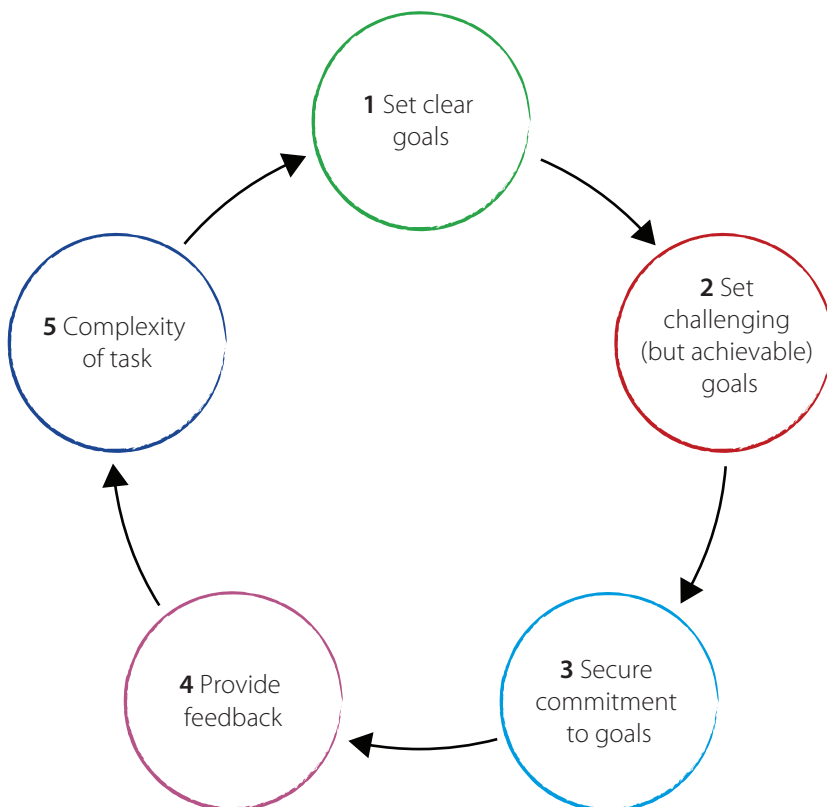


Goal Setting Theory (Locke and Latham)

Goal Setting Theory a 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 **Set 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 2023 by 15 per cent.
- 2 **Set challenging (but achievable) goals** – the correct balance needs to be achieved when setting goals. 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 it 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, but 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 4.5 Locke and Latham's five principles of goal setting

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 where employees' goals are closely aligned enjoy 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 business objectives can lead to behavioural changes (e.g. higher productivity and lower staff turnover).
- setting specific team goals improves group cohesion and collaboration, resulting in increased productivity
- it is crucial that monitoring and feedback are provided by the manager to ensure successful achievement of 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)

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.

The four drives (needs) are:

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

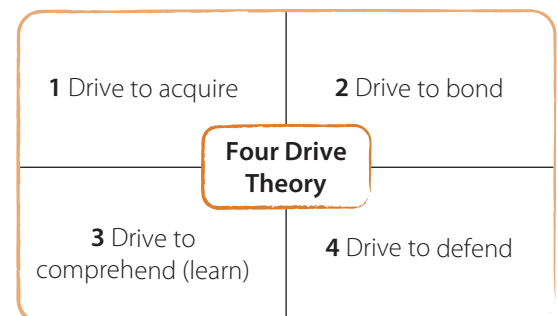


Figure 4.6 The Four Drive Theory

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

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 overcompetitive 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, but 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.

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 performance-based reward system. Offer advancement opportunities for high achievers. The reward system must discriminate between good and poor performers.	Reward an individual employee with praise, recognition and interesting assignments
2 Drive to bond	Develop and maintain a business culture 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 and 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 grievance resolution, decision-making, performance management, work-life balance and staff welfare will help to overcome fear and the need to defend	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

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

REVIEW ACTIVITY 4.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 Abraham Maslow places 'Self-actualisation' as the highest level in his Hierarchy of Needs. **Describe** what is meant by this need and provide examples of how a business can satisfy this need for an employee.
- 2 **Describe** how the five goal-setting principles of Locke and Latham's Goal Setting Theory can be applied for both team and an individual's personal goals.
- 3 The drive to acquire (Four Drive Theory) can be regarded as both a basic and a complex need. **Compare** what would be regarded as a basic need with one that would be regarded as a complex need.
- 4 **Discuss** how the drive to acquire (Four Drive Theory) compares to two levels of need in Maslow's Hierarchy of Needs.

SAC AND EXAM TIPS – LINKED TO KEY SKILLS

Analyse theories of motivation and apply them to a range of contexts – requires you to break into parts and examine the various theories, and then to use the theories to assist in a practical example or situation.



Figure 4.7 Goal setting for individuals and the team can be a motivating force.

4.3 Motivation strategies, their advantages and disadvantages and effect on short- and long-term employee motivation

Learning intentions – at the end of this chapter section I will be able to:	4.3.1 Identify, describe, discuss and compare motivation strategies
	4.3.2 Propose and justify management strategies to improve business performance
	4.3.3 Identify and describe advantages and disadvantages of motivation strategies
	4.3.4 Analyse the effect of motivation strategies on short- and long-term employee motivation
	4.3.5 Propose and justify management strategies to improve business performance

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 include establishing a performance-related pay system, career advancement, investing in training, providing support, and sanction strategies. Threat, while recognised as a motivation strategy, is one that is not favoured as having a lasting positive effect.

Performance-related pay

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

Performance-related pay 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:

- 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 pre-set 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.

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

There are several common features of performance-related schemes:

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

- At the end of the appraisal period, employees are sorted into performance-level groups (met objectives, exceeded objectives, did not meet objectives), which then helps 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. A cash bonus or a share of profits may be given 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.



Figure 4.8 Bonuses reward employees for reaching or exceeding targets.

While performance-related pay is designed to motivate employees, 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, monetary 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
Can improve productivity levels	Difficult to measure productivity levels in some types of jobs
Rewards best performance; no need to pay those underperforming	Danger of sacrificing safety and quality just to increase quantity
Encourages realistic goal setting	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, and 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

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

Table 4.4 Effects of performance-related pay on short-term and long-term employee motivation

Positive effects	Negative effects
Incentive of financial reward to increase productivity levels	Does not guarantee continued productivity gain; demotivating if bonus/reward does not continuously increase
	Acts to demotivate if goals set are too challenging

Career advancement

Promoting employees to positions that include more responsibility or authority meets the following motivational criteria for an employee who:

- desires increased **remuneration** – either by increases in **wages/salary** and/or fringe benefits such as a company car or an expense account, so providing the employee with a more comfortable lifestyle
- wants a more challenging on-the-job experience
- is ambitious, wants independence, authority and status combined with additional management skills and competencies.

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.



Figure 4.9 The lure of promotion may motivate ambitious employees.

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 while also creating a more flexible workforce. This acts to broaden the knowledge an employee has of the business and its operations and is used as a motivational tool for workers. Job rotation lessens the likelihood of boredom and disengagement.

job enlargement

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

job enrichment

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

job rotation

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

Table 4.5 Advantages and disadvantages of promotion as a motivator

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

Table 4.6 Effects of career advancement on short-term and long-term employee motivation

Positive effects	Negative effects
Motivates employees to quickly take on more responsibility in their workplace	May cause dissatisfaction with employees overlooked for promotion
Employees can see a career path for themselves	

Investment in training

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

Training, however, will not lead to employees being motivated if the business has inefficient systems 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 4.7 Advantages and disadvantages of training

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

Table 4.8 Effects of investment in training on short-term and long-term employee motivation

Positive effects	Negative effects
Immediate increased motivation when given opportunity to upskill	Demotivated if training program inconveniences their work-life balance
Employee better skilled to complete their job tasks and duties	



ACTIVITY 4.2

The Woolworths Group, parent company of Woolworths Supermarkets and Big W, has committed \$50 million towards training 60 000 of its staff in digital, data analytics, machine learning and robotics. The company's Future of Work Fund will help employees to reskill in preparation for industry disruption brought on by advances in technology.

Analyse the effect that you believe Woolworths' expenditure on training will have on both the short-term and long-term motivation of the 60 000 employees receiving the training.

Support strategies

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 a long-term motivator. In addition, frequent and positive communication between managers and subordinates can 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.



Figure 4.10 A manager supporting her employee, which can motivate positive performance

Table 4.9 Advantages and disadvantages of support strategies

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 be costly	

Table 4.10 Effects of support strategies on short-term and long-term employee motivation

Positive effects	Negative effects
Feeling they are supported and valued if they have an issue that needs dealing with and is affecting their level of performance	Resentment by employee who just wants to be left alone



CASE STUDY 4.2

Mantel group



Best
Workplaces™

Great
Place
To
Work.

AUSTRALIA
2021

Mantel Group

Mantel Group is an Australian-owned technology-led consulting business founded in Melbourne in 2017. It received a 99 per cent score in 2021 from its 305 employees saying it is a great place to work.

The group acknowledges that 'we put our people first, it is our biggest priority'. The CEO, Con Mouzouris, states that from the foundation of the group they knew they had to approach things differently to what they had experienced in other organisations. Leading with their five core principles:

- make things better
- make good choices
- communicate directly
- love what you do and be awesome at it
- in it together

they want to ensure that every individual within the business has a chance to lead and a voice that will be heard. Head of People & Culture, Caroline Henshaw, says that Mantel Group has a 'principle-led culture', which means it treats its team like adults and trusts them to make the right decisions to get the job done and look after one another.

Source: Adapted from the Mantel Group website



Video 4.1

Mantel
Group

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

- 1 **Describe** the ways the Mantel Group supported employees during the COVID-19 pandemic as mentioned in the video.
- 2 **Identify** and **describe** what strategies Mantel Group is implementing that have led to it receiving the recognition of being a 'great place to work'.

Sanctions strategies

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 underperforming 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 4.11 Advantages and disadvantages of sanction strategies, and effects of sanction strategies on short-term and long-term employee motivation

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 underperforming employees into line	Sanctions can cause resentment and loss of productivity; possibility of dispute or legal action following imposition of sanctions or employee resignation

ACTIVITY 4.3

Form groups of four to six students.

- 1 **List** strategies (actions) that 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 of strategies that can be used to motivate employees, and then to make a judgement as to their relative strengths and weaknesses.

REVIEW ACTIVITY 4.3

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Identify** three types of monetary reward that an employee could receive in recognition of their increased performance.
- 2 **Identify** and **explain** what motivational criteria career advancement meets for an employee of a business.
- 3 **Identify** three disadvantages that can be attributed to providing training to employees.
- 4 **Identify** and **discuss** how promotion can act to both motivate and demotivate employees.
- 5 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.
- 6 Many businesses operate on a team-based structure. **Identify** and **describe** motivation strategies that you believe could act to motivate a team to increase its level of performance.



Chapter 4 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 3 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Motivation	Career advancement	The drive to bond	SMART principle
Sanction	Staff manager	Appraisal	Employee engagement
Remuneration	Training	Management by objectives	

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)**
- 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)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
4.1 The relationship between human resource management and business objectives	4.1.1 Identify and describe the relationship between managing employees and business objectives	Review activity 4.1: Part 1 & Part 2	Yes No <input type="checkbox"/> <input type="checkbox"/>
4.2 Theories of motivation	4.2.1 Identify and describe theories of motivation	Review activity 4.2: Part 1 & Part 2 (Q1–2)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	4.2.2 Discuss, compare and evaluate theories of motivation	Review activity 4.2: Part 1 & Part 2 (Q3–4) Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	4.2.3 Analyse case studies	Case study 4.1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	4.2.4 Apply business management knowledge to practical and/or simulated business situations	Activity 4.1	Yes No <input type="checkbox"/> <input type="checkbox"/>
4.3 Motivation strategies, their advantages and disadvantages and effect on short- and long-term employee motivation	4.3.1 Identify, describe, discuss and compare motivation strategies	Activity 4.3: Q1–3 Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	4.3.2 Propose and justify management strategies to improve business performance	Activity 4.3: Q1–3 Case study 4.2 Review activity 4.3: Part 1 & Part 2 (Q1)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	4.3.3 Identify and describe advantages and disadvantages of motivation strategies	Review activity 4.3: Part 1 & Part 2 (Q2–3)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	4.3.4 Analyse the effect of motivation strategies on short- and long-term employee motivation	Activity 4.2	Yes No <input type="checkbox"/> <input type="checkbox"/>
	4.3.5 Propose and justify management strategies to improve business performance	Activity 4.3: Q1–3	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 5

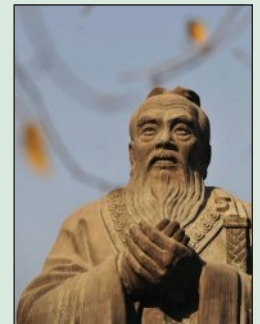
Training, performance management and termination management

'Learn as if you were not reaching your goal and as though you were scared of missing it.'

Confucius (551 BCE – 479 BCE)

About the author:

Confucius was an ancient Chinese philosopher, poet and politician. Confucius's teachings and philosophy significantly influenced East Asian culture and society and continue to remain influential across China and East Asia today.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about learning and discuss your response to the following question:

Explain what you believe this quote is trying to convey about the importance of learning and training.

CHAPTER OVERVIEW

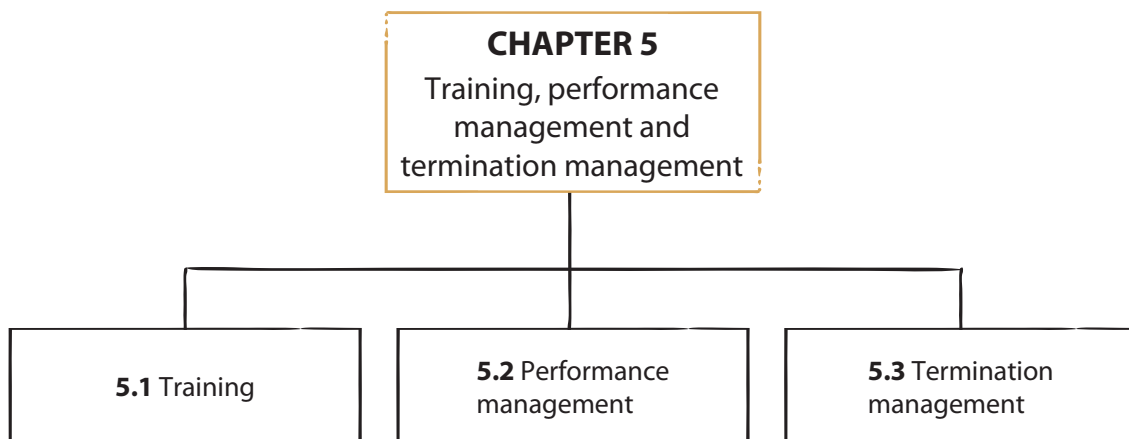
This chapter explores the importance of training, both on the job and off the job, in assisting both employees and the business to achieve their objectives. It also reviews the advantages and disadvantages associated with both forms of training. Managing the performance of employees during their employment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

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Training options, and the advantages and disadvantages of each	5.1 Training 5.1.1 Define and describe the training options 5.1.2 Identify and describe the advantages and disadvantages of each 5.1.3 Apply knowledge of training options to practical/simulated situations
Performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation	5.2 Performance management 5.2.1 Identify and describe performance management strategies to achieve business objectives 5.2.2 Identify and describe performance management strategies to achieve employee objectives 5.2.3 Analyse and apply knowledge of performance management strategies to case studies and contemporary business examples to improve business performance 5.2.4 Propose and justify management strategies to improve business performance
Termination management including retirement, redundancy, resignation and dismissal, entitlement considerations and transition considerations	5.3 Termination management 5.3.1 Define and describe the various forms of termination 5.3.2 Compare the various forms of termination 5.3.3 Define, describe, discuss, compare, propose and analyse entitlement and transition considerations

Source: Adapted from VCE Business Management Study Design © VCAA; reproduced by permission

What's ahead



5.1 Training

Learning intentions – at the end of this chapter section I will be able to:	5.1.1 Define and describe the training options
	5.1.2 Identify and describe the advantages and disadvantages of each
	5.1.3 Apply knowledge of training options to practical/ simulated situations

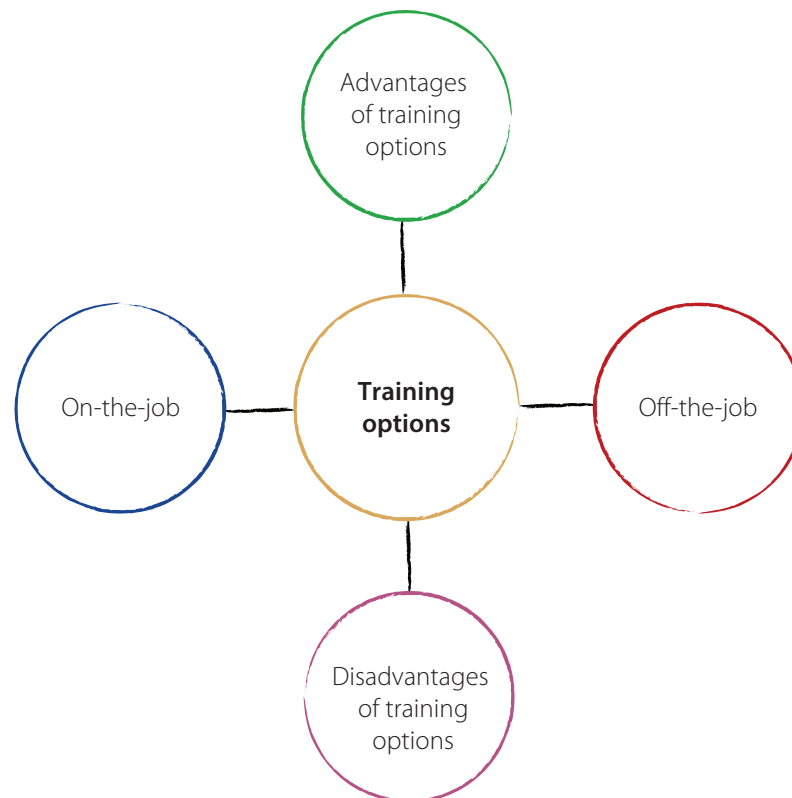


Figure 5.1 Training options, advantages and disadvantages

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

In the fiercely competitive global economy, the skills and knowledge of employees are a vital resource to any business. Employees not only need 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 various studies conducted by industry groups, nearly two-thirds of Australian companies use **training** and **development** to drive their innovation.

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, as outlined in Table 5.1.

Table 5.1 Three levels of analysis for training needs

Level of analysis	Description
Organisational analysis	Entire business is analysed to determine where training activities should be concentrated to best achieve its strategic objectives. For example, a business changing its computer network and software applications would require a large-scale training program.
Task analysis	Individual jobs and associated 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 the type of training required. It results in training and development objectives being established.

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 (e.g. equal employment opportunity, workplace diversity, risk management, sexual harassment, bullying)
- technical, job-specific skills (e.g. 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 (e.g. strategic planning, operational planning, organisational design and policy skills, decision-making skills).



Figure 5.2 Training and development can motivate employees and drive innovation in a business.

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

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

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-the-job 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.



Figure 5.3 On-the-job training can take many forms.

On-the-job training methods include those outlined in Table 5.2.

Table 5.2 On-the-job training methods

Training method	Description
Coaching, tutoring, mentoring	Provided by a supervisor or work colleague
Role modelling	Imitating the behaviour of a manager/ supervisor or work colleague
Apprenticeship	The employee learns from an experienced person or co-worker
Planned work activities, special assignments, committees	Provides a range of new experiences in a collaborative environment
Job rotation	Within or between departments, providing broader experience and greater familiarity with the entire business and its operations



CASE STUDY
5.1

Mars: learning and growth



This case study is available in the Interactive Textbook.

Table 5.3 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 or competent 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, resulting in disjointed 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 continues to work 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 those outlined in Table 5.4.

Table 5.4 Off-the-job training methods

Training method	Description
Information presentation style	Lectures with 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 occurs and trainee's input is sought. E-training (online) is popular, allowing employees to complete coursework both while at work and in their own personal time.
Simulations	Visual games and case studies are used to model real-life situations
Role plays	A manager may be asked to play roles on both sides to gain a greater understanding of a situation (e.g. in an industrial dispute playing the role of manager and union official)

Table 5.5 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



CASE STUDY 5.2

Woolworths' investment in training



In mid-2019, Woolworths undertook a restructure of its store layout due to customers now expecting that staff at their local supermarket would have a greater understanding and knowledge of the products the store was selling.

The new operating model aimed to invest \$10 million in training and development, allowing staff to gain additional skills training, career progression and development opportunities. These changes were in direct response to Woolworths' understanding of how its customers had changed. Woolworths believes that shoppers now look for fresh food, an increased level of convenience and a positive customer experience.

Woolworths, always keen to differentiate itself from its main competitor Coles, believed that by providing highly trained team members with specific product knowledge in its fresh service departments, it would strengthen its fresh-food credentials.

The store layout restructure meant that some positions would be lost. Staff working in those roles would be given the opportunity to be redeployed to other areas within Woolworths. Redundancy was offered to any staff who chose not to be retrained or placed in other jobs.

Fast forward to 2021 and once again the operating model has needed to change. The day-to-day work of many Woolworths team

members has changed due to the increased impact of the online personal shopper. In response to this changed environment, Woolworths has established a \$50 million Future of Work Fund to help the business equip its team members with new skills and capabilities, supplementing its existing investment in training and development.

The key focus will now be digital, advanced analytics, machine learning and robotics. Funding for vocational training is being offered

to team members to learn new skills for other roles in the business or to launch a career outside of Woolworths.

Sources: Based on 'Woolworths plans store restructure and addition of two new departments,' Inside Retail, 6 June 2019; 'Retail transformation spurs \$50m Woolworths Future of Work Fund,' Woolworths press release, 8 February 2021, and 'Woolworths investing \$10 million on training and store restructures,' News.com.au, 6 June 2019

CASE STUDY ANALYSIS

- 1 **Identify** and **describe** the training that Woolworths provided to employees in 2019 to meet the change in its operating model and differentiate itself from its competitors.
- 2 Woolworths has responded to further change its operating model to reflect its trading conditions in 2021. **Identify** and **describe** the types of training that would need to be provided due to the impact of the company's commitment to online shopping.
- 3 **Evaluate** whether the training options implemented by Woolworths would assist its level of competitiveness in the retail supermarket sector.

REVIEW ACTIVITY 5.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 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.
- 5 **Describe** three benefits a business would gain by training its employees off the job.



Figure 5.4 Providing training to a team can increase knowledge and productivity.

5.2 Performance management

Learning intentions – at the end of this chapter section I will be able to:

5.2.1 Identify and describe performance management strategies to achieve business objectives

5.2.2 Identify and describe performance management strategies to achieve employee objectives

5.2.3 Analyse and apply knowledge of performance management strategies to case studies and contemporary business examples to improve business performance

5.2.4 Propose and justify management strategies to improve business 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 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.



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

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

Management by objectives

The idea of management by objectives (MBO) as a performance management strategy was first advanced in 1954 by Peter Drucker, an Austrian-American management consultant, educator and author.

There are six steps used when implementing this performance management strategy, outlined in Figure 5.7 and Table 5.6.



Figure 5.6 Performance management strategies

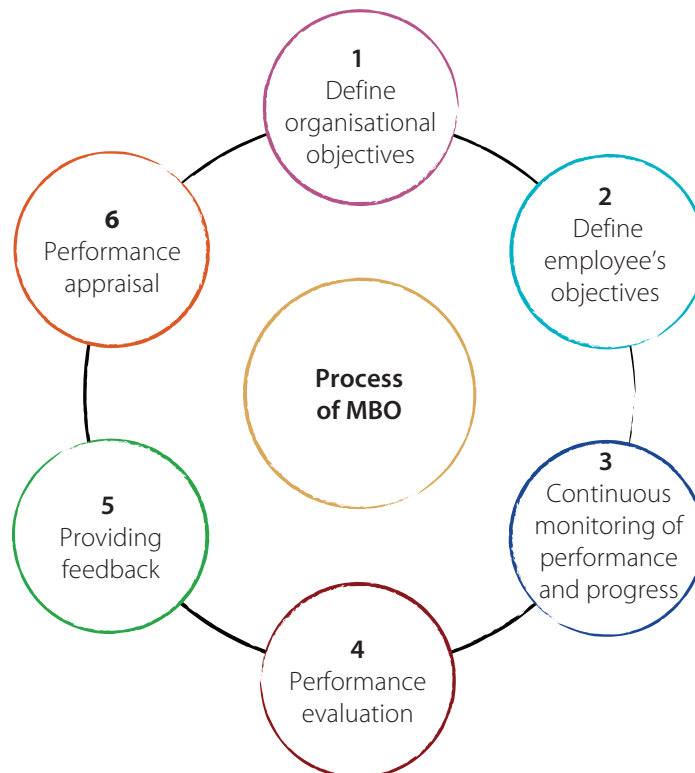


Figure 5.7 Management by objectives process

As employees are actively involved in the goal-setting activity (Step 2), 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 objectives/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**ttainable/Achievable: success needs to be attainable (with a bit of a stretch) by an average employee. **R**ealistic/Relevant: the goals should focus on how they will give the greatest impact to the overall corporate strategy. **T**imely/Time-bound: any goal should be grounded within a time frame to create a sense of urgency for completion.

Table 5.6 Steps used when implementing management by objectives

Steps	Explanation
1 Define the organisational objectives	Different kinds of objectives are set by various levels of management. These cover critical issues relating to the effectiveness of the business.
2 Define employee's objectives	Participative goal setting occurs 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.
3 Continuous monitoring of performance and progress	Managers need to be aware of their employees' progress in achieving their objectives. This will allow them to offer assistance, 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.
4 Performance evaluation	Performance is measured against an employee's objectives by their manager
5 Providing feedback	Continuous feedback on performance and objectives allows individuals to monitor and correct their own actions
6 Performance appraisal	At the end of the review period, performance is then measured against the predetermined objectives. The assessment is based on what the employee has achieved, and their accomplishments are rewarded.



Figure 5.8 Appraisals allow employees and employers to measure performance levels against objectives.

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

Appraisals

Performance appraisal is the process for measuring an individual's performance over a set period. It aims to improve organisational efficiency and performance by ensuring that employees are performing to the best of their ability and are able to develop their potential while also earning an appropriate reward.

performance appraisal

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

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.

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.



Figure 5.9 Performance evaluation is an important component of performance management.

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 the opinions of their manager. This difference then creates an opportunity for two-way communication between the parties.

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

Employee observation

If a business wants to gain a broader, more objective perspective on the performance of an employee, their strengths and their 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. Outlined in Table 5.7 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.

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

360-degree multisource feedback feedback provided to employees from each group of people they work with, including other managers, colleagues, subordinates and often customers

Table 5.7 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 etc.
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



CASE STUDY 5.3

National Australia Bank's performance plan



National Australia Bank (NAB) has performance and remuneration frameworks in place with three key objectives:

- 1 Attract, recognise, develop, motivate and retain employees.
- 2 Drive exceptional customer service outcomes and progress NAB's desired culture with an emphasis on integrity and accountability.

- 3 Align the interests of employees and shareholders through equity ownership.

In order to progress as individuals and as a business, it is important we all track what we have achieved. That is why everyone has a focused performance plan with goals that enable them to deliver, develop and grow.

Employees are supported through regular performance and development conversations, which comprise feedback and coaching on what they need to achieve, and how they should demonstrate expected behaviour. Management undertakes an annual review resulting in a rating for performance and development progress, which provides clarity and recognises people for their contribution.

The COVID-19 pandemic has had a dramatic impact on how businesses operate. The advent of staff working from home and flexible working arrangements has required performance management to become more focused on outcomes, rather than outputs, as managers no longer are able to have constant oversight of their subordinates as they work.

Source: Adapted from the NAB website

CASE STUDY ANALYSIS

- 1 NAB's key objective number 1 directly relates to its employees and the importance the bank places upon their contribution to the success of the business. **Describe** the performance management strategies the bank implemented to assist in achieving this objective.
- 2 **Identify** and **describe** issues that having staff working from home has caused for NAB managers in the way they can measure the performance of their team.
- 3 **Propose** five areas where a performance management system would assist a business to make decisions that would impact upon its employees.



Figure 5.10 Working from home has become the new norm for many businesses as a result of the COVID-19 pandemic.

REVIEW ACTIVITY 5.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Describe** how undertaking a 360-degree multisource feedback process provides an objective perspective on the performance of an employee.
- 2 **Identify** the benefits to both an employee and a business if the performance management system incorporates the element of self-evaluation.
- 3 **Identify** and **describe** the mnemonic used when setting the individual objectives of an employee.



5.3 Termination management

Learning intentions – at the end of this chapter section I will be able to:	5.3.1 Define and describe the various forms of termination
	5.3.2 Compare the various forms of termination
	5.3.3 Define, describe, discuss, compare, propose and analyse entitlement and transition considerations

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 the 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 or 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.

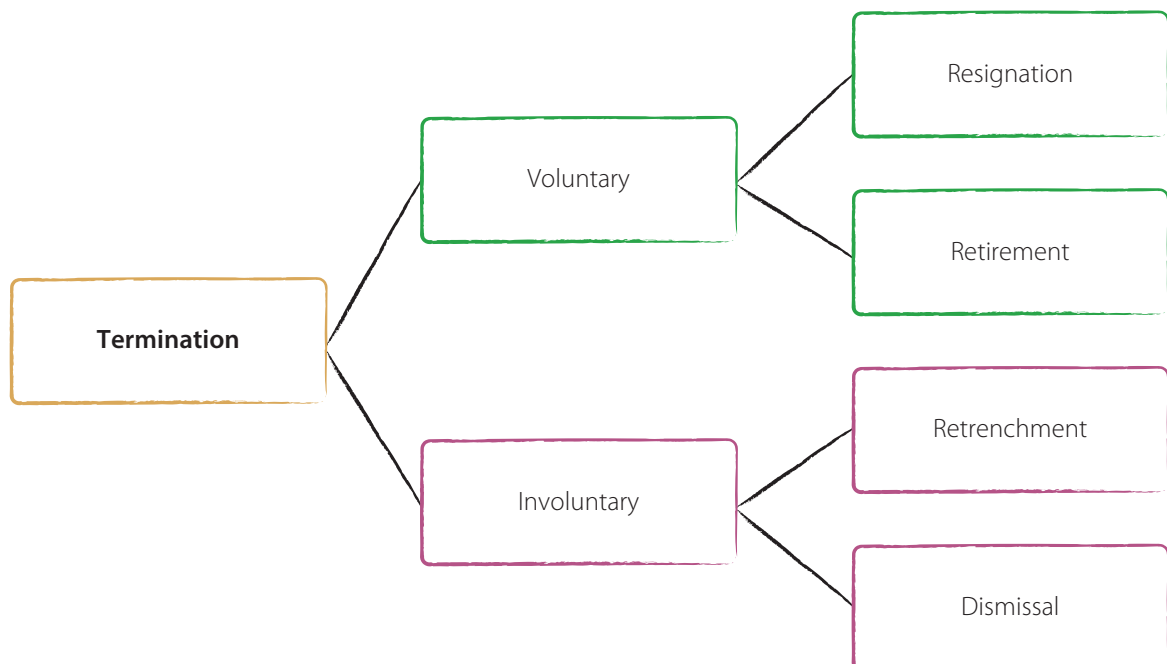


Figure 5.11 Termination types

Voluntary termination methods

One form of **voluntary termination** is **resignation**. This occurs when an employee voluntarily decides to leave a business. Employees may resign for a variety of reasons, such as getting a better job, wanting a change, poor pay or working arrangements, starting their own business or returning to study.

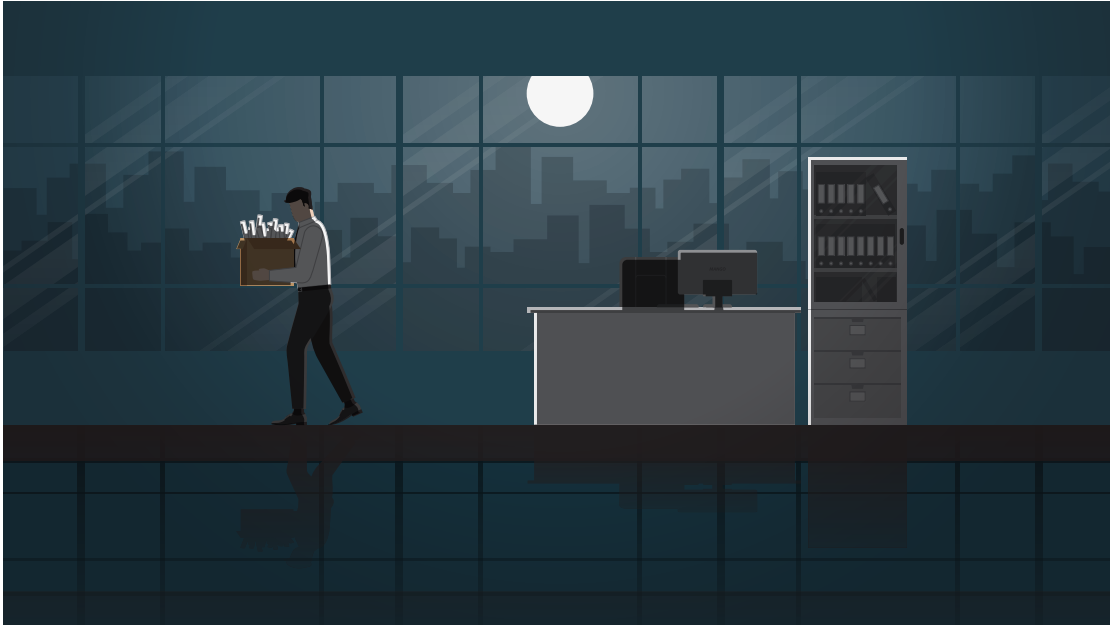


Figure 5.12 An employee can resign from a business for a variety of reasons.

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.

ACTIVITY 5.1

The Australian Bureau of Statistics compiles annual job data figures. Analysis of these figures indicates that the level of resignations in the pre-pandemic period was 520 000 per annum, whereas during the pandemic in 2019–20 only 393 500 employees resigned.

Explain what you believe would be the explanation for the reduced number of resignations during the COVID-19 pandemic.

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

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



Figure 5.13 A farewell party to mark the occasion of an employee's retirement

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 they no longer need a particular job to be done by anyone or need fewer people to do that particular type of job. Redundancies commonly arise when:

- an employer is closing part or all of their 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.

If a business is retrenching an employee, it is essential that the retrenchment 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 (see Table 5.8).

Table 5.8 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 National Employment Standards (NES) set out the scale of redundancy payments (see Table 5.9). Employees may also be entitled to additional payments if these have been negotiated as part of their enterprise agreement.

Table 5.9 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

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, regardless of its size, could ensure that it is legally compliant with the NES redundancy payment schedule while also being more generous to its long-serving retrenched employees.



Figure 5.14 When an employee becomes redundant, they are usually entitled to severance pay.



Figure 5.15 Increased workload for remaining staff is a negative effect of involuntary employee departure.

dismissal
termination of an employment contract due to incompetence or indiscipline

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.

The impact of employees involuntarily leaving a business can be both positive and negative on that business, as outlined in Table 5.10.

Table 5.10 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 displaying serious misconduct at the workplace	Increased pressure on performance of remaining staff

It should be noted, however, that the scale of redundancy severance payments shown in Table 5.9 does not apply to employers with fewer than 15 full-time employees or if a person is a casual employee.

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.

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 be covered by either an award or a collective (enterprise) agreement and earn less than the high-income threshold of \$158 500 per annum (1 July 2021). The employee must believe that their employment was terminated for harsh, unjust or unreasonable grounds. 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 the considerations outlined in Table 5.11.

Table 5.11 FWC considerations

Considerations	Explanation
Valid reason	Relates to employee's capacity or conduct, including its effect on the safety and welfare of other employees
Notification	Was the employee notified of the reason and given an opportunity to respond?
Support person present	Did the employer unreasonably refuse to allow the employee to have a support person present to assist at any discussions related to dismissal?
Warnings	Was the employee adequately warned about their level of unsatisfactory performance before the dismissal?
Any other relevant factors	Other issues that may assist the FWC in its decision

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.

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.



Figure 5.16 An employer must give a valid reason for the termination of an employee's contract.

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



CASE STUDY 5.4

Termination management: reinstatement and continuity of service application to FWC



Background

In 2018, Miss P (the applicant) was employed as a casual detainee services officer (DSO) and then as a permanent employee from December 2019 to 16 March 2021 with a justice and correctional service provider to the Australian Government. The applicant joined the training team as an occasional training support officer assisting in the delivery of training to new DSOs and refresher courses.

The respondent (employer) received anonymous allegations that, during training sessions on 17 November 2020, the applicant made statements that directly contradicted policies and procedures related to transport and escort of detainees and use of personal mobile phones while working. The respondent investigated the reports and terminated the applicant's employment on the grounds of 'serious misconduct, namely failure to comply with employment agreement and employer policies and codes of conduct'.

The applicant submitted that she was not warned about lack of diligence in training or failure to comply with policies and procedures and that these allegations were better described as 'performance related concerns'. She also submitted that there were no barriers to her reinstatement and no evidence of a breakdown in trust and confidence.

The applicant sought an order for maintenance of continuity of service and an order for remuneration lost for the dismissal period. The respondent submitted they no longer had sufficient trust and confidence in the applicant and reinstatement would affect operations as they require strict policy compliance and required trainers to set the highest example and her actions undermined their policies.

Conclusion

The Commission noted the significance of personal mobile use and the seriousness of unregistered phones within a detention centre. In addition, indicating to new recruits that they need not comply with relevant policies was serious and undermined the respondent's codes and policies.

The Commission was satisfied that the respondent had a valid reason to terminate the employment of the applicant as the applicant's statement at training, to a group of impressionable recruits, was a significant breach of employment obligations.

The application was dismissed on the finding that the dismissal was not harsh, unjust or unreasonable.

CASE STUDY ANALYSIS

Discuss with a partner whether you believe that if the matter had been considered a 'performance related concern', and not a disregard for company policies and procedures, the outcome of the application may have resulted in a warning, not dismissal.

Entitlement considerations

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 considerations

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



Figure 5.17
Employees often phase into retirement gradually.

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.

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

Another transition consideration arises when employees are being retrenched. **Outplacement** services can be provided by a business to assist these employees to gain new work. Initially, this support 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 resumé 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.

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 in five designated geographical areas, 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.

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.



REVIEW ACTIVITY 5.3

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Describe** the situations where an employee may be retrenched.
- 2 **Identify** the payments an employee is entitled to receive upon being retrenched from their job.
- 3 **Compare** the two methods of termination – voluntary and involuntary.
- 4 **Define** the term 'outplacement' and provide examples of the different services provided by businesses to assist employees to gain new work.
- 5 **Describe** the impact on a business of a long-serving employee deciding to resign and securing employment in a business that is a competitor.

Chapter 5 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 3 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Employee observation	Transition considerations	Training needs analysis
Outplacement	Dismissal	Performance appraisal
Competency	Unfair dismissal	Voluntary termination

Examination preparation

Mont Surrey is a financial institution serving the banking needs of people living in regional Victoria. Resulting from the increased regulation and competition within the financial institution industry, chief executive officer (CEO) David Morrison has announced a cost-cutting program due to be rolled out in the first half of 2023. The program will act to restructure Mont Surrey by:

- making redundant 50 middle management positions drawn from various functional departments within its branch structure
- restructuring the business by increasing the use of automation and online banking options for customers
- changing the current networked branch system to a centralised model where branches will only be located in major regional towns.

David intends to implement a support package, 'We Care', for the employees made redundant. The package will provide access to outplacement services, such as resumé writing and improving their interview skills, to assist them to transition to a new job or retirement.

- 1 Analyse** whether the 'We Care' support package being provided by Mont Surrey is an example of corporate social responsibility. **(2 marks)**
- 2 Distinguish** between entitlement and transition considerations. Provide an example of each as it applies to the redundant staff at Mont Surrey. **(4 marks)**
- 3 Analyse** the impact of voluntary and involuntary termination on a business. **(5 marks)**
- 4 Describe** the procedure a business should undertake prior to dismissing an employee for unsatisfactory work performance. **(3 marks)**

5 Distinguish between on-the-job training and off-the-job training. Choose two of the following businesses and **propose** 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 customer service officers at a local bank. **(6 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
5.1 Training	5.1.1 Define and describe the training options	Case study 5.2: Q1 Review activity 5.1: Part 1 & Part 2 (Q1–4)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	5.1.2 Identify and describe the advantages and disadvantages of each	Review activity 5.1: Part 2 (Q5)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	5.1.3 Apply knowledge of training options to practical/simulated situations	Case study 5.1 Case study 5.2: Q1–3 Exam preparation: Q5	Yes No <input type="checkbox"/> <input type="checkbox"/>
5.2 Performance management	5.2.1 Identify and describe performance management strategies to achieve business objectives	Review activity 5.2: Part 1 & Part 2 (Q1–3)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	5.2.2 Identify and describe performance management strategies to achieve employee objectives	Case study 5.3: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	5.2.3 Analyse and apply knowledge of performance management strategies to case studies and contemporary business examples to improve business performance	Case study 5.3: Q1–3	Yes No <input type="checkbox"/> <input type="checkbox"/>

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
	5.2.4 Propose and justify management strategies to improve business performance	Case study 5.3: Q2 Review activity 5.2: Part 1 & Part 2 (Q1–3)	Yes No <input type="checkbox"/> <input type="checkbox"/>
5.3 Termination management	5.3.1 Define and describe the various forms of termination	Review activity 5.3: Part 1 & Part 2 (Q1–3)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	5.3.2 Compare the various forms of termination	Activity 5.1 Activity 5.2: Q1–2 Activity 5.3: Q1–2 Review activity 5.3: Part 2 (Q5) Exam preparation: Q3	Yes No <input type="checkbox"/> <input type="checkbox"/>
	5.3.3 Define, describe, discuss, compare, propose and analyse entitlement and transition considerations	Case study 5.4	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 6

Workplace relations

'To my friends in the union movement I say this: Every worker needs a successful company. To the business community I say this: No company is successful without an engaged, energised and motivated workforce.'

Paul Howes (1981–)

About the author:

Since 2019 Paul Howes has been the National Managing Partner of KPMG Enterprise and was previously National Secretary of the Australian Workers' Union for seven years.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about workplace relations and discuss your response to the following questions:

- 1 Suggest why the relationship between employers and employees should be maintained.
- 2 **Discuss** the potential advantages and limitations of legislation designed to protect employees.

CHAPTER OVERVIEW

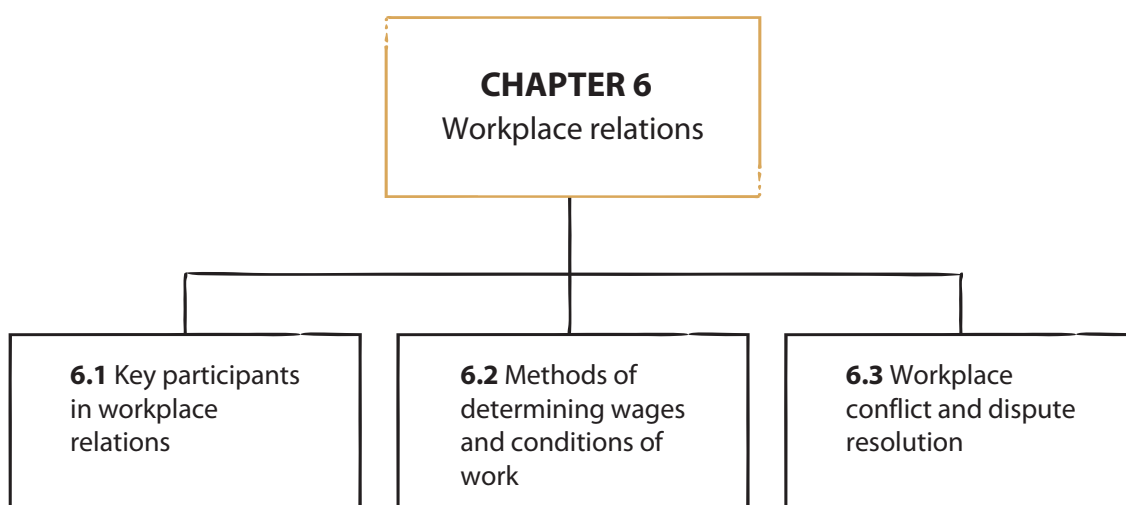
Workplace relations is crucial to the optimisation of business performance. This chapter will examine the role of different participant groups in the Australian system of workplace relations. The process of determining wages and conditions for Australian employees is explored, as is an overview of the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

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Roles of participants in the workplace including human resource managers, employees, employer associations, unions and the Fair Work Commission	6.1 Key participants in workplace relations 6.1.1 Describe the role of key participants in workplace relations
Awards and agreements as methods of determining wages and conditions of work	6.2 Methods of determining wages and conditions of work 6.2.1 Explain and compare the various methods of determining wages and conditions of work
An overview of the dispute resolution process including grievance procedures, mediation and arbitration	6.3 Workplace conflict and dispute resolution 6.3.1 Describe the process to resolve disputes between an employer and employees

Source: Adapted from VCE Business Management Study Design © VCAA; reproduced by permission

What's ahead



6.1 Key participants in workplace relations

Learning intentions – at the end of this chapter section I will be able to:

6.1.1 Describe the role of key participants in workplace relations



Figure 6.1 A positive relationship between employees and management is crucial to workplace success.

workplace relations the relationship between employers and employees in determining wages, conditions and methods of resolving disputes should they arise

The terms ‘employee relations’, ‘workplace relations’ and ‘industrial relations’ can be used interchangeably. Each refers to the relationship and communications shared between employees (and/or their representatives) and their employers (and/or their representatives).

Workplace relations includes 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. In Australia, state and federal governments regulate the system of workplace relations.

Workplace relations involves the total relationship and interplay occurring between employers and employees regarding all aspects of their working relationship, either through direct dealings and negotiation or via the use of an intermediary, such as a trade union or employer association. Good workplace relations enhance workplace productivity through development of motivated, effective and highly skilled employees prepared to support their workplace in the achievement of business objectives.

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.

The current workplace relations model aims to see employees and employers working together as a team to make the organisation more competitive and profitable.



Figure 6.2 The employer–employee relationship has changed to a model where employees are valued in their contribution to achieving business objectives.

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.

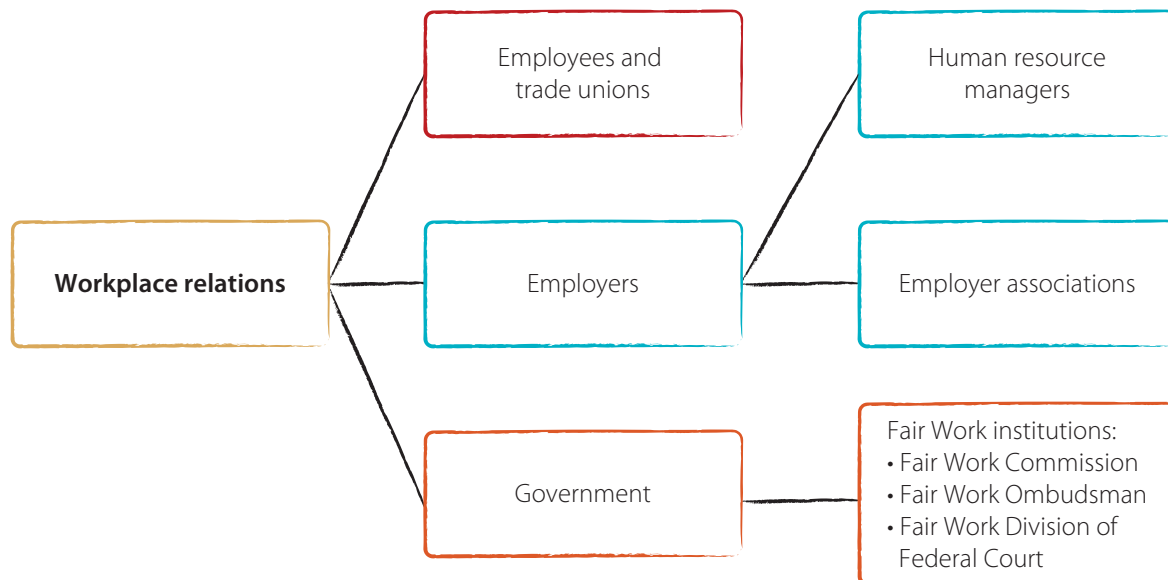


Figure 6.3 Participants (stakeholders) in Australian workplace relations

Role of employees and trade unions

A **trade union** is a group of employees from the same or 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.

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

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

- negotiates and bargains on their behalf during the enterprise bargaining process
- argues the employees' case during hearings that determine awards
- 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 a **shop steward** 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.

shop steward an employee at a workplace elected by local union members to represent members

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

- The Australian Council of Trade Unions (ACTU), formed in 1927, is the national peak body of the Australian union movement. The ACTU also represents the union movement in dealings with governments and at Fair Work Commission (FWC) 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.

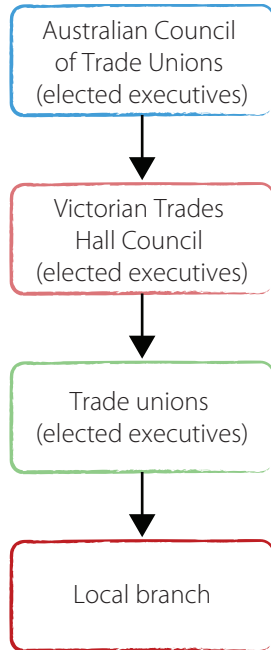


Figure 6.4 Structure of the Australian union movement



Figure 6.5 The Construction, Forestry, Mining and Energy Union (CFMEU) is a national union with over 120 000 members. The union's main role is to establish high-level safety standards in potentially dangerous industries.



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
- benefits of membership.

(*Hint:* Start with the ACTU and VTHC websites. Possible unions to investigate are Australian Meat Industry Employees Union, Australian Workers' Union, Electrical Trades Union, Australian Services Union and CFMEU.)



CASE STUDY 6.1

The state of the Australian Union Movement today



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

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

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 and education) have provided more jobs than traditional blue-collar industries.

According to the Australian Bureau of Statistics, union membership has fallen from 40 per cent in 1992 to just 14 per cent in 2020.

The fall in union membership can be attributed to the rise of enterprise agreements and individual employment contracts.

Based on these figures, the future of trade unions may seem uncertain; however, 1.5 million workers are trade union members. There is a trade union member in one out of every 14 homes. The ACTU continues to be active in supporting, protecting and advancing pay and conditions.

The role of unions today

During the pandemic, the ACTU negotiated with the Australian Government in the introduction of JobKeeper. The wage subsidy scheme was introduced during the surge of COVID-19 cases requiring thousands of workplaces to close. The program protected many impacted workers from being made redundant while supporting their employers during 2020–21.



Figure 6.6 The ACTU negotiated with the Australian Government in the introduction of JobKeeper during the COVID-19 pandemic.

The ACTU recognises the importance to remain relevant and innovate its actions for future growth so as to help Australian workers, providing support and assistance in advancing their interests. Concern for workers' rights in the gig economy, fears for one-quarter of workers in insecure work and the flatlining of

wages and conditions have been identified as areas requiring attention.

Sources: Based on Bradley Bowden, 'Three charts on: the changing face of Australian union members', The Conversation, 5 July 2017; Australian Bureau of Statistics; and ACTU website



Video 6.1
Australian unions

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

- 1 **Describe** how union membership has changed since the 1980s.
- 2 Suggest one possible reason for the disparity between professional and blue-collar worker trade union membership rates.
- 3 **Describe** the role of the ACTU in negotiating the wage subsidy scheme during the COVID-19 pandemic. Propose one benefit that employers gained through the scheme.
- 4 Does the decline of union membership suggest that the future of unions will become increasingly limited? **Discuss**.
- 5 In the video, **identify** the two factors ACTU Secretary Sally McManus mentions have hurt the workers of Australia over the past few years.

Role of employers and employer associations

employer association

a body of employers that promotes the economic and social interests of its members by providing advice to employers and representing their interests in employee relations issues

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

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

The role of employer associations is to:

- represent employers in Fair Work 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 6.7 Some of Australia's employer associations

ACTIVITY 6.2

Visit 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 entertainment
 - c food manufacturing
 - d retail.
 - 2 Visit the Australian Industry Group website. **Outline** three services AIG offers to its members.
-

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 in turn will 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.

The following factors support 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 that their contribution is valued and part of the decision-making process conveys a sense of ownership of decisions
- 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.
- 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.

Role of human resource managers in workplace relations

Overseeing workplace relations is a key responsibility of the human resource department, with HR specialists responsible for the development of positive workplace relations and the implementation of policies that are fair and consistent for all employees.

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:

- administering day-to-day procedures, ensuring that employees receive correct wages and entitlements
- negotiating with employees and/or representatives (unions) in establishing enterprise agreements
- participating in the dispute resolution process
- responding to workplace relations queries from employees and management
- acting as an intermediary between employees/unions and senior management.



ACTIVITY 6.3

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

The Hardware House is one of Australia's largest retailers, with over 50000 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, The Hardware House 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 [Employee Relations] practitioner to join the senior HR team.

The successful applicant will be able to demonstrate a solid understanding of current IR [Industrial Relations] 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-term and long-term incentives reflective of the seniority of this role, will be negotiated. Applications can be emailed by clicking on the apply button below or posted to General Manager HR, 12 High Street, Melbourne VIC 3000.

- 1 **Define** each of the following terms used in the advertisement:
 - a employee relations
 - b negotiation skills
 - c communication skills
 - d teamwork.
- 2 **Explain** why the successful applicant will require negotiation, communication and teamwork skills.
- 3 **Outline** the types of tasks that the successful applicant will be expected to undertake.
- 4 **Describe** the role of a human resource manager in maintaining workplace relations.

Role of government

The federal government has an enormous influence on Australian workplace relations through the enactment of legislation. 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.

In the past, Australian governments have felt it necessary to intervene in the conduct of industrial relations. This has had significant repercussions for both the Australian economy and the general public. The *Fair Work Act 2009* was introduced to establish a national workplace relations system that sets employee minimum conditions and provides a legal framework for employer and employee relations.



Figure 6.8 House of Representatives, Parliament House, Canberra

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** is 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:
 - reviews the National Employment Standards
 - creates and maintains a safety net of minimum wages and working conditions for Australian employees covered by the 122 national industry awards, which are reviewed every four years

better off overall test (BOOT) a test used by the Fair Work Commission to assess registered agreements and see if employees are better off compared to the relevant award

- ratifies enterprise agreements, applying the **better off overall test** (BOOT)
- makes decisions regarding industrial actions such as strikes that can be determined as 'protected' or 'unprotected'
- provides assistance with the resolution of workplace disputes
- hears and determines unfair dismissal cases.

2 Fair Work Ombudsman has the role of promoting harmonious, productive and cooperative workplace relations and ensuring 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. Fair Work Inspectors are employed by the Ombudsman to investigate, resolve complaints and conduct workplace audits. They also bring court proceedings to enforce employee rights and obligations.

3 Fair Work Division of the Federal Court of Australia is located in all major cities and regional centres in Australia and is empowered to hear matters involving breaches of the *Fair Work Act 2009*, 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.



CASE STUDY 6.2

Landmark ruling: the Fair Work Commission finds delivery riders are employees



Globally, companies such as Uber, DiDi and Deliveroo have been at the centre of the debate as to whether a driver can be classified as a contractor or an employee.

Without defining workers as employees, these companies have successfully avoided providing workers with a wide range of entitlements and actively persisted in maintaining contractor classification. It took a test case to resolve the matter in Australia.

Diego Franco signed a supplier agreement in 2017 and worked regularly as a Deliveroo rider for the next three years. This was his primary source of income. He was dismissed for failing to deliver orders in a reasonable time frame. Diego Franco filed for unfair dismissal, claiming that he did not receive the opportunity to defend himself against the allegations nor had he been warned of any misconduct prior to the dismissal.

In May 2021, the Fair Work Commission found that the dismissal was 'without a valid reason' and the former Deliveroo driver was an employee, not a contractor. 'Mr Franco was not carrying on a trade or business of his own, or on his own behalf. Instead, he was working in Deliveroo's business as part of that business.'

The finding is the first of its type in Australia and has enormous implications for **gig workers**, who are now considered employees, entitling them to compensation for unfair dismissal. In future, gig businesses need to provide employees with warnings about their work, and workers have the right to defend themselves.

gig workers include independent contractors, online platform workers, on-call workers and temporary workers who enter into formal agreements to provide services to the business's clients

CASE STUDY ANALYSIS

- 1 **Outline** the case heard before the Fair Work Commission.
- 2 **Explain** why this case was heard by the Fair Work Commission.
- 3 **Describe** the findings and discuss their future implications for Australian employers.
- 4 Undertake internet research to find out if there has been any more action in further creating or establishing rights for gig workers.

REVIEW ACTIVITY 6.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Define** workplace relations. **Explain** why workplace relations are important in terms of business productivity and competitiveness.
- 2 **Describe** the involvement of the following workplace participants in the management of workplace relations:
 - a employees
 - b trade unions
 - c human resource managers
 - d employer associations
 - e government
 - f Fair Work institutions: Fair Work Commission, Fair Work Ombudsman and Fair Work Division of the Federal Court.



Figure 6.9 The Fair Work Commission is Australia's workplace tribunal.

6.2 Methods of determining wages and conditions of work

Learning intentions – at the end of this chapter section I will be able to:

6.2.1 Explain and compare the various methods of 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 11 minimum employment entitlements known as the National Employment Standards (NES). Employees in Australia are guaranteed NES as a baseline for their expected conditions regardless of their term of employment; however, casual employees have reduced entitlements. The Fair Work Commission added the eleventh standard with the aim to protect casual workers, who are able to request a more permanent employment arrangement, such as part-time or full-time, after 12 months working with the same employer.

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 as minimum standards of employment.

Table 6.1 National Employment Standards

National Employment Standards	
1 Maximum weekly hours	38 hours per week; an employer must not request or require an employee to work additional hours unless those hours are reasonable
2 Requests for flexible working arrangements	Employees who have worked for the same employer for 12 months can request a change in their working arrangements (e.g. changes in hours or location of work)
3 Offers and requests in becoming a permanent employee	Casual employees who have worked for their employer for 12 months should be offered the option to convert to part-time or full-time employment
4 Parental leave and related entitlements	Up to 12 months of unpaid leave per employee, as well as the right to request an additional 12 months of leave

(continued)

(continued)

5 Annual leave	4 weeks paid leave per year, plus an additional week for some shift workers
6 Personal/carer's leave/ compassionate leave/ family and domestic violence leave	Up to 10 days per year paid personal/carer's leave and up to 5 days per year for family and domestic violence situations
7 Community service leave	Unpaid leave for voluntary emergency management activities and up to 10 days of paid leave for jury service (after 10 days leave is unpaid)
8 Long service leave	An employee is entitled to long service leave after continuous service of between 7 and 15 years with the same employer
9 Public holidays	An entitlement to a day off on a public holiday, unless reasonably requested to work
10 Notice of termination and redundancy pay	Up to 4 weeks for notice of termination (employer also has right to pay this out; i.e. 'pay in lieu of notice') and up to 16 weeks redundancy pay
11 Fair Work Information Statement (FWIS) and Casual Employment Information Statement (CEIS)	Employers are to provide all new employees with the FWIS, which has information about the NES and the role of the Fair Work Ombudsman and Fair Work Commission. The CEIS has information about when an employer is to offer casual conversion to part-time or full-time permanent arrangements. An overview of the conditions not requiring an employer to offer permanency is also provided.

National minimum wage orders

The Fair Work Commission sets the national minimum wage, which is reviewed annually and comes into operation on 1 July, which is the start of the new financial year. The minimum wage applies to all Australian employees not covered by an award or enterprise agreement.

ACTIVITY 6.4

Visit 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?



Awards

award outlines the minimum pay rates and conditions of work for an entire Australian industry

enterprise agreement results from negotiations between an employer and union (employees) and is registered (ratified) by the Fair Work Commission, setting out the terms and conditions of employment at a workplace

Awards apply to employees depending on the industry they work in or the job that they do. 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
- 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 apply to specific businesses (employers). Enterprise agreements are reached via a process of enterprise bargaining (negotiation) between one or more employers and two or more employees with their chosen representatives, usually a trade union. Enterprise agreements can be tailored to meet the needs of employees at a given workplace. An enterprise agreement must be approved by a majority vote of employees affected. Once an enterprise agreement is in place, both employer and employees are legally bound to adhere to it.

The enterprise agreement must be registered with and ratified by the Fair Work Commission, which will ensure that the following criteria are met:

- 1 Employees are better off overall than under the relevant modern award.
- 2 No unlawful terms are included.
- 3 Individual flexibility arrangements are included to meet the genuine needs of employees.
- 4 The agreement runs for a specified time of up to four years.
- 5 A dispute settlement procedure (also referred to as grievance procedures) is included.

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.



Figure 6.10 An enterprise agreement is a legally binding contract between an employer and a group of employees regarding wages and conditions for a specified period.

ACTIVITY 6.5

Using your favourite search engine, find the Ramsay Health Care enterprise agreement from FairWork. Use it to answer the questions below.



- 1 **Identify** the main participants involved in the enterprise agreement that has been approved by the FWC.
- 2 **Explain** the conditions that had to be met in order for this enterprise agreement to have been approved by the FWC.
- 3 **Identify** the date the enterprise agreement was set to expire.

Individual employment contracts

An individual employee may sign a legal agreement with their employer to establish their rights, responsibilities and obligations, and wages and conditions. The individual contract will include details about the employee's position, hours required, benefits and details regarding the process of dispute resolution and termination. 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. Typically, employment contracts are offered for positions that expect high-level skills from employees, and may include clauses that aim to protect the business:

- **confidentiality clause** – prohibits employees from sharing sensitive information such as company secrets, product information or business strategies
- **non-solicitation clause** – prevents employees who have left the business from encouraging their co-workers to work for their new employer
- **non-compete clause** – prevents employees from working for direct competitors for a period of time that is outlined in the individual employment contract.

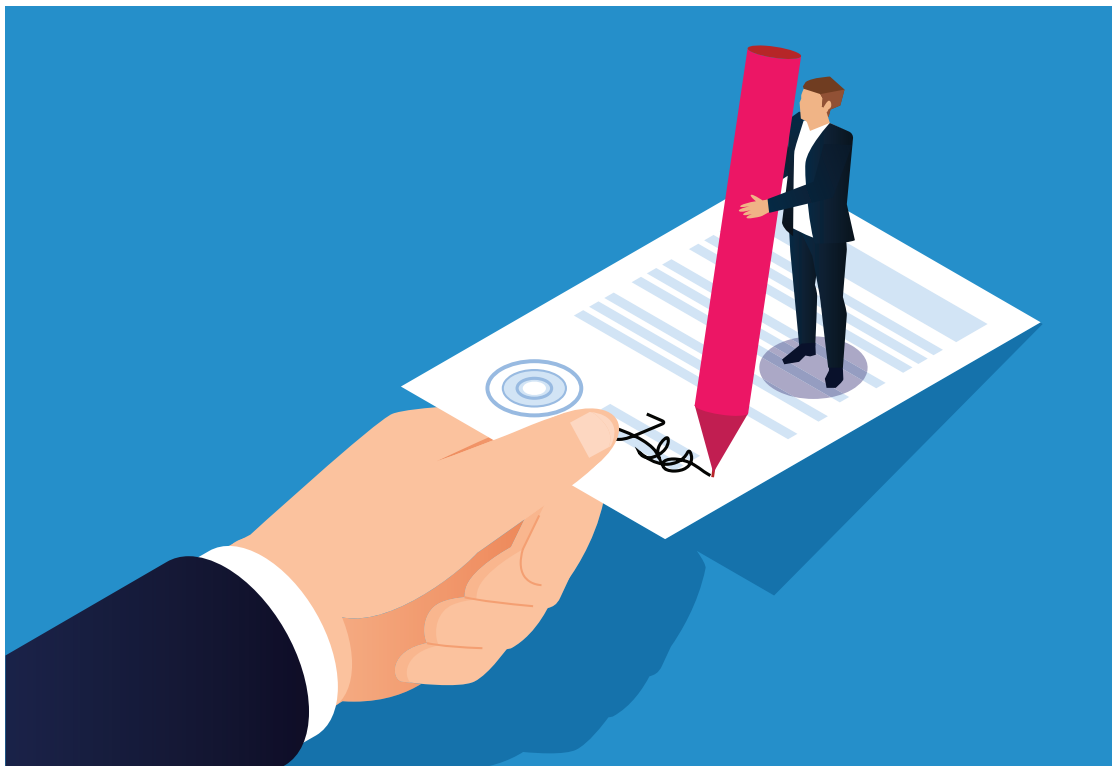


Figure 6.11 An employer may offer a potential employee a legally binding written contract.

Table 6.2 Characteristics of modern awards, enterprise agreements and individual employment contracts

Characteristics	Modern award (FWC)	Enterprise agreement (FWC)	Individual employment contract
Who makes them?	<ul style="list-style-type: none"> Fair Work Commission 	<ul style="list-style-type: none"> Employer/employees (collective group) or employer/trade union/employees 	<ul style="list-style-type: none"> Employer and individual employee
How do they arise?	<ul style="list-style-type: none"> Submissions to FWC by employer, unions and other peak bodies FWC determined 	<ul style="list-style-type: none"> Negotiated after enterprise bargaining between employee representatives and the employer Submitted to FWC for approval 	<ul style="list-style-type: none"> Negotiated between the parties
Content	<ul style="list-style-type: none"> Pay and working conditions (for employees in an industry or occupation) 11 minimum standards (NES) 	<ul style="list-style-type: none"> Pay and working conditions (for employees at a workplace) 11 minimum standards (NES) and additional conditions as negotiated National minimum wage order and modern awards make up a safety net 	<ul style="list-style-type: none"> Pay and working conditions for individual employee 11 minimum standards (NES) National minimum wage order and modern awards make up a safety net for employees
Duration	<ul style="list-style-type: none"> Ongoing, to be revised every four years 	<ul style="list-style-type: none"> Up to four years 	<ul style="list-style-type: none"> Determined through negotiation (e.g. one year)
Annual leave	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Period determined by employer or through negotiation



CASE STUDY 6.3

Beloved Sydney bookstore the unlikely battleground for union row that could transform workplace relations



Better Read Than Dead, a Sydney literary institution and a small business with just over a dozen staff, is facing industrial action from employees in the Retail and Fast Food Workers Union (RAFFWU) seeking an enterprise bargaining agreement.

More than 110 people, mostly Newtown residents and students at the University of Sydney, supported the Better Read workers at a rally in Camperdown. Emma Cooper, one of several current and former employees who spoke at the rally, said: 'We aren't asking for the world; we're asking for fair treatment for all workers.'

Another staff member, Jimmy Gardiner, stated that Better Read workers not only brought knowledge and skill to the role but they also had to adapt to processing web orders and click and collect, running book clubs on Zoom, and negotiating QR check-ins: 'We've had to radically rethink our jobs and at the same time to be rostered on fewer and shorter shifts.'

A junior buyer claimed that the business paid award wages, employed very few juniors, and she understood a number of casual staff had been offered permanent positions and turned them down.

The fight has broader implications because small businesses employ nearly half of Australian workers but are mostly non-unionised. Australia's industrial relations system technically gives all workers the right to collectively negotiate above-award conditions through an enterprise bargaining agreement, but pay and conditions at most small employers are set by the award.

[Retail and Fast Food Workers Union secretary Josh] Cullinan said if Better Read employees succeed it would set a 'landmark' cultural precedent for unionising small businesses. The union is also representing a former employee who was allegedly fired for his union organising efforts, and this will be heard in the Federal Circuit Court next year. Mr Cullinan said workers at Melbourne bookstore Readings, which is a much bigger business, were also trying to organise, and staff at other small retailers were closely watching the outcome.

Source: Adapted from Caitlin Fitzsimmons, 'Beloved Sydney bookstore the unlikely battleground for union row that could transform workplace relations', Sydney Morning Herald, 20 November 2021

CASE STUDY ANALYSIS

- 1 **Outline** the actions that led to this workplace dispute.
- 2 **Analyse** the benefits of paying award rates from the perspective of the business owners.
- 3 **Explain** the potential advantages for employees should an enterprise agreement be negotiated.
- 4 Suggest why this case has potential implications for many workers employed in small businesses.
- 5 Suggest which method for determining wages and conditions would provide the best outcome for Better Read Than Dead. **Justify** your opinion.



REVIEW ACTIVITY 6.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Outline** the significance of the NES for Australian workers.
- 2 **Describe** the following methods/means by which employee wages and conditions can be established:
 - a awards
 - b enterprise agreements
 - c individual employment contracts.
- 3 **Distinguish** between the following terms:
 - a National Employment Standards and an award
 - b enterprise agreement and individual employment contract.



Figure 6.12 When the time comes for you to sign your first employment contract, be sure to read the terms and conditions of it closely and be sure to check that you are being awarded correct award rates.

6.3 Workplace conflict and dispute resolution

Learning intentions – at the end of this chapter section I will be able to:

6.3.1 Describe the process to resolve disputes between an employer and employees

Disputes, or conflict, arise in all workplaces and for a range of reasons that are likely to impact the employer and employee. Issues may be related to pay and work conditions, such as the calculation of wages, poor conditions or safety standards. There may be concerns regarding the management of job security, such as retrenchment of employees, personality conflict or unrealistic expectations. Whatever is the issue, workplaces are expected to support the discussion, negotiation and resolution of disputes. It is essential for workplaces to work towards a speedy resolution or run the risk of increasing inefficiencies in the workplace resulting from employee dissatisfaction.

The National Employment Standards, awards and enterprise agreements must include a **dispute resolution procedure** that outlines the process for all parties to follow. It is highly recommended that a dispute resolution clause is included in individual employment contracts. This transparency provides certainty about the expectations and provides steps that ideally work towards resolving disputes.

Effective dispute resolution helps employers maintain good relationships with employees through dealing with disputes at an early stage. A dispute resolution procedure typically begins with the grievance being brought to the attention of management, usually the human resource manager. Disputes may be resolved through:

- a **negotiated** outcome, where a settlement is reached within the business
- a **mediated** outcome, where an independent mediator (agreed to by the disputing parties or a representative from the Fair Work Commission) assists the parties to talk about the issues and arrive at their own agreement
- **conciliation**, which may occur if mediation fails to produce agreement; this differs from mediation, as the conciliator is able to suggest solutions with both parties agreeing to the outcome
- an **arbitrated** outcome (arbitration), where an independent arbitrator at the Fair Work Commission determines how the dispute is to be resolved and makes a binding decision. Consequently, decision-making is taken away from both parties, which may apply further pressure to the employer–employee relationship in the future.

The role of 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.

dispute resolution procedure a formal process that enables employees to complain about matters that affect them and their work

negotiation where the matter is settled within the business

mediation where an independent third party is required to support discussions

conciliation where 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 in the dispute, then makes a decision based on these arguments that is legally binding on both parties



Figure 6.13 Strikes and protests are a powerful form of industrial action.

Protected and unprotected action

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 enterprise agreement is in the process of being negotiated (enterprise bargaining period). Employees could be seeking a new set of claims, which the employer may not wish to negotiate any further. 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. Approval by the Fair Work Commission provides immunity for employees and unions from civil action by their employers.

Any industrial action that does not undertake this process is referred to as unprotected industrial action, which is unlawful. Employees and their bargaining representatives can be sued for damages as a result of the loss incurred by business during the strike action.

Table 6.3 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

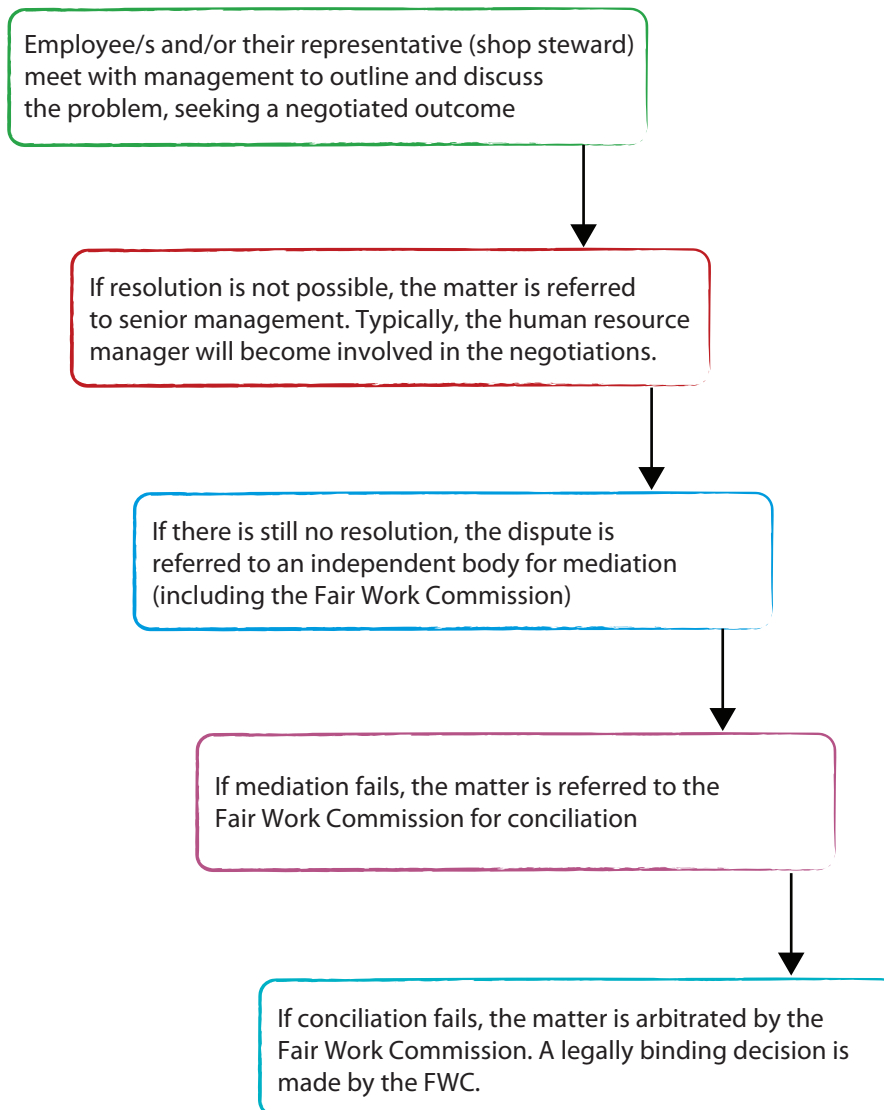


Figure 6.14 Typical process of dispute resolution. The *Fair Work Act 2009* requires a dispute resolution clause (grievance procedure) to be included as part of the implementation of the NES, awards and enterprise agreements.

ACTIVITY 6.6

- 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 **Identify** 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.





CASE STUDY 6.4

Fair Work Commission rules BHP vaccine mandate unlawful due to lack of consultation



Approximately 50 workers were stood down at BHP's Mt Arthur open-cut coalmine in the Hunter Valley because they failed to meet the conditions stipulated by management.

The company created a COVID-19 vaccine mandate requiring workers at the mine to have had at least one dose by 9 November and to be fully vaccinated by the end of January 2021.

The dispute between management and the Construction, Forestry, Maritime, Mining and Energy Union escalated to a hearing by the full bench of the Fair Work Commission. Iain Ross, the commission's president, found that the vaccine mandate was not a 'lawful or reasonable direction' due to management's

failure to consult with employees. Despite the valid range of reasons to implement a vaccine policy, under the Work Health and Safety Act, management is obliged to consult with employees over entry to the open-cut mine.

According to Peter Jordan, of the CFMEU, BHP was 'arrogant' in making a mandate 'without genuine workforce consultation or the backing of a public health order'.

BHP is the first Australian company to have a vaccine mandate overturned.

Source: Adapted from 'Fair Work Commission rules BHP vaccine mandate unlawful due to lack of consultation', The Guardian, 3 December 2021

CASE STUDY ANALYSIS

- 1 **Outline** the role of management, the unions and the Fair Work Commission in this dispute.
- 2 **Explain** why this case was heard before the Fair Work Commission.
- 3 **Analyse** the future implications for Australian employers regarding the implementation of a vaccine mandate.



ACTIVITY 6.7

In a table, **outline** four types of industrial action that employees could take during a time of industrial dispute. **Describe** one advantage and one disadvantage of each method. We have done one for you as an example. Can you outline four other types of industrial action?

Industrial action	Advantage	Disadvantage
<i>Passive resistance – lack of cooperation by employees to complete tasks</i>	<i>Indicates that employees are unsettled and there is an emerging issue</i>	<i>Can be difficult for an employer to determine the exact issue</i>

REVIEW ACTIVITY 6.3

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** the benefits of having grievance (dispute resolution) procedures included in the NES, awards and enterprise agreements.
- 2 **Describe** a typical process for dispute resolution.
- 3 **Distinguish** between mediation and arbitration.
- 4 **Describe** the role of the Fair Work Commission in industrial relations. Include in your response the role in determining protected and unprotected action.

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.



Figure 6.15 Workplace conflict can arise from a variety of issues.

Chapter 6 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 3 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Workplace relations	Unions	Fair Work Commission
Award	National Employment Standards	Employer association
Enterprise agreement	Dispute resolution procedure	Individual contracts
Mediation	Conciliation	Arbitration

Examination preparation

Splash, a franchise network of nine swimming schools in Victoria, is accused of underpaying 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 2018 and 2020, impacting 500 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 (AWU) 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 Splash did not pass the better off overall test.

- 1 Describe** the role of the human resource manager and the Fair Work Commission in workplace relations. **(4 marks)**
- 2 Explain** what the better off overall test is and why this should be upheld in an enterprise agreement. **(3 marks)**
- 3 Discuss** the advantages and disadvantages of setting wages and conditions through each of the following for both employees and employers:
 - enterprise agreement
 - modern award. **(8 marks)**
- 4 Describe** the role of the Fair Work Commission in working towards resolving the workplace issues. **(4 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
6.1 Key participants in workplace relations	6.1.1 Describe the role of key participants in workplace relations	Activity 6.1 Activity 6.2: Q1–2 Activity 6.3: Q1–4 Case study 6.1: Q1–4 Case study 6.2: Q1–4 Review activity 6.1: Part 1 & Part 2 (Q1–2) Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
6.2 Methods of determining wages and conditions of work	6.2.1 Explain and compare the various methods of determining wages and conditions of work	Activity 6.4: Q1–2 Activity 6.5: Q1–3 Case study 6.3: Q1–5 Review activity 6.2: Part 1 & Part 2 (Q1–3) Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>
6.3 Workplace conflict and dispute resolution	6.3.1 Describe the process to resolve disputes between an employer and employees	Activity 6.6: Q1–3 Activity 6.7 Case study 6.4: Q1–3 Review activity 6.3: Part 1 & Part 2 Examination preparation: Q3	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

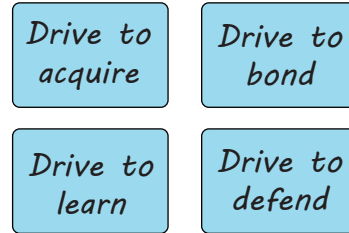
Unit 3 Area of Study 2 review Conceptual summary



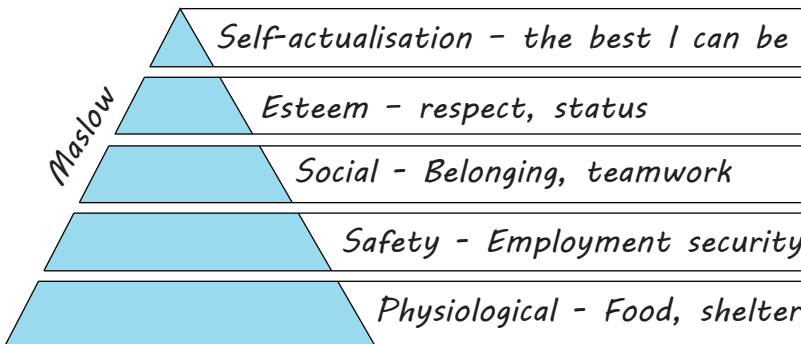
Staff help businesses to achieve their goals

- ✓ To make a profit
- ✓ To improve effectiveness
- ✓ To improve efficiency
- ✓ To increase market share
- ✓ To meet shareholder expectations
- ✓ To meet a market need
- ✓ To meet a social need

Lawrence & Nohria FOUR DRIVE THEORY

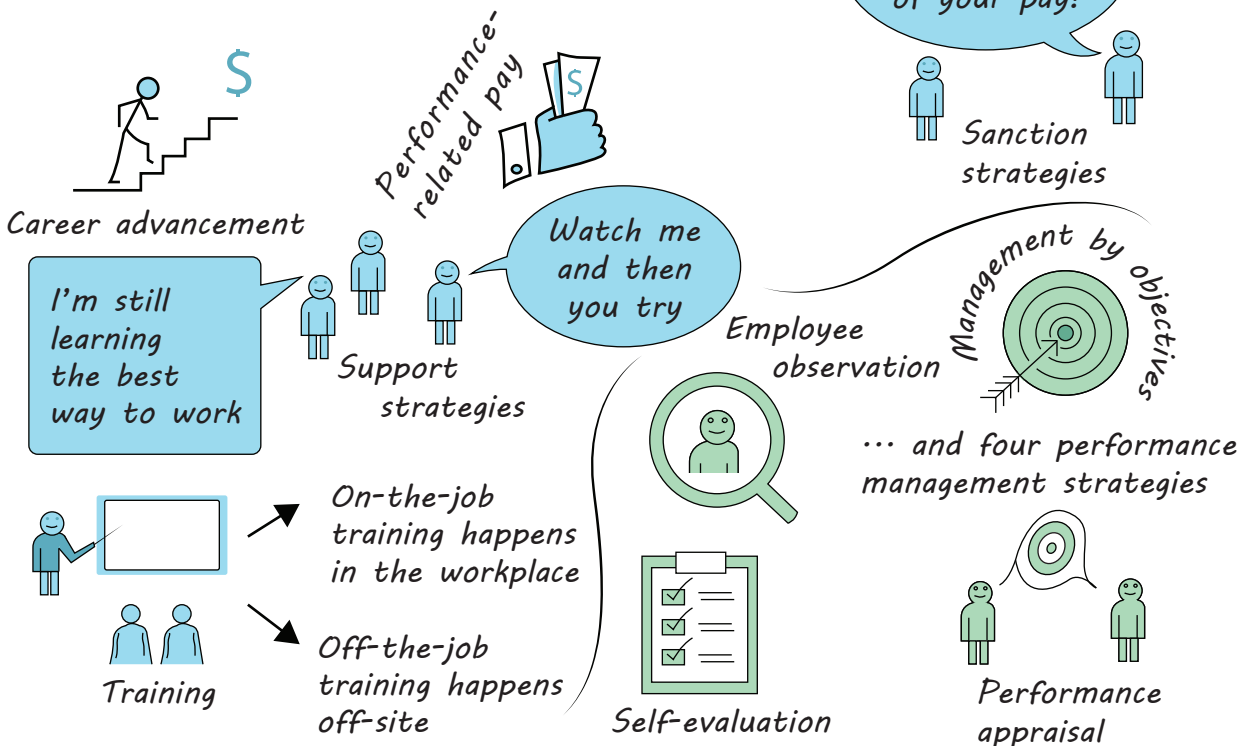
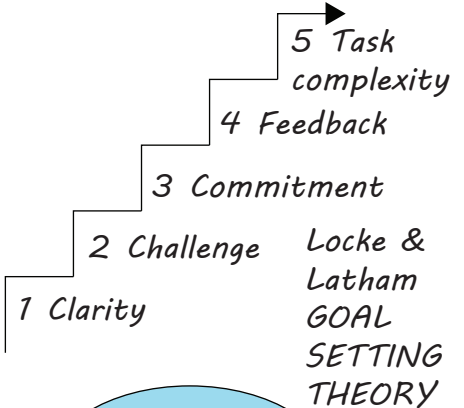


We look at three theories of staff motivation ...

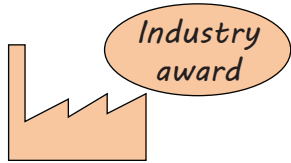


HIERARCHY OF NEEDS

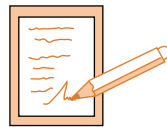
... five strategies for motivating staff...



Pay and conditions are outlined in employment contracts



Minimum pay and conditions for an entire industry



Individual agreement

- Applies to a single employee
- Above award



Enterprise agreement

- Applies to a single workplace
- BOOT is applied

Contracts can be terminated by the employer ...

REDUNDANCY



The job no longer exists

You're fired!



DISMISSAL



RESIGNATION

... or by the employee

RETIREMENT

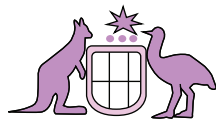


Transition considerations

- Redundancy pay
- Outplacement services

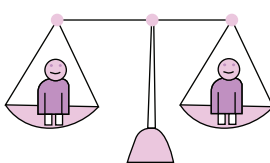
Entitlement considerations

- Leave pay
- Notice period



AUSTRALIA Fair Work Commission

Arbitration

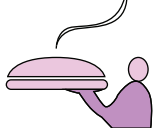


- Both sides present their case
- Arbitrator decides



Unions

// advocate for



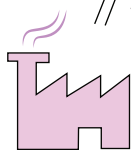
Employees



Australian Retailers Association

Employer associations

// support

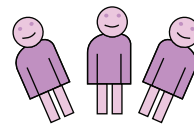


Employer



HR manager

(works for the employer to get the best from workers)



Mediation

Mediation helps the parties to reach agreement



Key knowledge summary: Unit 3 Area of Study 2

Key knowledge	Summary
<ul style="list-style-type: none"> The relationship between managing employees and business objectives 	<ul style="list-style-type: none"> 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 timely/time-bound. 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.
<ul style="list-style-type: none"> 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) 	<ul style="list-style-type: none"> 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: physiological, safety, social, self-esteem and 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 that 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.
<ul style="list-style-type: none"> Motivation strategies including performance-related pay, career advancement, investment in training, support strategies and sanction strategies 	<ul style="list-style-type: none"> Motivation strategies that can lead to a more motivated workforce are performance-related pay, career advancement, investment in training, providing support strategies and sanction strategies. 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 are 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.

Key knowledge	Summary
<ul style="list-style-type: none"> Advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Training options including on-the-job and off-the-job training, and the advantages and disadvantages of each 	<ul style="list-style-type: none"> 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 and 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 and role plays. There are advantages and disadvantages attached to this approach to training.
<ul style="list-style-type: none"> Performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation 	<ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Termination management including retirement, redundancy, resignation and dismissal, entitlement considerations and transition considerations 	<ul style="list-style-type: none"> Termination management involves making decisions to terminate (end) an employment contract and relationship with an employee. Alternatively, it can also mean managing the decisions that need to be made when the employee terminates the relationship with the employer. Voluntary termination occurs when an employee ends the employment relationship either by resigning or retiring from a business. Involuntary termination occurs when the employer ends the employment relationship due to making the employee's position redundant or dismissing them due to unsatisfactory work performance and/or illegal behaviour. Termination, whether voluntary or involuntary, results in impacting a business in both positive and negative ways. Legal procedures exist to ensure that workers receive their due notice of termination, entitlements and severance pay if made redundant. Employees have the right to have their termination reviewed by the Fair Work Commission if they believe their employment was terminated for harsh, unjust or unreasonable reasons. When an employment relationship ends, employees are entitled to receive any remuneration (wages and salary) owing and accrued annual leave. If they have worked at the business for a long period of time, they may also receive their long service leave entitlements.

Key knowledge	Summary
	<ul style="list-style-type: none"> • 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.
<ul style="list-style-type: none"> • The roles of participants in the workplace including human resource managers, employees, employer associations, unions and the Fair Work Commission 	<ul style="list-style-type: none"> • Workplace relations is the relationship and interplay that occurs between an employer and their employees. • The aim of workplace relations is to optimise the working relationship so that it results in an increase in productivity and business competitiveness. • The main participants in Australian workplace relations include: <ul style="list-style-type: none"> — Employees – are able to have direct negotiations with their employers, which may suit small workplaces and individual contracts. — Unions – represent their members in a range of industrial matters, including negotiation during the enterprise bargaining process. — Human resource management – acts as an intermediary between employees/unions and senior management in workplace relations, such as negotiating enterprise agreements. — 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. — Government – legislates. A wide range of laws have been passed that directly affect the employer–employee relationship, such as taxation, occupational health and safety, and equal opportunity. — Fair Work institutions: <ul style="list-style-type: none"> ▪ Fair Work Commission – Australia’s national workplace relations tribunal or industrial court ▪ Fair Work Ombudsman – promotes harmonious, productive and cooperative workplace relations and ensures that all workplaces are in compliance with Australian workplace laws ▪ Fair Work Division of the Federal Court – hears matters involving breaches of the <i>Fair Work Act 2009</i>, including unfair dismissal.
<ul style="list-style-type: none"> • Awards and agreements as methods of determining wages and conditions of work 	<ul style="list-style-type: none"> • National Employments Standards are determined by the Fair Work Commission and are the baseline or minimum requirements that all Australian workers are entitled to. • Australian employees’ wages and conditions may be determined via an award, enterprise agreement or individual workplace contract. <ul style="list-style-type: none"> — An award is a basic safety net of wages and conditions established by the Fair Work Commission that applies to a specific industry. There are 122 awards covering industries with national applications. — Enterprise agreements are negotiated by employees/unions and employers, covering the employees of employers taking part in the negotiations.
<ul style="list-style-type: none"> • An overview of the dispute resolution process including mediation and arbitration 	<ul style="list-style-type: none"> • A workplace agreement includes a dispute resolution procedure (grievance procedure) to resolve conflicts within the workplace. • Typical dispute resolution procedure: <ul style="list-style-type: none"> — Employee (potentially with their union representative) informs management about the issue, seeking an inhouse negotiated agreement. — If there is no resolution, an independent third party can be called in to assist in mediation. — If mediation fails, Fair Work Commission is called upon to offer conciliation. — Arbitration will be required if the matter is not resolved by conciliation. • Industrial action is only permitted during the renegotiation or bargaining period (protected period) of a collective agreement.

Sample examination questions and advice

Unit 3 Area of Study 2: Human resource management

In this Area of Study, students investigate considerations for the effective management of employees to ensure that business objectives are achieved. Students consider employee motivations in terms of Maslow's Hierarchy of Needs, Locke and Latham's Goal Setting Theory, and Lawrence and Nohria's Four Drive Theory. Using these theories of motivation and motivation strategies, students propose and justify possible strategies for employment management in contemporary business case studies from the past four years. Students study an overview of workplace relations, including the main participants and their roles in the dispute resolution process.

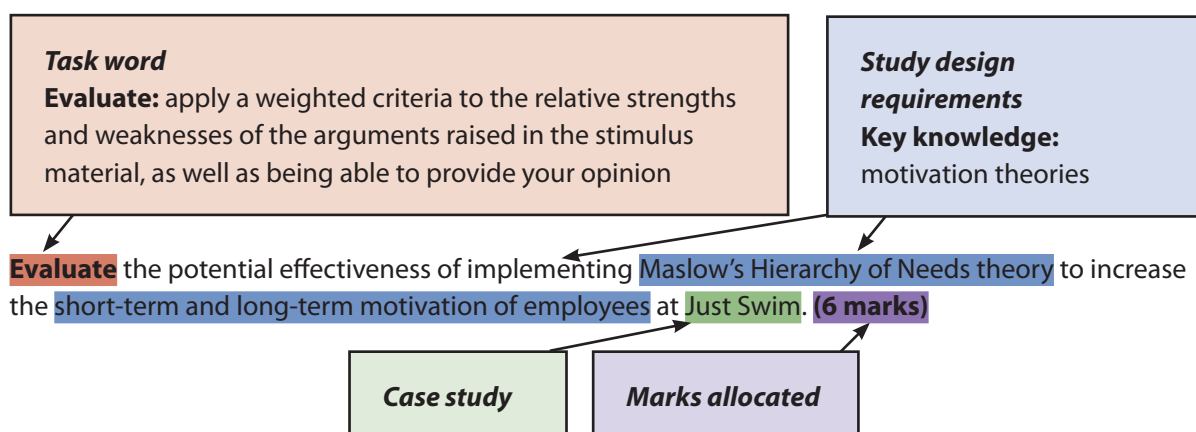
Outcome 2 requires students to be able to explain theories of motivation and apply them to a range of contexts and analyse and evaluate strategies related to the management of employees.

Question 1

Just Swim is an established Victorian swimming school with over 10 locations across metropolitan and country Victoria. The human resource manager has recently reported that staff absenteeism and staff turnover are increasing. A recent staff survey indicates low staff morale.

Evaluate the potential effectiveness of implementing Maslow's Hierarchy of Needs theory to increase the short-term and long-term motivation of employees at Just Swim. **(6 marks)**

Extended response question – let's unpack it



Hints:

- **Evaluate** requires an analysis of the strengths and weaknesses (or advantages and disadvantages).
- An evaluate question requires a student to conclude with an opinion.
- The case study is explicit in the question and requires the student to tailor their response to suit the case study.
- In beginning the response, a student should also describe the key features of Maslow's Hierarchy of Needs.

A possible answer to Question 1 might be:

Sample response

Maslow's Hierarchy of Needs theory is based on the idea that employees are most motivated when their current needs are being met. Lower-order needs are extrinsic needs, such as physiological and safety needs. Employees then require their intrinsic needs, such as social, self-esteem and self-actualisation, to be satisfied.

An advantage in implementing Maslow's theory is that the human resource manager will be able to increase employee motivation by implementing strategies that best fit the needs of the individual employee. For some employees this may mean offering job security (meeting the needs for safety). Other employees may be identified as requiring their self-esteem needs to be met.

A significant disadvantage in implementing Maslow's theory is that individual consultation is time-consuming. Human resource managers are also expected to meet business objectives, and this may override the need to satisfy and motivate individual employees.

Overall, implementing Maslow's Hierarchy of Needs theory will assist with the short-term motivation of employees at Just Swim, as employees are only motivated until their need is met. The human resource manager will need to consider alternative strategies if they wish to motivate employees in the long term.

Marking guide:

- 2 marks for identifying two positive features in implementing Maslow's theory
- 2 marks for identifying two negative features that may occur when implementing Maslow's theory
- 2 marks for final comment and direct link to the case study.

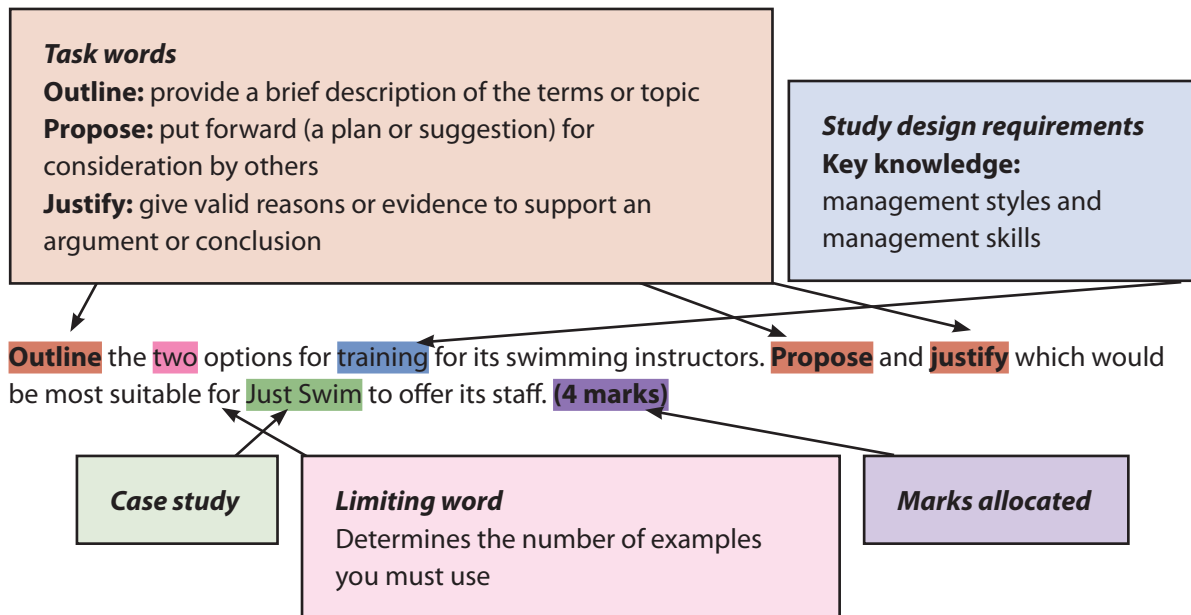
Note: Six-mark questions are usually holistically marked and it is important therefore that students check that they have answered all parts of the question.

Question 2

In aiming to improve the training of instructors, Just Swim is considering a training package offered at Monash University's Aquatic Complex for swimming instructors.

Outline the two options for training for Just Swim's swimming instructors. **Propose** and **justify** which would be more suitable for Just Swim to offer its staff. **(4 marks)**

Extended response question – let's unpack it



Hints:

- **Outline** requires students to provide a brief description of the two training options – on-the-job and off-the-job training.
- **Propose** means to put forward a suggested option for Just Swim to consider.
- **Justify** requires reasons to be given for the training option selected as most suited to Just Swim.

A possible answer to Question 2 might be:

Sample response

On-the-job training involves the learning of skills and knowledge from another employee within the business, whereas off-the-job training refers to learning skills from a professional instructor outside the business.

On-the-job training would be the more suitable training option for Just Swim as it utilises the knowledge and experience of senior employees. It offers real experiences for trainees, who may be young and require further monitoring and mentoring to improve their confidence and skills. On-the-job training also allows both the trainer and trainee to be productive and is cost-effective.

Note: A student could also propose and justify off-the-job training.

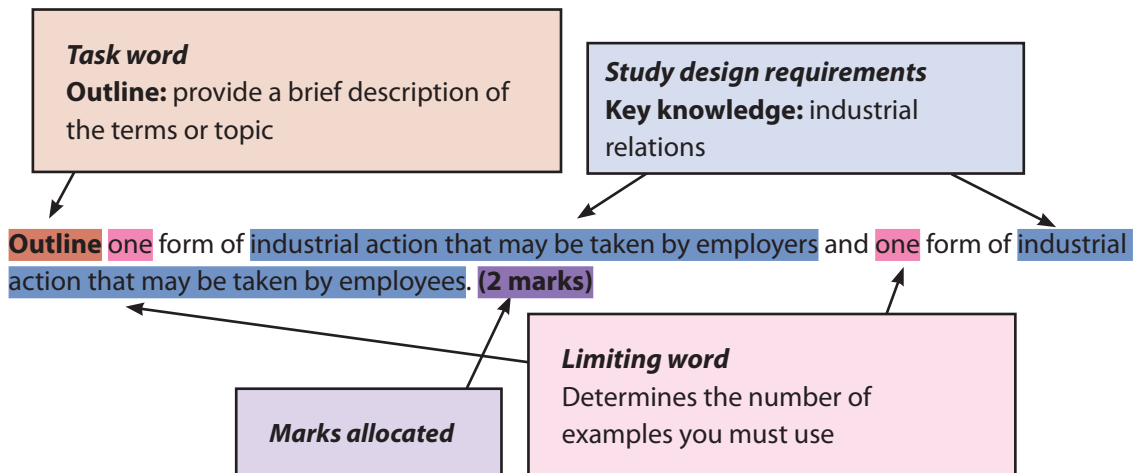
Marking guide:

- 1 mark for a brief description of on-the-job training
- 1 mark for a brief description of off-the-job training
- 2 marks for proposing and justifying which training option would be more suited and reasons why.

Question 3

Outline one form of industrial action that may be taken by employers and one form of industrial action that may be taken by employees. (2 marks)

Extended response question – let's unpack it



Hints:

- To demonstrate the task word **outline** requires a brief overview of the concept.
- This question also contains a limiting word that limits the amount that is to be written. For this question, just *one* form of action by an employer and *one* form of action by an employee are required. Should a student write more than one, only the first form of action will be marked.

A possible answer to Question 3 might be:

Sample response

A 'lock out' is a form of industrial action that may be taken by employers. It involves refusing employees entry to a building to perform their work.

A 'boycott' is a form of industrial action that may be taken by employees. It involves employees refusing to do part of their job – for example, refusing to complete a high-value job until their employer agrees to a pay increase.

Marking guide:

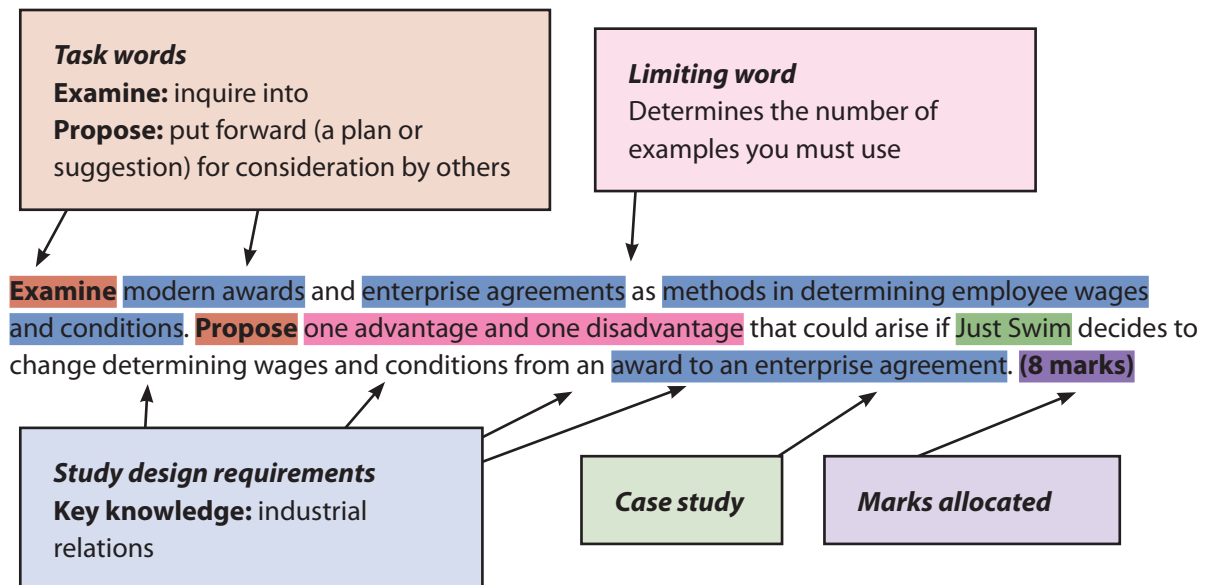
- 1 mark for outlining one form of industrial action that can be taken by employers
- 1 mark for outlining one form of industrial action that can be taken by employees.

Note: To gain full marks for this question, one of the two selected types of industrial action must be suited to an employer and the other must be suited to an employee.

Question 4

Examine modern awards and enterprise agreements as methods in determining employee wages and conditions. **Propose** one advantage and one disadvantage that could arise if Just Swim decides to change determining wages and conditions from an award to an enterprise agreement. **(8 marks)**

Extended response question – let's unpack it



Hints:

- **Examine** requires you to present detailed information regarding modern awards and enterprise agreements.
- **Propose** requires a suggestion to be put forward.
- This question also contains a limiting word that limits the amount that is to be written. For this question, just *one* advantage and *one* disadvantage are to be proposed. Should a student write more than one, only the first advantage or disadvantage will be marked.
- The advantage and disadvantage must apply to Just Swim or no marks will be awarded.

A possible answer to Question 4 might be:

Sample response

Awards and enterprise agreements determine wages and conditions for employees. An award is set by the Fair Work Commission and determines the wages and conditions for employees in a particular industry. An award applies to industry workers across Australia, with all working in the industry receiving the same pay and conditions. The Fair Work Commission reviews each industrial award every four years and takes into account the views of the relevant trade union and employer associations in its final determination in establishing the wages and conditions for a particular industry for a further four years.

An enterprise agreement also determines wages and conditions for employees, but these are created at a local level with direct negotiations between an employer and employees at the workplace. Employees are expected to be 'better off overall' when working under an enterprise agreement, which must be approved by the Fair Work Commission. An enterprise agreement applies only to the employees at the given workplace for a period of four years. When a new enterprise agreement needs to be negotiated, trade union representatives typically represent employees during the negotiations with employers.

An advantage of an enterprise agreement is that there is more flexibility to negotiate wages and conditions most suited to the particular workplace. As employees receive higher wages and conditions when compared to those receiving award rates, the long-term motivation of employees at Just Swim will improve as employees will feel valued. A disadvantage of enterprise agreements is that the negotiation process can take a great deal of time before reaching a final agreement, and this can negatively impact on productivity as well as workplace culture.

Marking guide:

- 3 marks for detailed information regarding modern awards
- 3 marks for describing how awards and enterprise agreements are different
- 1 mark for describing one advantage that may apply to the case study
- 1 mark for describing one disadvantage that may apply to the case study.

Note: To gain full marks for this question, a detailed response regarding modern awards and enterprise agreements is expected.



AREA OF STUDY 3 OPERATIONS MANAGEMENT

AREA OF STUDY DESCRIPTION

The production of goods and services is a core objective of businesses. Effective management of the process of transforming inputs into outputs is vital to the success of a business, both in terms of maximising the efficiency and effectiveness of the production process and meeting the needs of stakeholders. In this area of study students examine operations management and consider the best and most responsible use of available resources to produce a quality final good or service in a competitive, global environment.

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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 and key skills outlined in Area of Study 3. [These are listed at the start of each chapter.]

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CHAPTERS IN THIS AREA OF STUDY

7 An introduction to operations management

8 Optimising operations

9 Corporate social responsibility and global issues in operations management

CHAPTER 7

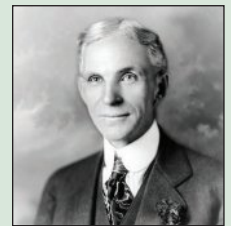
An introduction to operations management

'There is one rule for the industrialist and that is: Make the best quality of goods possible at the lowest cost possible, paying the highest wages possible.'

Henry Ford (1863–1947)

About the author:

Henry Ford was the founder of the Ford Motor Company, a highly successful American industrialist credited with developing the world's first car assembly line.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about manufacturing and discuss your response to the following questions:

- 1 Explain** why a manufacturer would aim to create goods at the lowest possible price.
- 2 Would 'paying the highest wages possible' suffice to motivate employees? **Discuss.**
- 3** Could these concepts related to manufacturing be applied to other industries? **Explain.**

CHAPTER OVERVIEW

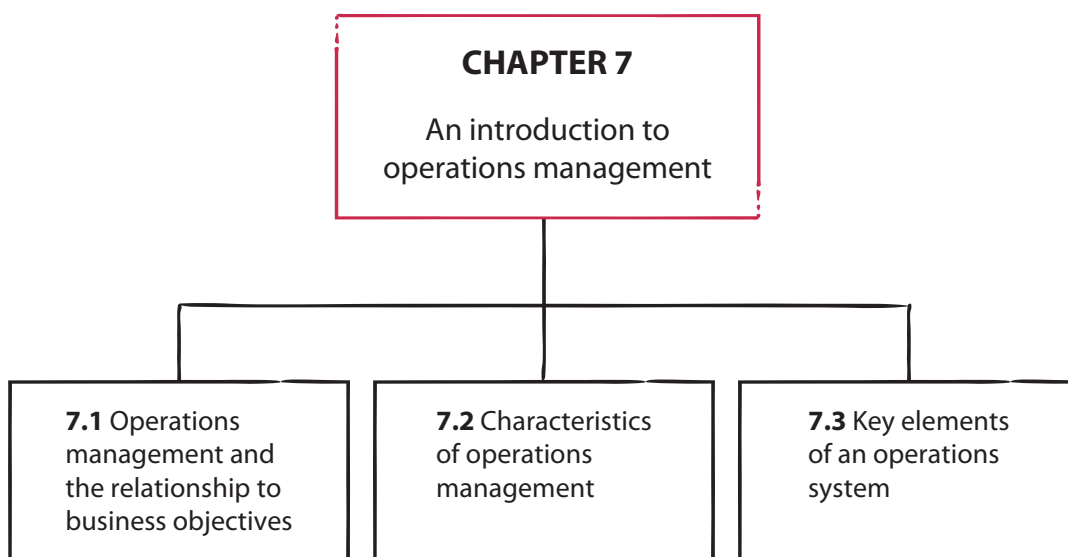
In this chapter, you will be introduced to operations management and its importance in the optimisation of business performance with efficiency and effectiveness. The characteristics of manufacturing and service industries are compared. The key elements of an operations system are introduced and analysed.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
The relationship between operations management and business objectives	7.1 Operations management and the relationship to business objectives 7.1.1 Define and describe key terms 7.1.2 Describe the relationship between operations management and business objectives 7.1.3 Apply operations management knowledge to practical/simulated situations
Characteristics of operations management within both manufacturing and service industries	7.2 Characteristics of operations management 7.2.1 Identify and compare the features of manufacturing goods and services
Key elements of an operations system: inputs, processes and outputs	7.3 Key elements of an operations system 7.3.1 Describe the key elements of an operations system 7.3.2 Apply operations management knowledge to practical/simulated situations

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What's ahead



7.1 Operations management and the relationship to business objectives

Learning intentions – at the end of this chapter section I will be able to:

7.1.1 Define and describe key terms

7.1.2 Describe the relationship between operations management and business objectives

7.1.3 Apply operations management knowledge to practical/simulated situations

operations
a series of procedures and processes undertaken in order to create outputs

operations management
involves overseeing the process required in the production of goods and services



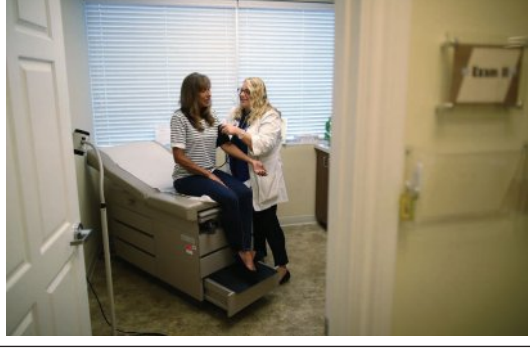

‘Business operations’ refers to the series of processes that create and deliver goods and services to customers. It involves the effective planning, coordination and production of goods and services. The **operations** of a business are its core function, or purpose. **Operations management** includes the management of resources and functions within a business to achieve efficient and effective output of finished goods or services.

Operations management can be applied to all industry sectors of the Australian economy. Primary sector industries incorporate operations management in extracting natural resources and raw materials from mining, agriculture, forestry and fishing industries. The manufacturing sector, employing approximately 7 per cent of the Australian workforce, applies operations management in the transformation of resources into products. Australia’s economy has increasingly shifted towards creating services in the tertiary and quaternary sectors, which currently employ over 85 per cent of Australia’s total workforce.

Figure 7.1 Operations is the actual work done by a business in preparing goods and services for sale.



Table 7.1 Industry sectors: primary and secondary sector industries generally create goods, whereas tertiary and quaternary sector industries offer services.

	<p>Primary sector industries extract or harvest products or raw materials from the natural environment</p> <ul style="list-style-type: none"> • Mining • Agriculture • Fishing and hunting <p>Primary products are known as commodities</p>
	<p>Secondary/manufacturing sector industries take raw materials and create products through the production process</p> <ul style="list-style-type: none"> • Construction • Engineering • Food industry <p>Manufactured products are known as goods</p>
	<p>Tertiary/services sectors produce intangible products known as services</p> <ul style="list-style-type: none"> • Retail • Tourism • Banking • Media • Health
	<p>The quaternary sector provides information and knowledge</p> <ul style="list-style-type: none"> • Education • Financial services • Information technology • Research and development

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. For example, the human resource department must support operations management through ensuring that sufficiently trained, skilled and motivated workers are available to meet operational needs.

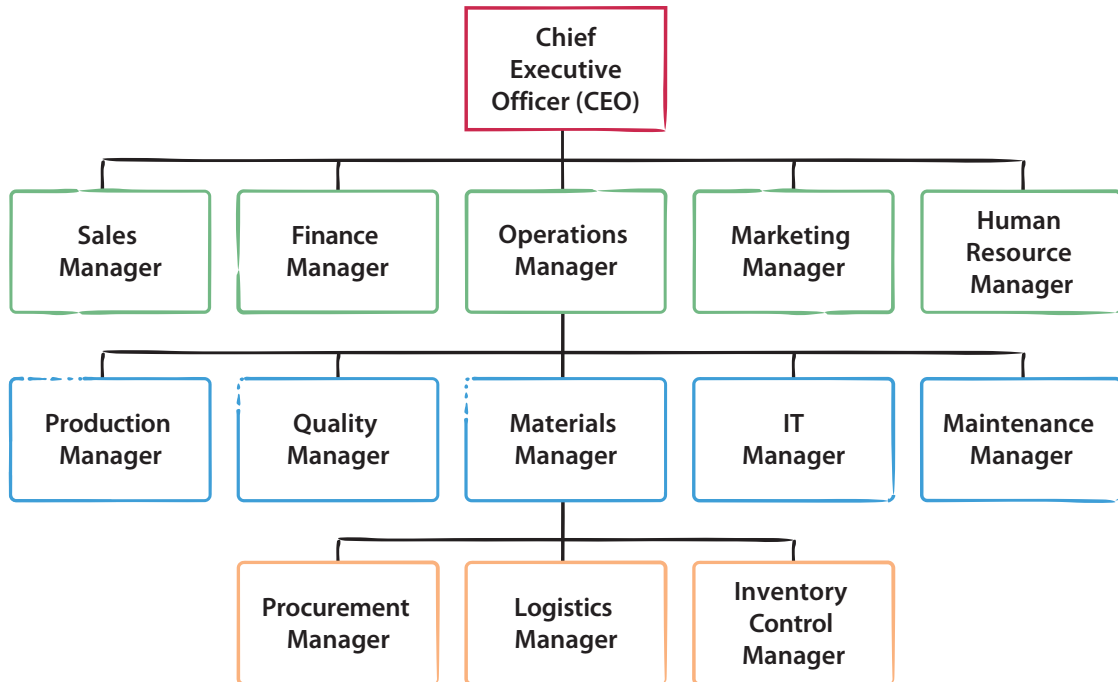


Figure 7.2 Functional organisational structure chart

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**, which is essential in the planning and design of the operations system, and includes design and layout, product design and development, inventory planning and control, and the management of quality
- **tactical and operational decision-making**, which includes the development of plans, processes and methods of production control, and making decisions on day-to-day management of the operations system (e.g. stock levels, work rosters, production schedules, maintenance).

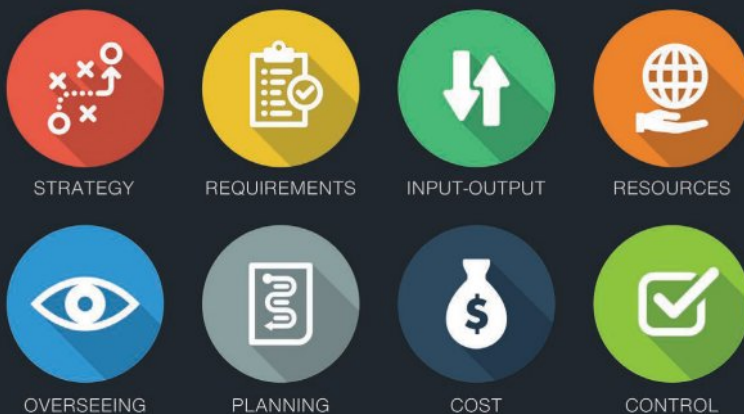


Figure 7.3 An operations manager oversees all aspects of the operations system in order to achieve the objectives of the business.

Specific aspects of operations management

- **Materials management** – managers estimate the quantity of products required and calculate the capacity requirements of the facility; this includes managing materials as they are received into store as required to ensure availability for production.
- **Production planning** – determine how goods are to be produced (production process), where production will take place (site selection), and the layout of manufacturing facilities.
- **Quality control** – determine and implement quality procedures and standards and ensure that quality is maintained.
- **Maintenance/engineering** – ensure that equipment is in working order and regularly maintained.

The relationship of operations management to achievement of business objectives

It is crucial that the operations system is aligned with a business's goals and objectives. It directly impacts on revenue, costs, quality of output and ultimately profits. The operations system will aim to produce the best quality goods for the lowest price and provide a business with the opportunity to achieve several business objectives.

Any business, regardless of whether it is a manufacturer of goods or a service provider, must aim to improve competitiveness by positioning itself to sell goods and services with better value than its competitors. To maximise opportunities to create profit and maintain competitiveness, businesses are required to manage the operations system efficiently. When a business is competitive, it is likely to meet the business objectives of increased sales and market share. Shareholders will have their expectations met with an increase in value of shares and will receive larger dividends.

Table 7.2 The direct relationship between operations management and the achievement of business objectives

Operational management strategies	Overall impact on operations	Business objectives
Introduce technology	Increases efficiency and effectiveness	Increased profitability
Materials management	Reduces levels of inventory	Increased efficiency
Improve quality	Reduces wastage and defects	Increased productivity and effectiveness
Waste minimisation	Reduces costs and meets community expectations	Fulfil a market/social need, improved effectiveness

Developing a **competitive advantage** sets a business apart from its competitors and offers improved customer value. 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.

Operations management aims to maximise productivity (efficiency) and quality (effectiveness) through the operations system. As operations transforms inputs into finished products, it is essential that costs of production are reduced (efficiency) and planning maximises the quality of the final product or service (effectiveness) to achieve business objectives. Typically, a business will strive 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

Creative Cabinets is a start-up business run by Lee Smyth and Richard Huang. Lee and Richard believe that there is a market for furniture that is both customised and quality made. They are in the process of developing a five-year strategic plan that will clearly establish their business objectives.

- 1 **Propose** and **justify** two business objectives likely to be established by Creative Cabinets.
- 2 **Identify** the most suitable operational strategy that will support the achievement of each objective.
- 3 Suggest one strategy that could be implemented to provide a competitive advantage.

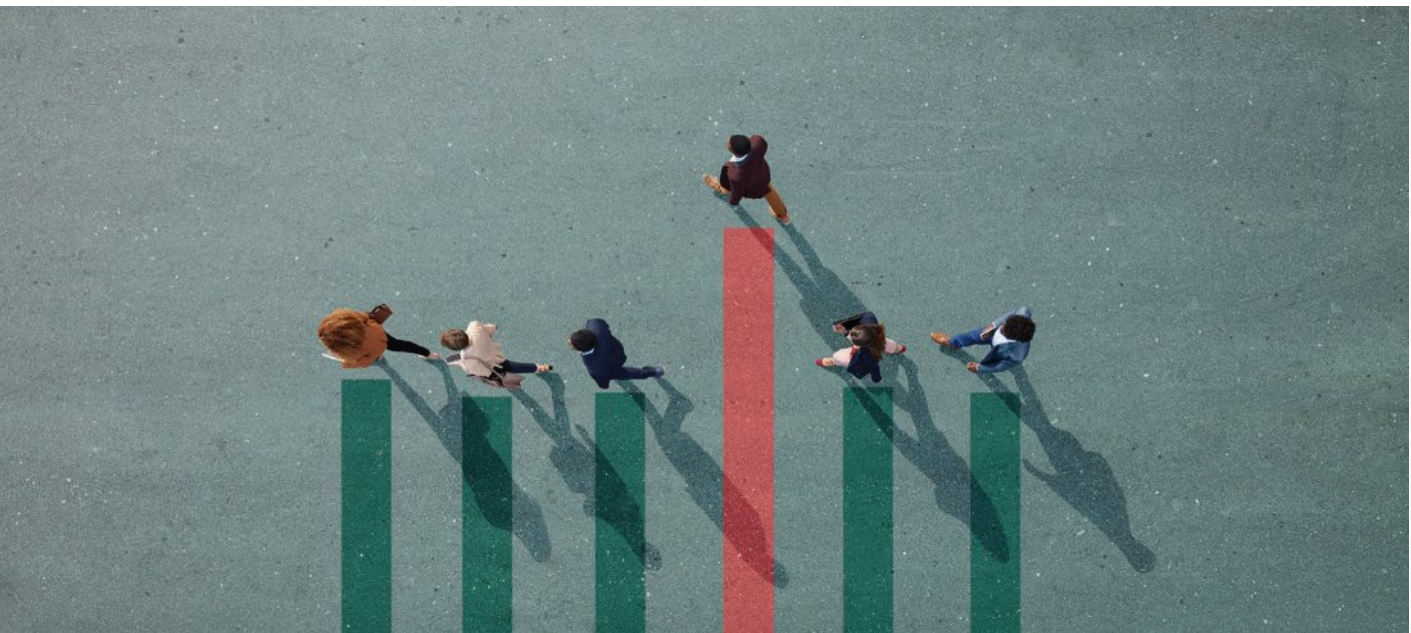


Figure 7.4 Optimising an operations system is vital for maintaining business competitiveness.

Measuring operations efficiency

The primary objective of operations management is to use all required resources as efficiently as possible. Effective operations systems establish reliable supply chains, apply technology where it will be most beneficial, determine materials management strategies and minimise waste and defects to reduce costs. When combined with quality management, these important strategies produce a superior final product or service.

Productivity can affect final cost, profitability and competitiveness. Improved productivity effectively reduces the cost of production and creates higher volumes of output. There are a range of strategies that can be introduced to increase productivity.

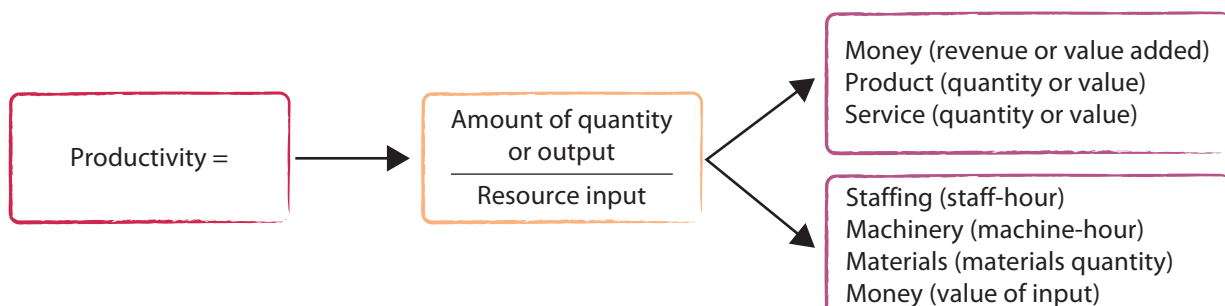


Figure 7.5 Productivity equation

Strategies to improve efficiency and productivity

- **Employee engagement** – employees will be more productive when they are well trained, satisfied by their work and where communication processes are enhanced.
- **Technology** – implementing new technology such as automated production lines and robotics can speed up production and make processes more durable.
- **Equipment and facilities** – good-quality working equipment and facilities that are maintained regularly will increase reliability and reduce the likelihood of breakdowns and downtime.
- **Minimisation of wastage and defects** – well-trained employees and appropriate technology will reduce the amount of waste and defects.



Figure 7.6 Providing high-level OHS conditions for employees can benefit productivity rates.

Gaining operations effectiveness

Effectiveness is measured by results directly linked to the objectives of a business. This involves the strategies and goals of the business against which it can measure growth and competitiveness. When operations systems are managed effectively, businesses can achieve many of their business objectives, including the quality of outputs, market share, profit levels, fulfilment of market needs and meeting shareholder expectations.

effectiveness
the degree to which a process or system is successful in achievement of business objectives



CASE STUDY 7.1

Operations evolution: Ford Motor Company



Today the Ford Motor Company is a multinational car manufacturer with operations in over 125 countries. In recent years, Ford was reputed to produce on average six million cars per year and employ an estimated 10 million American workers.

The company was founded in 1903 by Henry Ford when the automobile was an item affordable only by the super wealthy. His dream was to build 'a car for the multitude'. Through the development of the modern assembly line and his determination, his dream to build a reliable and affordable car was achieved.

Prior to 1908, cars were individually crafted by teams of skilled workers who built them as stationary objects. A fixed position layout was used where the cars remained in one position and workers came to the car to build each stage. This was both slow and expensive. It took over 12 hours to assemble the Model T Ford with a purchase price of \$950.

Innovation was slowly trialled and over the next few years instead of workers going to each car, each vehicle was transported on an assembly line to workers who remained stationary. Each employee was only required to perform one or two tasks repetitively. This reduced wage costs, as they only needed to be paid as unskilled employees. Workers were no longer craftsmen.

Employees complained of the boring, repetitive nature of their work and were critical of the strict timing needed for the assembly line to be efficient. Workers were falling over each

other in a bid to complete their workstation requirements and on occasion the final product was found to be missing parts. Henry Ford increased wages and decreased their shift by one hour. The changes enabled Ford to introduce a third shift requiring more employees. Ford began operating a 24-hour assembly line.

In 1913, Henry Ford opened a purpose-built plant in Michigan, United States, and experimented with a moving assembly line that was to become the world's first. The technique consisted of a conveyor system with each worker required to complete one task only. 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. His innovation reduced the time it took to build a car to just one hour and 33 minutes.

Over the years, improvements enabling productivity growth occurred. In 1925, around 30 vehicles were assembled per day. By 2005, Ford was producing approximately 500



Figure 7.7 A newly built Model T ready for delivery at the Ford Plant, Michigan, 1908

vehicles per day. By this stage, the whole process was controlled by a master computer, and up to 120 different models were being built on the one production line. Additional changes over time to increase efficiency, including a Just In Time supply system, were also in use. Other innovations included robotics with high-tech robots to replace hand tools. Painting of the vehicles was also fully automatic.

In developing the moving assembly line, the Ford Motor Company led the world by effectively creating mass production that required precision, standardisation and continuity. Mass production further drove down the cost of each vehicle, and Henry Ford achieved his dream of making car ownership a reality for many people.



Figure 7.8 Early assembly line

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

- 1 Create a timeline of key dates in the evolution of the assembly line.
- 2 **Identify** some ways that Ford's assembly line approach was radical for the future of business.
- 3 **Propose** one likely business objective of the Ford Motor Company during its early years of production and describe how operations could support the achievement of this objective.
- 4 **Explain** how Ford was able to significantly reduce the cost of car manufacturing through its use of the assembly line.
- 5 According to the video, **describe** some of the recent changes to Ford's assembly line and the benefits of them for Ford's operations processes.
- 6 **Discuss** the attitude of the workers in the video. How do you think this would affect Ford's productivity and efficiency?



Video 7.1
Ford Motor
Company

REVIEW ACTIVITY 7.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Describe** the term 'operations management'.
- 2 **Explain** how operations management can assist in the achievement of business objectives.
- 3 **Define** efficiency and describe how operations can achieve efficiency.
- 4 **Define** effectiveness and describe how operations can achieve effectiveness.
- 5 **Outline** the relationship between operations, productivity and competitiveness.

7.2 Characteristics of operations management

Learning intentions – at the end of this chapter section I will be able to:

7.2.1 Identify and compare the features of manufacturing goods and services

An operations system facilitates the transformation of resource inputs into finished goods and services. Although these two outputs are the final end products of an operations system, there are distinct differences between these product categories and 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. 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 readily customised for individual client requirements.

Table 7.3 Characteristics of operations in manufacturing and service industries

Manufacturing	Services
	
<p>Tangible – goods are physical; they can be seen and touched</p>	<p>Intangible – customers pay for the skill and expertise of the service provider</p>
<p>Production and consumption occur separately – for example, a company manufactures soft drink, then distributes to a retailer, and a customer purchases from retailer</p>	<p>Production and consumption often occur simultaneously – for example, a patient sees a doctor, who performs a service (i.e. provides medical treatment at the time of consultation)</p>

(continued)

(continued)

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	High degree of customer contact established
Produced – capital-intensive production process	Performed – labour-intensive production process

Similarities between manufacturing and service providers

While significant differences exist between manufacturing and service providers, they also share similarities:

- plan and develop organisational objectives
- utilise technology
- deal with customers and suppliers
- 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.

REVIEW ACTIVITY 7.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 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.
- 2 Suggest** why minimal contact with the customer is a feature of manufactured goods.

7.3 Key elements of an operations system

Learning intentions – at the end of this chapter section I will be able to:	7.3.1 Describe the key elements of an operations system
	7.3.2 Apply operations management knowledge to practical/simulated situations

process steps/procedures that convert inputs into outputs

outputs final product or service

inputs resources that will be converted into outputs

operations system consists of the three stages of production: inputs, process, outputs

The operations system has three stages, involving a series of procedures and **processes** undertaken during the creation of **outputs** of finished products and services through the transformation of **inputs**.

- 1 Inputs include all of the resources required for the production of goods/services, such as raw materials, labour, plant, equipment, capital, information and time used in any organisational production system.
- 2 Process refers to the series of procedures/processes required for inputs to be transformed to become finished products or services.
- 3 Outputs are the final product or service created by the transformation of inputs.

The three stages of the **operations system** are universal and can be applied to all industry sectors from the primary to the quaternary sectors.

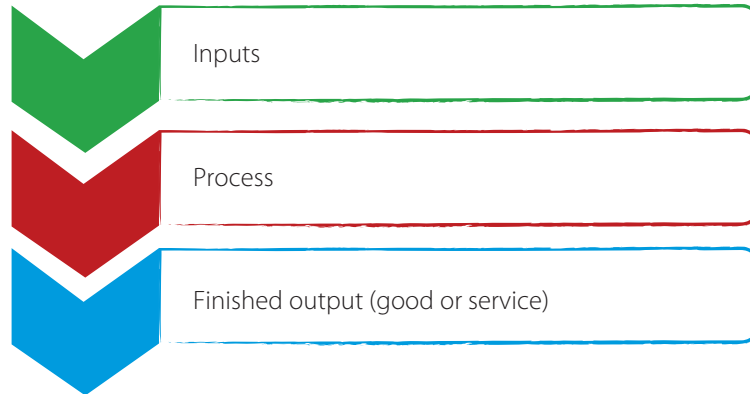


Figure 7.9 Every operations system can be broken down into three distinct stages.

Table 7.4 The key elements of an operations system

Inputs	Process	Outputs
<ul style="list-style-type: none"> • Materials • Human resources (labour) • Technology • Capital – facilities and equipment • Utilities • Information and knowledge • Entrepreneurial skills • Time (non-renewable) 	Process adds value to the inputs as they are transformed into outputs. Process involves ‘doing’ words or verbs, such as: <ul style="list-style-type: none"> • Storing • Sorting • Blending • Packing 	Results of the process stage in the form of goods and services



Figure 7.10 Operations management occurs in both manufacturing and service industries.

Inputs

Inputs are the resources required for the production of goods and services. The production process for goods tends to focus on tangible resources, whereas services are more dependent on specialised human resources.

Table 7.5 A wide range of inputs is required in readiness for the second element of the operations system.

Input	Description
Raw materials	Unprocessed resources taken directly from the environment
Component parts	Processed materials usually purchased from another manufacturer
Utilities	Basic services such as gas, electricity and water used in the production process
Human resources	Effort, skill, information and knowledge of people utilised during production
Capital resources	Human-made assets such as buildings, machinery and equipment used in the production of the output
Entrepreneurial resources	An entrepreneur is alert to new opportunities and possesses the personal attributes to start and manage a business
Time	A non-renewable resource; if wasted, it will add to production costs and cause productivity to fall



CASE STUDY 7.2

HelloFresh to expand operations with giant new 'Tuckerbox'



HelloFresh is the market leader in the \$300 million Australian meal kit market. HelloFresh is an online food delivery company that ships ready-to-cook meal kits. The kits contain both the recipe as well as ingredients to be cooked.

Meal kit sales boomed during the COVID-19 restrictions where consumers were eating at home more frequently and reducing supermarket visits.

Meal-kit maker HelloFresh opened a new 25 500-square-metre production facility at Ravenhall in Victoria in late 2021. Nicknamed Tuckerbox, it is the largest production and distribution facility of its kind in Australia. In working towards reducing carbon emissions,

the new location will reduce delivery distances for suppliers, and Victorian customers will experience faster delivery times.

The ultra-modern facility has been designed with sustainable, environmentally friendly features, including skylights installed to maximise natural light, a rainwater harvesting system, 600 kW solar panels for both electricity and heating water, and the use of motion and daylight sensors to reduce overall energy consumption.

New positions for locals have been created for 350 staff, including pick packers, forklift drivers, quality control personnel and management.

Source: Adapted from Inside FMCG, 25 June 2021

CASE STUDY ANALYSIS

- 1 **Define** the term 'input' and describe the various inputs that may be required for the next stage of an operations system.
- 2 **Identify** the inputs required for production at the HelloFresh Tuckerbox facility.
- 3 Select any two inputs required at the HelloFresh Tuckerbox facility and **explain** why they are essential.

Figure 7.11 Raw materials and components

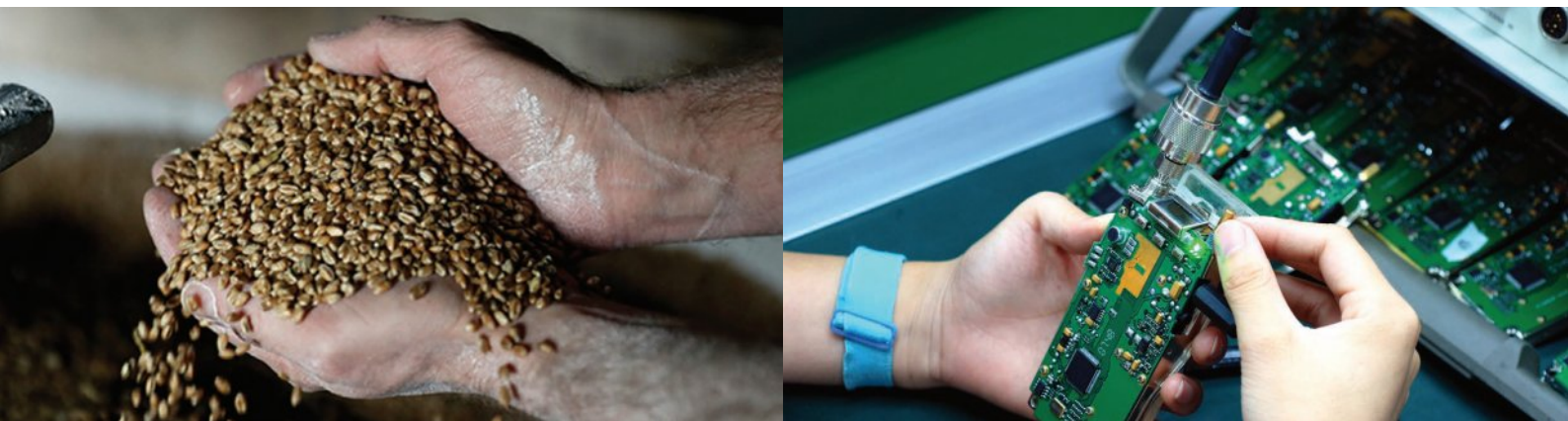




Figure 7.12 Human resources are integral to an operations system.

Process

Process transforms inputs into finished outputs. Process involves any activity or sequence of activities that adds value to inputs and provides outputs for customers or clients. There are four broad types of processes:

- manufacture involving the physical creation of products
- transport involving the movement of materials or customers (e.g. ride-share services)
- supply where there is a change in the ownership of goods (e.g. retail)
- service for the treatment of customers.

While manufacturing organisations have clearly identifiable production/transformation systems, the process stage for services is often not as easily identifiable.

Decisions made by operations managers during the process stage should be geared towards optimising operational efficiency and effectiveness. When this is achieved, the business will become increasingly competitive domestically and be better positioned to successfully trade in the global market.



CASE STUDY 7.3

Process at Procal Dairies



Procal Dairies is a 100 per cent Australian, family-owned dairy company. Procal has the capacity to produce over 120 million litres of milk products each year and exports to South-East Asia and the United Arab Emirates.

The purpose-built facility located in Campbellfield opened in 2009 and is regarded as an industry benchmark for quality, incorporating modern machinery and processes and minimising the usage of resources such as water, gas and electricity. In aiming to improve

both efficiency and effectiveness, the company has heavily invested in high-level technology for automated production lines.

The plant has the capacity to process between 150 000 and 200 000 litres of milk each day, with 86 per cent of the company's product being white milk, 10 per cent cream and sour cream and 4 per cent yoghurt. To enhance further efficiency, robot packing equipment is used. Staff are required for packing at the final stages of the process.

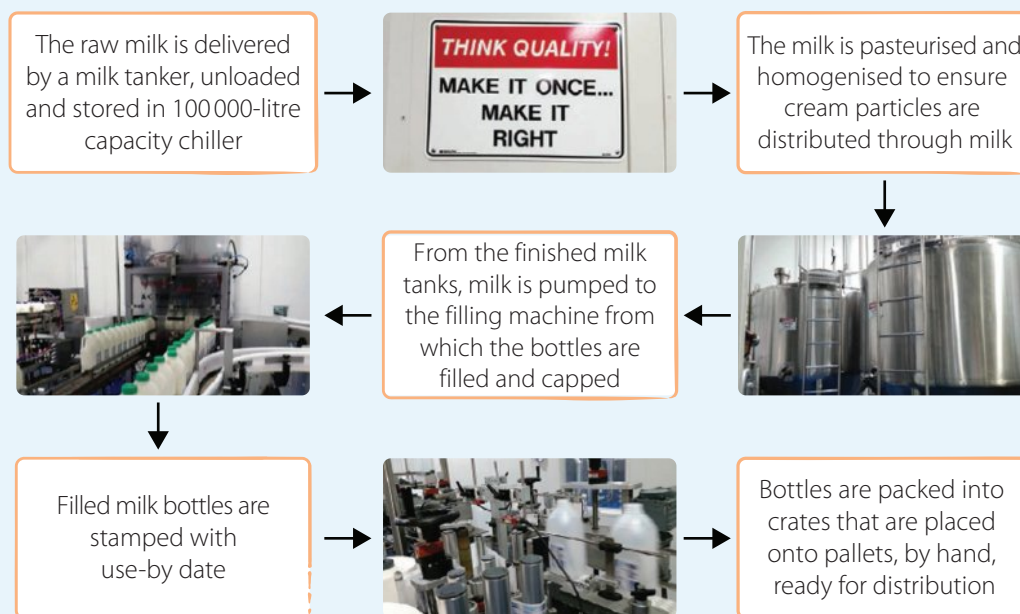


Figure 7.13 The process of transforming raw milk to bottled milk ready for consumption

CASE STUDY ANALYSIS

- 1 **Define** the term 'process' and suggest four processes that may occur that add value to inputs.
- 2 Read the Procal Dairies case study and **outline** the processes required to convert raw milk into packaged pasteurised milk.
- 3 **List** the main products that Procal Dairies produces (also called outputs).

Outputs

Outputs are the final product or services provided that are generated by the operations system. Outputs can be divided into two categories: tangible goods and intangible services.

Services can be divided into two categories: personal or commercial (business services). Although the final output is not tangible, results are often visible, especially for services by dentists, doctors, hairdressers and even banks. High-quality outputs are a direct result of the use of quality inputs and processes.

Outputs can be produced for the final consumer or for another business, which may use the output as a component (input) for its own production purposes. Moving the final product from a manufacturer to the final destination ready for sale at the right time and the right place requires well-planned logistics.

The mode of transport for delivery needs to be organised for all orders. If overseas shipping is involved, agreements must be in place and any required permits applied and approved in a timely manner. As businesses become more global, it is vital to establish a reliable distribution channel.



Figure 7.14 Decisions regarding distribution of products are crucial to ensure that consumers can readily access the product to purchase.

ACTIVITY 7.2

The three elements of an operations system are found in all manufacturing and service industries and are also part of many everyday activities. Select one of the following scenarios that you may be involved with on a regular basis:

- mowing the lawns
- cooking a meal
- washing the car
- cleaning your bedroom
- washing your dog.

Consider the inputs required, the processes needed to be undertaken, and what the final output would be. Then complete the following table.

Inputs	Process	Outputs





Figure 7.15 Buildings are an example of a capital item.



Figure 7.16 Time is a non-renewable resource that, if wasted, will add to production costs.



Inputs

- Land and raw resources
- Labour
- Entrepreneurial skills (e.g. management expertise)
- Capital items (component parts such as leather, plant and machinery)
- Utilities (water, electricity, gas)
- Information and knowledge (employee skills)
- Time

Process

- Transformation of inputs into finished product
- Potentially more than 100 processes can take place, including cutting, machining, lasting and making (deals with moulding) and finishing (trimming heels, polishing, buffing)

Final output

- Pair of boots

Figure 7.17 Manufacturing operations system: an Australian footwear factory

The example in Figure 7.18 depicting the operations system of a hospital illustrates the range of inputs involved, and the possible process, resulting in a treated patient as the output. Although medical services are personalised to suit the needs of a patient, hospitals have adopted a more process-oriented approach to patient care. The move to offering a more holistic and systematic system of healthcare delivery will optimise healthcare delivery performance. A systematic approach allows patients to experience improved quality of service, with hospitals meeting all legal and medical obligations, and to reduce costs. Increased efficiency in managing patient care will also assist in reducing overall costs.

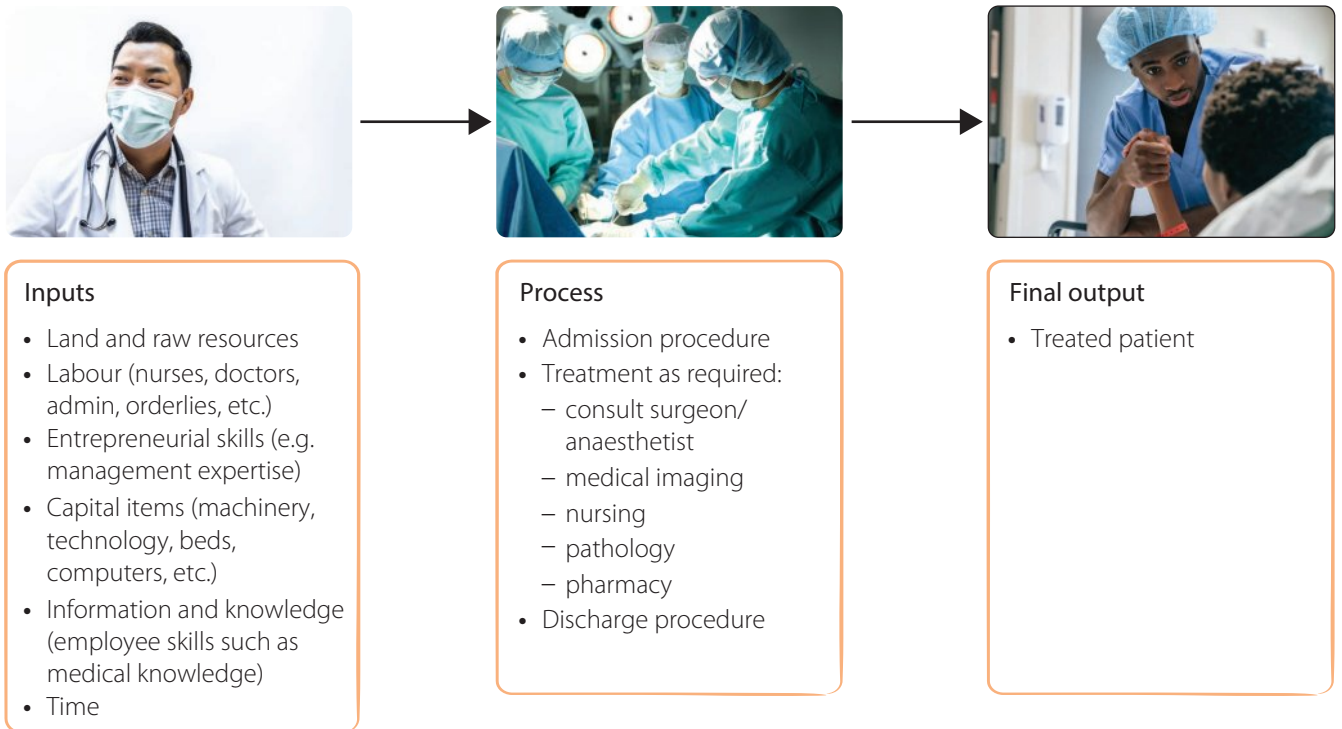


Figure 7.18 Operations system for a service industry: hospital

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 a manufacturing operations management system – requires you to note points of similarity and differences between a service operations management system and a manufacturing operations management system.

REVIEW ACTIVITY 7.3

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- Outline** the three key elements of an operations system.
- Define** output and provide two examples that are manufactured, and two examples created by services.
- Using the same format as outlined in the diagrams in Figures 7.17 and 7.18, **describe** the inputs, process and final output for two of the following types of businesses:
 - car dealership
 - airline
 - accountancy firm
 - supermarket.

Chapter 7 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 3 Area of Study 3, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Efficiency	Inputs	Processes
Effectiveness	Operations management	Productivity
Competitive advantage	Operations system	Outputs

Examination preparation

Elly Dale Pty Ltd was founded in Geelong in 2013 and has quickly grown into a global brand, with boutiques located throughout Australia, Canada and New Zealand. Elly Dale is a retailer of eyeglasses, specialising in optometry services. Customers are able to have an eye test on site, select frames best suited to them and have the prescribed lenses fitted. With a flair for design, Elly Dale now designs her own frames, which are manufactured at the company's plant, Elly Dale Manufacturing, located in Lara.

- 1 **Analyse** the relationship between business objectives and operations management at Elly Dale Pty Ltd. **(3 marks)**
- 2 **Propose** two business objectives for Elly Dale Pty Ltd. **(2 marks)**
- 3 **Compare** the features of one manufactured good and one service mentioned in the scenario. **(4 marks)**
- 4 **Identify** and **explain** the three key elements of the operations system for either:
 - a Elly Dale Retail
 - b Elly Dale Manufacturing.

In your answer, provide one example of each key element of the operations system of each business. **(6 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
7.1 Operations management and the relationship to business objectives	7.1.1 Define and describe key terms	Activity 7.1: Q1–3 Review activity 7.1: Part 1 & Part 2 (Q1, 3–4)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	7.1.2 Describe the relationship between operations management and business objectives	Case study 7.1: Q3 Review activity 7.1: Part 2 (Q2)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	7.1.3 Apply operations management knowledge to practical/simulated situations	Examination preparation: Q1–2	Yes No <input type="checkbox"/> <input type="checkbox"/>
7.2 Characteristics of operations management	7.2.1 Identify and compare the features of manufacturing goods and services	Activity 7.2 Review activity 7.2: Part 1 & Part 2 (Q1) Examination preparation: Q3	Yes No <input type="checkbox"/> <input type="checkbox"/>
7.3 Key elements of an operations system	7.3.1 Describe the key elements of an operations system: inputs, process and outputs	Activity 7.2 Review activity 7.3: Part 1 & Part 2 (Q1–3) Examination preparation: Q4	Yes No <input type="checkbox"/> <input type="checkbox"/>
	7.3.2 Apply operations management knowledge to practical/simulated situations	Case study 7.2: Q1–3 Case study 7.3: Q1–3	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 8

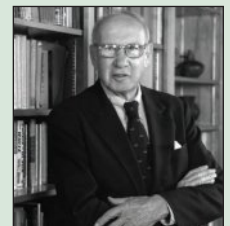
Optimising operations

'Efficiency is doing things right; effectiveness is doing the right things.'

Peter Drucker (1909–2005)

About the author:

Peter Drucker was an Austrian-American management consultant, educator and author who is considered to be the founder of management thinking. His work continues to be relevant, used by managers worldwide.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about optimising operations and discuss your response to the following questions:

- 1 **Discuss** the differences between efficiency and effectiveness.
- 2 Is it important for businesses to be both efficient and effective? **Propose** the possible outcome of a business that is doing things efficiently but doesn't achieve an effective result.
- 3 Conversely, **propose** the possible outcome for a business that is effective but not efficient.

CHAPTER 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.

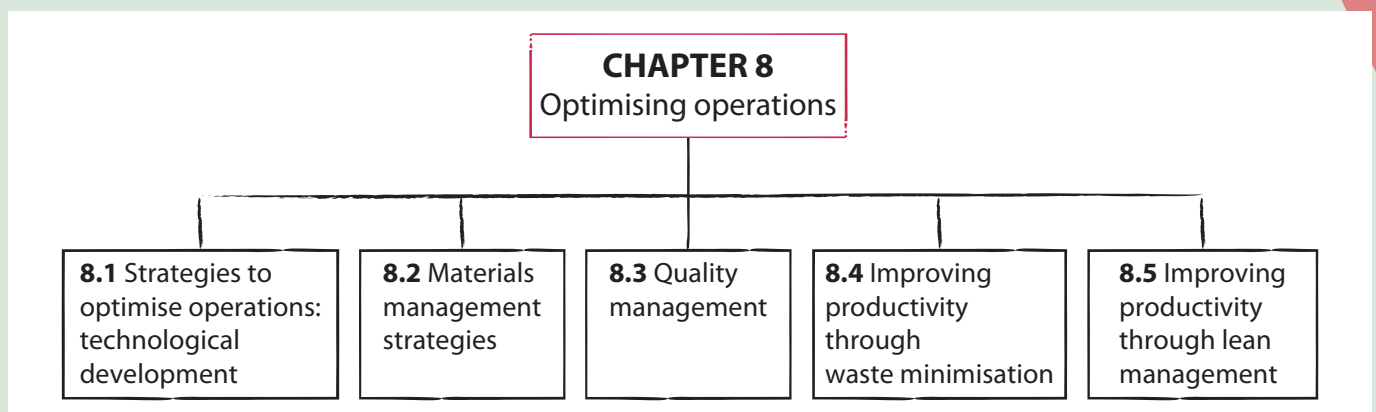
Strategies involving the following will be examined: technology, materials management, quality management and waste minimisation. The production system known as 'lean management' will also be studied as a means of minimising waste, increasing productivity and further improving levels of quality.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Strategies to improve both the efficiency and effectiveness of operations related to technological developments	8.1 Strategies to optimise operations: technological development 8.1.1 Describe and discuss strategies related to technological developments to improve efficiency and effectiveness 8.1.2 Compare and evaluate strategies used in operations 8.1.3 Propose and justify strategies for improving effectiveness and efficiency in operations
Strategies to improve both the efficiency and effectiveness of operations related to materials	8.2 Materials management strategies 8.2.1 Describe and discuss strategies related to materials management to improve efficiency and effectiveness in operations 8.2.2 Propose and justify strategies for improving effectiveness and efficiency in operations
Strategies to improve both the efficiency and effectiveness of operations related to quality	8.3 Quality management 8.3.1 Describe and discuss strategies related to quality to improve efficiency and effectiveness 8.3.2 Compare and evaluate strategies used in operations 8.3.3 Propose and justify strategies for improving effectiveness and efficiency in operations
Identify different types of waste and strategies to improve the efficiency and effectiveness of operations through waste minimisation	8.4 Improving productivity through waste minimisation 8.4.1 Identify different types of waste 8.4.2 Describe and discuss strategies to improve the efficiency and effectiveness of operations through waste minimisation
Key principles of lean management to improve efficiency and effectiveness	8.5 Improving productivity through lean management 8.5.1 Describe and discuss the key principles of lean management, including pull, one-piece flow, takt and zero defects, in improving efficiency and effectiveness

Source: Adapted from VCE Business Management Study Design © VCAA; reproduced by permission

What's ahead



8.1 Strategies to optimise operations: technological development

Learning intentions
– at the end of this chapter section I will be able to:

8.1.1 Describe and discuss strategies related to technological developments to improve efficiency and effectiveness

8.1.2 Compare and evaluate strategies used in operations

8.1.3 Propose and justify strategies for improving effectiveness and efficiency in operations

technology the practical application of science to achieve commercial or industrial objectives

automation the replacement of human activity with technology

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.

While adopting 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.

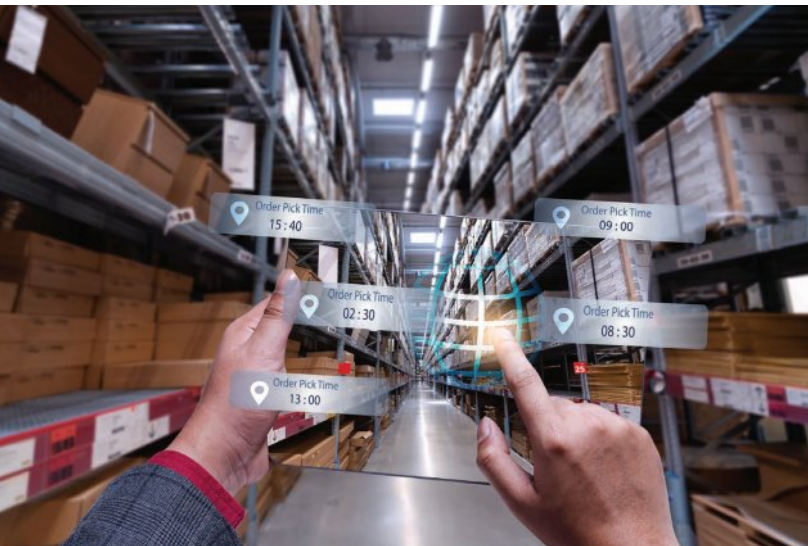


Figure 8.1 Technology can improve business operations.

automated production line comprises a series of sequential workstations linked by a transfer system and an electrical control system

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.

Automation

Automation involves the replacement of human effort by machinery and technology. Automation has resulted from engineering, mechanics, hydraulics, electric, electronic and computer advancements. Complicated automated systems used in modern factories use a combination of these things. Most modern manufacturing operations systems and their production lines involve degrees of automation.

Automated production lines

Automated production lines are utilised in manufacturing industries, especially those

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.

The requirement for labour as an input in the operations system is reduced significantly with an automated production line. Employment opportunities have opened in areas that require higher level of skills, such as making adjustments to equipment, supervision, monitoring and system design.

Robotics

Robotic automation has a number of applications in manufacturing, with robots performing tasks such as handling raw materials, welding, assembly and product packing. 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.

Robots are programmable machines with the ability to detect changes in the environment.

Car manufacturers understood the benefits of introducing robots to their assembly lines, where fully autonomous robots are used for high-volume, repetitive processes. The speed, accuracy and durability of the robot delivers significant efficiency, reduces waste potentially caused by human error and supports improved, consistent quality. All stakeholders benefit as a result, customers report high-level product satisfaction and manufacturers experience reduced warranty costs.

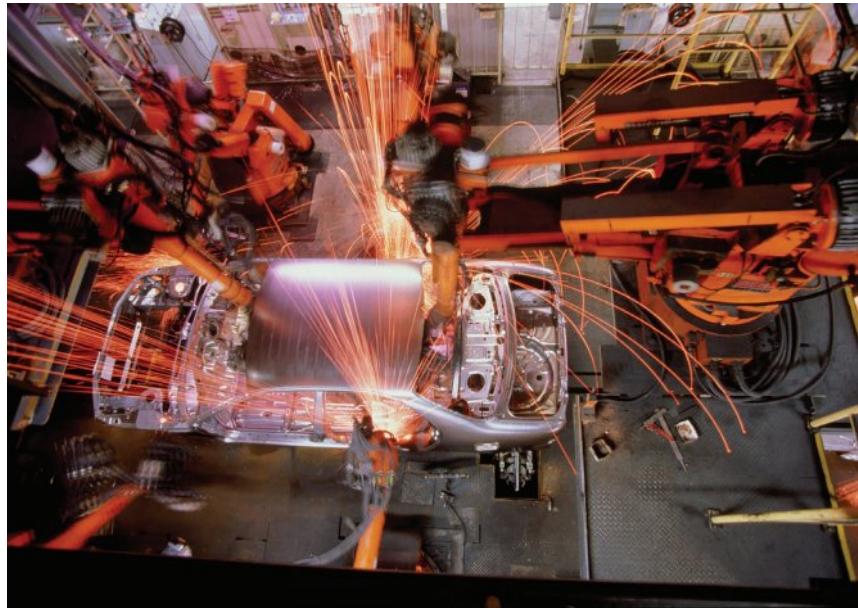


Figure 8.2 Automation replaces human labour with technology.

robotics integrates computer science and engineering in the design and construction of robots to perform manual tasks



Figure 8.3 Automated production lines are controlled by technology. Human involvement in the production process is minimised.

In the mining industry, robots are replacing miners, especially in high-risk areas where workplace safety is important. In assessing unused mines or areas of a mine with potential danger, autonomous mobile robots (AMRs) are deployed. AMRs have onboard intelligence systems that allow the robot to upload a map or build its own map so that it can learn its surroundings. This enables the AMR to navigate through flooded passages, use cameras and sensors to recognise different minerals, and provide high-resolution data.

The incorporation of robotics in manufacturing maximises efficiency, increases workplace safety and provides a competitive edge. Increasing numbers of manufacturers are leveraging robotic automation with wider applications. Robots can now be installed in less time and with less cost than in the past.



ACTIVITY 8.1

Warehouses such as Amazon have deployed automated robotics systems to load and select stock. Research Amazon's warehouse system and complete the following tasks. (*Hint: Search 'Amazon warehouse robots'.*)

- 1 **Analyse** how the use of robotics may increase productivity at Amazon.
- 2 **Explain** how the inclusion of robots at Amazon may impact on employees.



Figure 8.4 Amazon has more than 200 000 mobile robots working alongside people in the warehousing facilities.

Table 8.1 Advantages and disadvantages of incorporating technology in an operations system

Advantages	Disadvantages
Improved productivity through lower labour costs, reduced production times and lower cost of production	High initial set-up costs with significant capital outlay plus additional costs such as preventative maintenance, and the cost of training employees to operate the machines
Improved safety levels with dangerous and repetitive work/tasks removed	Development costs can be high
Reduction in human labour costs and the opportunity for staff to be redeployed to other areas of the business that may be regarded as more satisfying work	Technology can be viewed as inflexible, given that it is developed to perform a particular task
Greater precision and accuracy of work done, resulting in improved effectiveness	Corporate social responsibility issues with a negative impact on local employment opportunities
Consistent and improved quality of final output, resulting in improved effectiveness	Ongoing maintenance of equipment may be high, requiring highly skilled maintenance workers
Reduction in waste material	



CASE STUDY 8.1

Technology transforming farming



The use of technology is very much part of the daily routine for third-generation dairy farmer Luke Wallace, who has 170 cattle roaming on his property in Poowong in South Gippsland.

Luke regularly checks his Heatime app to view the daily data for each of his cows, including daily movement and jaw movement. When jaw movement is down, it suggests that there has been reduced grazing and cud chewing. This indicates that something isn't right; perhaps there is a sore hoof or an upset stomach. Additional information can be sought from the bovine's Allflex collar, which functions like a FitBit.

On inspecting the cow, Luke finds a small puncture wound on the bovine's rear hoof. Without the information sourced from Heatime and the Allflex collar, Luke could have missed seeing the injury, which may have resulted

in a condition requiring a consultation with a vet or impacted on the cow's milk production. The Allflex collar also indicates when a cow is primed for pregnancy.

The Allflex collars were bought in 2019 at a cost of \$50 000, but Luke thinks that the collars have enabled him to be more efficient, ensure the health of the herd and get a better return.

It makes good business sense to invest in AgTech, a collection of digital technologies that provide the agricultural industry with tools and data to make informed decisions, improve productivity and sustainability. AgTech is transforming farming so dramatically that it is increasingly being referred to as the fourth industrial revolution.

CASE STUDY ANALYSIS

- 1 **Identify** the types of technologies that Luke uses at his dairy farm.
- 2 **Explain** how technology will increase efficiency and effectiveness for the dairy farmer.
- 3 Visit the FarmTable website and look at the 'AgTech Hub' page. This informative website provides details about a wide range of equipment, software and apps that can be used by the Australian agricultural industry.
 - a Select two types of technologies available and **outline** the key features of the technology and its application.
 - b For each technology selected, **outline** how the item adds value for the farmer.

computer-aided design (CAD)

a software tool that facilitates the creation and development of design and creates a database for manufacturing

Computer-aided design

Computer-aided design (CAD) is a software tool that facilitates the creation and development of the design process. Its application is standard in a wide range of industries, including building, infrastructure, manufacturing and product design.

This software has allowed the creation of three-dimensional diagrams from given data, enabling accurate predictions of what the final product will look like from all angles, as well as an accurate cost analysis. CAD allows architects, engineers and designers to draw and adjust three-dimensional designs based on client requirements.

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. CAD creates the technical drawings that provide clear guidelines for the CAM process.

Computer-aided manufacturing (CAM) refers to the use of software applications that create detailed instructions to facilitate parts of the manufacturing process. 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 are made.

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.

Computer-integrated manufacturing (CIM), a combination of both CAD and CAM, involves the use of 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. The integration of the computers provides for more efficient and effective manufacturing.

Figure 8.6 Computer-aided manufacturing controls machinery, tools and equipment through a computer.



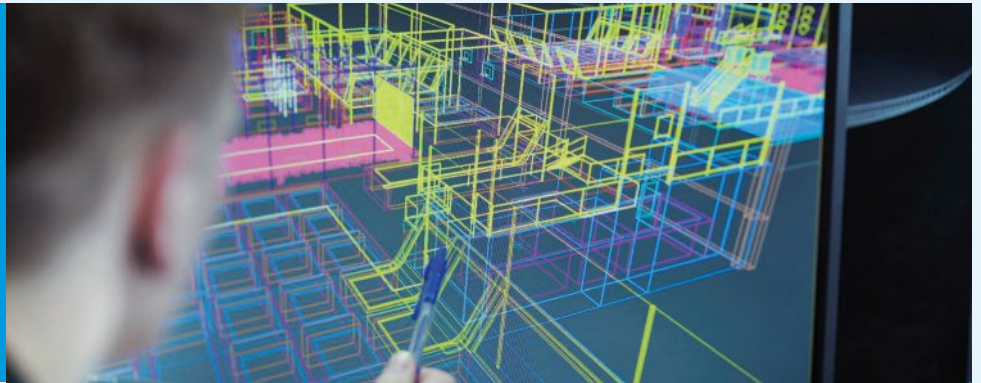
computer-aided manufacturing (CAM) the use of software applications that create detailed instructions that drive computer-controlled manufacturing

computer-integrated manufacturing (CIM) a computer program that controls and directs production from start to finish, CIM is a combination of both CAD and CAM



CASE STUDY 8.2

Optimising operations through technological development



CAD is widely used for all aspects of the design process and allows designers to offer options at any stage.

Designers using CAD systems continue to explore their creativity. This effectively eliminates the manual, time-consuming processes of the past. CAD programs provide professionals with a range of tools to efficiently create high-quality designs and accurate scale drawings that provide greater legibility. As designs can be stored electronically, they are easy to access for repeat orders.

The implementation of CAD and CAM is standard practice for a range of Australian industries, including fashion, architecture, automotive, engineering and construction.

Australian-owned caravan manufacturer Network RV uses CAD programming as part of its regular design process, providing the opportunity to customise orders to cater to its clients' personal tastes and needs. According to head designer Dung Nguyen, the use of CAD to determine the floor plans, layout, furniture and position of gas and electricity provides clients with a realistic view of the final product, resulting in saving time and costs. Drawings can be sent via email, which allows the business to negotiate with clients in all parts of Australia. The benefits extend to the factory floor, where the precision of the drawings greatly reduces errors in the cutting of materials and their precise installation in the construction of the caravan.



Figure 8.7 The use of CAD/CAM in the caravan industry has allowed for greater design opportunities and precision in the manufacturing process.

CASE STUDY ANALYSIS

- 1 **Compare** the use of CAD and CAM in caravan construction.
- 2 **Outline** the benefits that this technology has brought in terms of productivity and product quality.
- 3 **Identify** and **outline** two potential disadvantages of CAD and CAM technology.
- 4 **Identify** and research one other industry that would benefit by using CAD and CAM technology.

artificial intelligence (AI) deals with the development of computer programs that imitate human intelligence

Artificial intelligence

Artificial intelligence (AI) aims to create expert systems that can act as an aid to humans and enables machines to function with human-like intelligence. AI-driven machines bring machine interaction closer to human interaction, offer new opportunities and are proven to enhance efficiency. AI helps machines to collect and extract data, acknowledge patterns, learn and adapt to new situations and environments through machine intelligence and speech recognition.

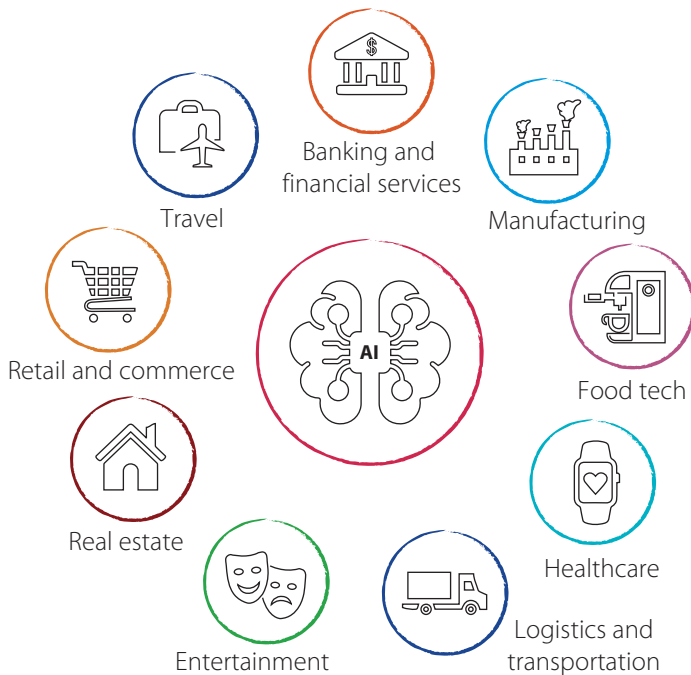


Figure 8.8 Artificial intelligence has applications for many industries.

AI is used extensively across many industries, including the banking, healthcare, retail, logistics and government sectors. It is successfully integrated into large-scale manufacturing and is becoming increasingly accessible to smaller businesses.

The banking and financial services industry is undergoing significant transformation, mainly due to AI applications. Banks are able to use AI to quickly and accurately detect fraudulent activity. Employees can be replaced with intelligent software robots to process loan applications. Robot financial advisers are able to analyse multiple data sets in seconds and then make recommendations to customers. AI-based chatbots are being deployed in the insurance industry to improve customer experience and create insurance plans and products based on a customer's data.

online services provide information or services over the internet

Online services

An **online service** refers to any information or service that a business may offer over the internet. A basic online service may support subscribers to gain information through a search engine. A more sophisticated service may process an online personal loan application from a bank. Offering online services provides increased business opportunities, with many businesses offering these services to be more competitive and increase their market share.

- **Booking systems** – used in a wide range of industries, including hotels, restaurants, events, beauty, hairdressing, medical appointments and other service providers. These systems can work with an online database and diary, which has the potential to reduce scheduling issues. Customer details are also updated, allowing the business to promote other events.
- **Training courses** – universities and a wide range of vocational services offer online training courses that are typically self-directed by students
- **Feedback forms** – allow a business to gather information quickly regarding customer experience
- **Online shopping** – online selection and purchasing of essential items or luxury goods.

website a collection of web pages that promote products and services over the internet

e-commerce websites enable the buying and selling of goods and services directly with a business

Websites and e-commerce

A **website** establishes business credibility and aims to promote services and products on the internet. It also offers improved communication with customers and suppliers. **E-commerce** takes everything one step further, moving from promotion and marketing to providing the opportunity to buy goods and products directly from the business. The convenience for the shopper and the reduction in overheads for the retailers are the primary drivers of Australian e-commerce growth.



Figure 8.9 Globally, e-commerce continues to surge.

E-commerce has grown exponentially, with Australians spending \$26.77 billion in 2013, increasing to \$32.1 billion in 2019 and, as a result of the COVID-19 pandemic, to \$54.6 billion in 2020. It is estimated that at least 75 per cent of Australian businesses earn part of their revenue via e-commerce. Businesses have changed how they engage with customers, while customers have adapted their purchasing habits. Online purchasing accounted for 16.3 per cent of all retail spending in 2020, creating the biggest shift in Australian spending habits.

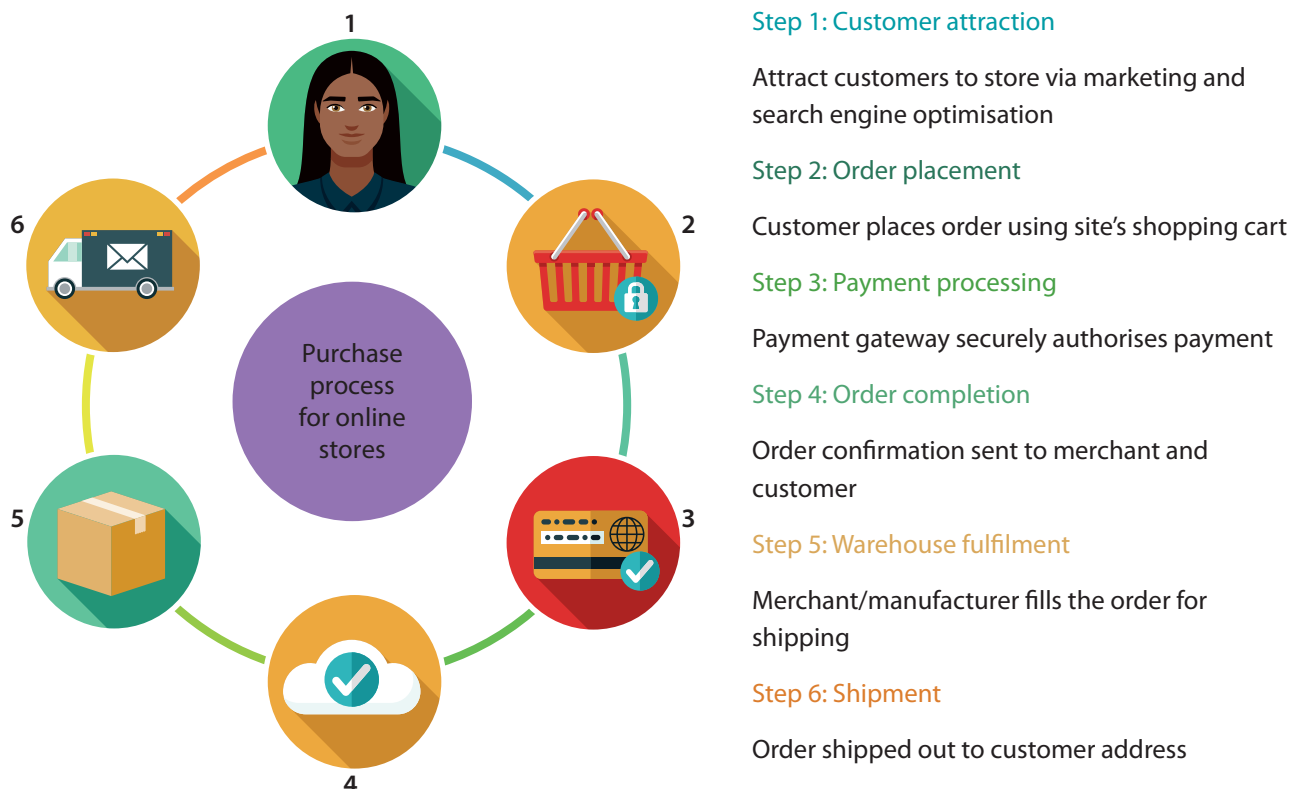


Figure 8.10 The purchase process model used in e-commerce

Businesses with e-commerce websites must manage their catalogue of products so that customers are able to browse the inventory efficiently. The e-commerce business needs to invest in inventory management software that can sync quickly to ensure that quantities are accurate and orders can be fulfilled. When a customer has completed adding items to the cart, they will then enter their payment information, which is encrypted and sent to a payment gateway that handles the credit card processing securely. As transactions are finalised, orders are processed by the business's systems and forwarded to the order fulfilment team. Order fulfilment can be completed in-house or by a third party.

Table 8.2 Benefits and limitations of e-commerce

Benefits	Limitations
<p>For the consumer:</p> <ul style="list-style-type: none"> • convenience of purchasing at any time • less time-consuming • quick delivery • easy returns. <p>For the e-commerce business:</p> <ul style="list-style-type: none"> • lower costs and ease in implementation • more opportunities to innovate • build strong brand loyalty • customised and targeted marketing • shortened distribution chain • eliminates geographical restrictions. 	<p>For the consumer:</p> <ul style="list-style-type: none"> • customers can't always see and touch the product in real life before purchasing • potential customers must be somewhat tech-savvy, potentially limiting market reach • less 'personal' shopping experiences • potential for fraud, data privacy issues, etc. <p>For the e-commerce business:</p> <ul style="list-style-type: none"> • e-commerce businesses need precise inventory system to avoid overstocking and overselling • potential high return rate of goods that do not meet customer expectations • lack of in-store engagement, which may result in difficulty in maintaining customer relations.



CASE STUDY 8.3

Blackmores invests in new technology to lift e-commerce growth



Blackmores, the ASX-listed Australian-based vitamins and supplements producer, has pledged to improve customer experience across all areas of its e-commerce platform.

'We've recently seen an uptake from our e-commerce store and wanted to push this to the next level,' said Blackmores growth marketing manager, Rachelle McDermott.

The inclusion of Optimizely will further enhance a customer's digital experience. The Episerver product has AI-powered personalisation capacity. Customers provide information about their health and what they are seeking and the system responds with customised suggestions and product advice.

The information collected integrates with the back office to support sales and manages inventory. Blackmores will also be able to look for customer insights, analyse checkout

processes, respond with rich content and offer subscription products.

Source: Adapted from Nadia Cameron, 'Blackmores invests in test-and-learn to lift ecommerce growth', CMO website, 11 December 2020

CASE STUDY ANALYSIS

- 1 **Explain** the differences between a website and an e-commerce website.
- 2 **Outline** the business model of an e-commerce website.
- 3 **Describe** how a business can improve efficiency and effectiveness with e-commerce.
- 4 **Explain** how Blackmores aims to improve customer experience and propose how this may impact business effectiveness.

REVIEW ACTIVITY 8.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Define** the following technological strategies and **describe** how these technologies improve productivity, quality and business competitiveness:
 - a automated production line
 - b robotics
 - c CAD
 - d CAM
 - e artificial intelligence
 - f online services.
- 2 **Distinguish** between each of the following terminology pairings:
 - a automated production line and robotics
 - b CAD and CAM
 - c website and e-commerce.
- 3 **Identify** the technology that has enabled each of the following operations improvements to occur and **explain** how each technological advancement has enabled these to happen:
 - 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.
- 4 Accomplished silversmith Abby Rose has opened bricks-and-mortar stores in several locations across metropolitan and regional Victoria. Her unique designs and high-quality artisanship are valued by her growing customer base. **Propose** and **justify** two technology-based strategies Abby could consider introducing that will enable her to increase business efficiency and effectiveness.

8.2 Materials management strategies

Learning intentions
– at the end of this chapter section I will be able to:

8.2.1 Describe and discuss strategies related to materials management to improve efficiency and effectiveness in operations

8.2.2 Propose and justify strategies for improving effectiveness and efficiency in operations

Materials management involves the planning and coordination of all materials that are required for an operations system. Aspects of materials management include forecasting, the procurement of supplies, master production scheduling, materials requirement planning, managing inventory and the distribution of finished products to customers (logistics). 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 purchased at a competitive price. In order to do this, an operations manager must locate sources of supply, negotiate price, place purchase orders, follow up and maintain good relations with suppliers.

Materials managers must ensure that a constant supply of inputs is available for production, storage is minimised and stock is controlled effectively. Efficient materials management reduces overstocking of inventory, while guaranteeing supply ensures steady, continuous production. Successful materials management ensures that product availability is aligned with customer demand. If this is not achieved, production will be interrupted and supply to consumers could cease.

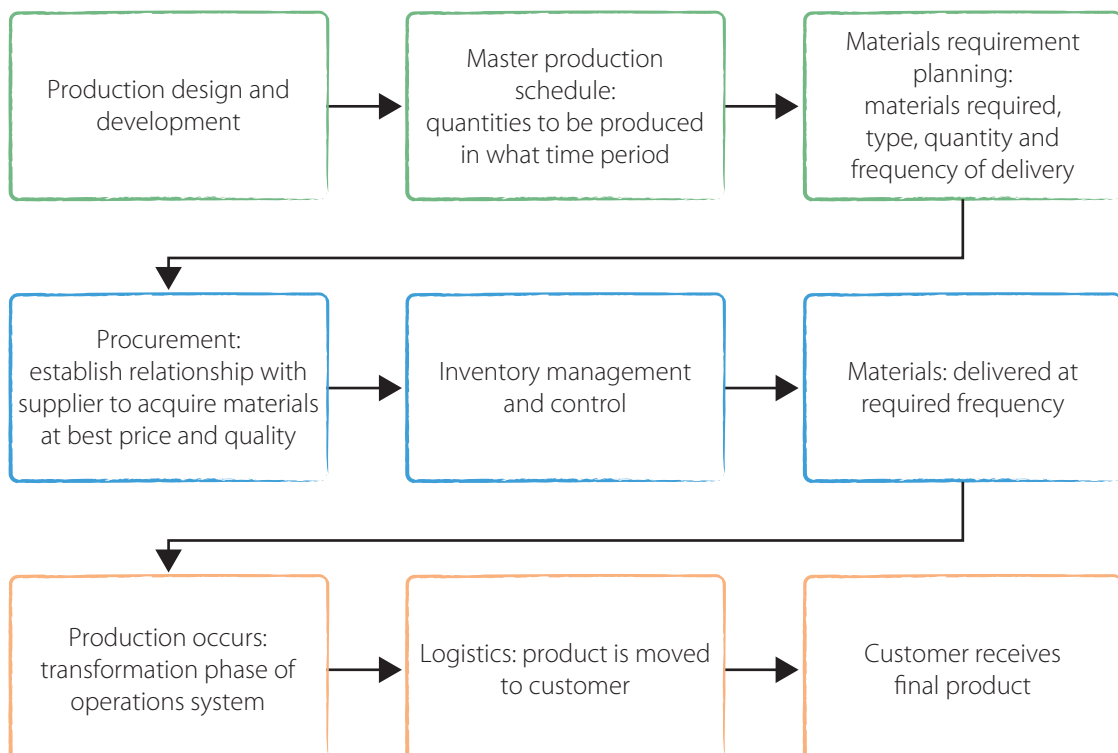


Figure 8.11 Effective and efficient materials management is vital to maintaining competitiveness.

Forecasting

Forecasting requires a business to analyse past sales data and trends in order to make predictions about the market's needs in the future. Short-term forecasts based on large data sets are usually more accurate than long-term forecasts with smaller data sets. The **objective quantitative data** is used in conjunction with qualitative data such as market survey results or predictions of customer preferences. Forecasting is also used to predict costs of items, which impact on profitability.

Forecasting is not a foolproof process, as it is difficult to accurately predict future demand, and businesses are advised to leave room for error as they prepare for future requirements. 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
- **future price changes** – prices may change due to seasonal variations, world market conditions or changes in the value of the Australian dollar.

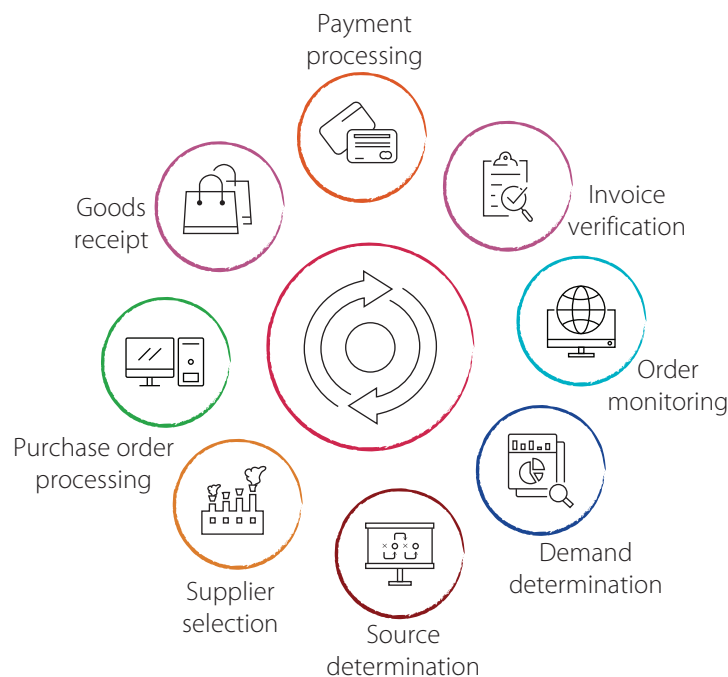


Figure 8.12 Procurement requires operations managers to source quality inputs at a competitive price from reliable suppliers.

Tools designed to optimise materials forecasting and planning

Master production scheduling

Production planning involves setting out the production requirements and breaking these down into stages. A **master production schedule (MPS)** sets out what needs to be produced, in what quantities and in what time frame. It also outlines when contracts and orders 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.

The basic inputs to the MPS are:

- current inventory
- forecast sales
- current orders – quantities and timelines
- quantity to produce to meet orders and forecasts.

forecasting analyses past data to make informed future predictions

objective quantitative data objective data produced through a systematic process that is verifiable, replicable and is not subject to interpretation

master production schedule (MPS) a statement of what a business intends to produce, in what quantities and when they are to be produced



Figure 8.13 A master production schedule allows managers to plan production efficiently.

Materials requirement planning

Materials requirement planning (MRP) is a production planning, scheduling and inventory control system. Computerised MRP is widely used by manufacturers, improving efficiency and profitability. It is largely a demand-oriented system relying on data from orders and forecasting.

Using data from the MPS, MRP determines required outputs and delivery schedules to meet customer orders. This information is used to ensure that raw materials are available for production, to determine the quantities of output to produce, and to develop plans for the manufacturing activities. The following factors are considered in the development of an MRP system:

materials requirement planning (MRP) a computerised inventory management system used to schedule and place materials orders

inventory the storage of raw materials, component parts, work in progress and finished goods

- supplier lead-in time to determine how long it will take for materials to be delivered to ensure continuity of production
- **inventory** – optimising of materials kept in store to ensure regular and reliable supply
- information from the MPS to factor in purchase orders, sales orders and work in progress
- bill of materials – an extensive list of items used to manufacture a product and the instructions on the manufacturing process
- manufacturing process.

Optimising operations through inventory management and Just In Time

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 in place. Acquisition of materials must be planned to ensure timely and uninterrupted supply of the necessary inputs and components.

Just In Time

Just In Time (JIT) an inventory management system that aims to avoid holding any stock, with supplies arriving just as needed for production, and finished products being immediately dispatched

Just In Time (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.

Table 8.3 Implementation of materials management strategies supports the flow of materials.

Materials strategy	Benefits	Limitations
Forecasting	<ul style="list-style-type: none"> • Anticipates seasonal changes and adjusts orders to save costs • Prevents over-ordering and reduces storage requirements 	<ul style="list-style-type: none"> • Requires time to anticipate and analyse potential impacts from the supply chain • Can be difficult to select the right forecast methods and parameters
Master production schedule	<ul style="list-style-type: none"> • Determines ordering quantities and timing – avoiding waste, shortages and costs • Provides clear processes for staff to follow • Incorporates forecasts 	<ul style="list-style-type: none"> • With many variables associated with the MPS, set-up is both complex and time-consuming • Doesn't account for all situations
Materials requirement planning	<ul style="list-style-type: none"> • Reduces waste, storage and labour costs • Applicable to many industries 	<ul style="list-style-type: none"> • Expensive to set up • Highly dependent on data • Doesn't allow for forecasts
Just In Time	<ul style="list-style-type: none"> • Smoother production flow, eliminating bottlenecks and delays • Reduces costs by receiving goods as needed • Improves quality – less damage 	<ul style="list-style-type: none"> • More precise planning required • Dependent on the supply chain to commit and respond as required • Employee participation needed to identify wasteful practices



CASE STUDY 8.4

Optimising operations through materials management



Dell

American multinational company Dell is one of the world's leading suppliers of personal computers. Dell is well known for its highly efficient supply chain management and e-commerce. 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 has more than 10000 supermarkets in over 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 per cent 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 InTime system of inventory management.

Aldi stores only hold stock immediately required for sale. Consequently, less capital is tied up in idle stock not generating income. Warehousing costs are reduced as smaller areas are required to hold stock and fewer staff and less 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.

CASE STUDY ANALYSIS

- 1 **Describe** what JIT inventory management is and the principles on which the system operates.
- 2 **Describe** how Dell has implemented JIT in its operations system.
- 3 **Outline** Aldi's implementation of JIT and **identify** one characteristic that differs from Dell's applications.
- 4 **Analyse** the potential benefits and disadvantages of using JIT.



REVIEW ACTIVITY 8.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Define** materials management and **explain** why efficient and effective materials management is essential for a business.
- 2 **Outline** the benefits of forecasting and why it may be difficult for some businesses to forecast accurately.
- 3 **Distinguish** between:
 - a master production schedule and materials requirement planning
 - b forecasting and Just InTime.
- 4 **Explain** how Just InTime can improve operational productivity levels and business competitiveness.
- 5 Whisk and Go Cupcakes is the preferred supplier of cupcakes to many local cafes and restaurants in the Pakenham area. Newly established, the business is struggling to predict the variations in demand. **Propose** and **justify** one materials management strategy that would allow the business to successfully meet customer demand.

8.3 Quality management

Learning intentions
– at the end of this
chapter section I will
be able to:

8.3.1 Describe and discuss strategies related to quality to improve efficiency and effectiveness

8.3.2 Compare and evaluate strategies used in operations

8.3.3 Propose and justify strategies for improving effectiveness and efficiency in operations

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 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).



Figure 8.14 Managing quality throughout the production process is essential.

Table 8.4 Factors determining quality

Factors that can be used to determine the quality of a product or service		
<ul style="list-style-type: none"> • Durability • Maintainability • Speed of service • Design • Features • Reliability 	<ul style="list-style-type: none"> • Performance • Responsiveness • Aesthetics • Consistency • Ease of use • Uniformity 	<ul style="list-style-type: none"> • Customer satisfaction • Dependability • Availability of spare parts • Conformance to standards/specifications • After-sales service

quality the degree of excellence in a product or service and its ability to satisfy the customer

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 any three of the following products and services for it to be judged as 'high quality':

- 1 a designer dress
- 2 a restaurant meal
- 3 a kitchen renovation
- 4 a car service.



Quality control

quality control
process of
checking the
quality standards
of work done or
quality of raw
materials or
component parts

reactive identifies
defects after they
occur

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 that 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.

Operations systems may introduce several types of quality control during the production process, such as inspections, product sampling, manual and automated testing, batch inspection, validation and laboratory testing.

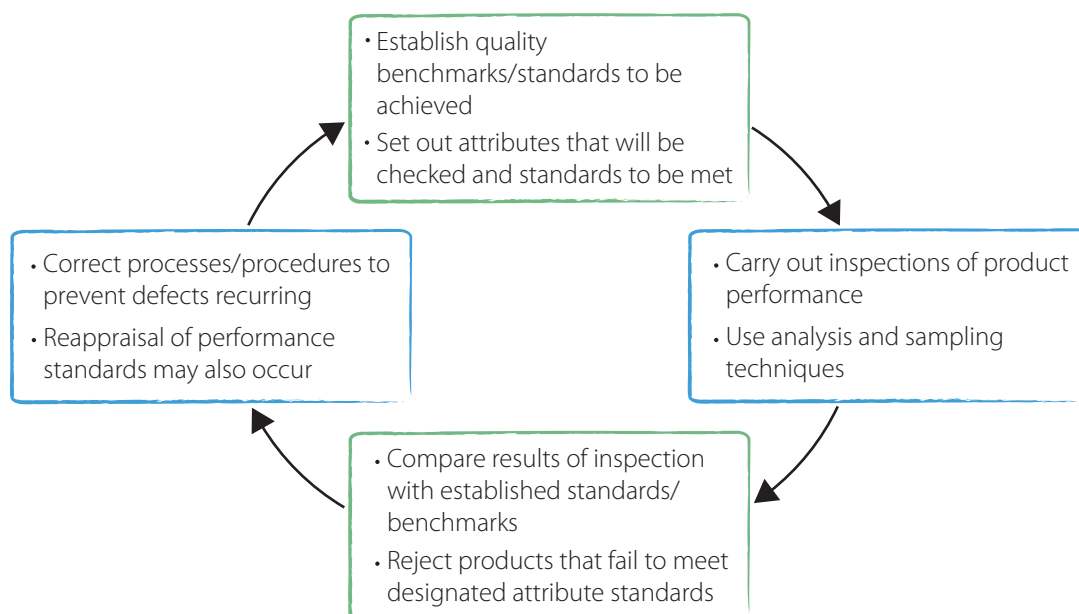


Figure 8.15 Quality control stages



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 can collapse causing serious injury to the user, or to those in close proximity to the pogo stick

Hazard: If the defect occurs while 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 11:00 a.m. – 11:30 a.m. via email at barrysdodgysports@geemail.com or go to www.barrysportsemporium.com.au

**See product.safety.gov.au for Australian product recall information
(and for real product recall notices 😊)**

Figure 8.16 Quality control: recall of a suspected hazardous product

Quality assurance

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 and adds great potential for selling into export markets.

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 accreditation is growing rapidly among Australian organisations as globalisation increases international competition and the quality expectations of Australian consumers rise.

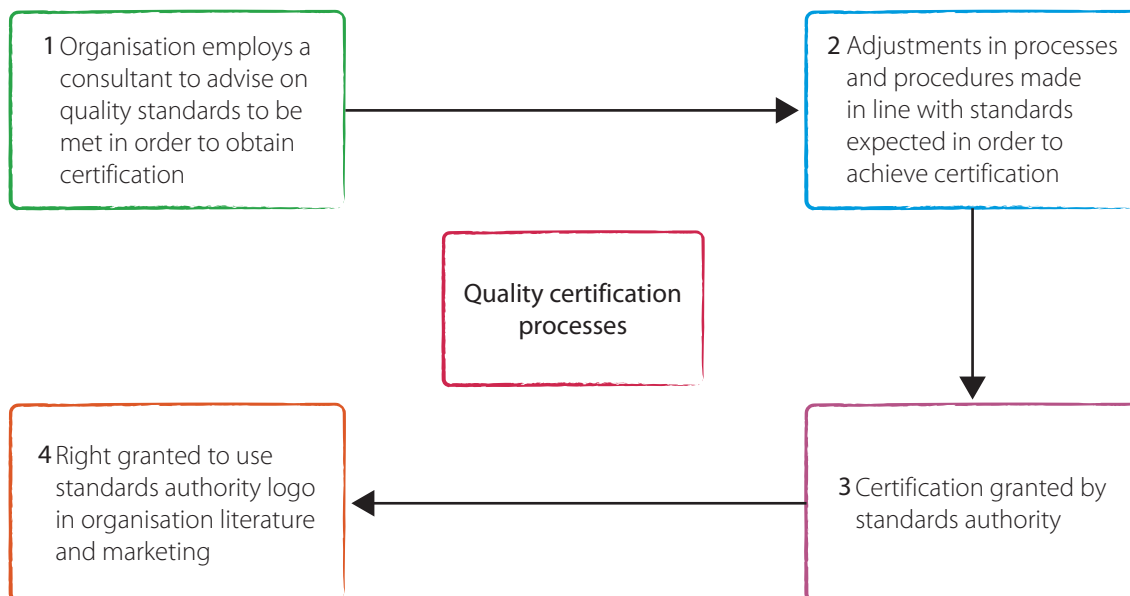


Figure 8.17 Quality certification processes

quality assurance
a system established to ensure that predetermined quality standards are achieved

proactive process
acting in anticipation to prevent defects from occurring



CASE STUDY 8.5

Quality assurance in action: the most popular holiday type for Australians – the caravan industry boom



Figure 8.18 RV holidays are enjoyed by millions of Australians.

Australians are passionate travellers, and although the COVID-19 pandemic put overseas travel to a screeching halt, we sought other ways to reach new destinations in our own backyard.

For years, caravan owners were assumed to be ‘grey nomads’ – older Australians who liked to roam the country – however, according to the Caravan Industry Association, the average age of a caravan owner is just 33 years. RACV data confirms a trend towards investing in the relatively portable, self-contained accommodation as registrations in Victoria leapt to 180 000 caravans in 2021. Currently, over 20 000 caravans are built each year in Victoria and the sector employs around 7500 people.

Network RV is an Australian-owned company that designs and manufactures for several well-known caravan brands, with production taking place across four factories at Campbellfield, in Melbourne’s north-western suburbs. The business uses cellular manufacturing, which is commonly implemented in industries where output consists of smaller lots. Cellular manufacturing allows for each caravan to be customised to suit the needs and wants of the customer.

There are a wide range of options for customers to decide on, including the number of bunks, their position, types of cabinets, design and finish. In many ways, building a caravan can be likened to building a home, and just like a home, there are regulations that must be observed to meet safety and legal requirements.

In cellular manufacturing, equipment, machines, parts and workstations are arranged to optimise the flow of continuous production. Each cell is self-sufficient, and employees have transferable skills that allow them to work at a different cell or workstation. This allows Network RV to construct all of the chassis, caravan furniture and awnings on site. Cellular production incorporates Just InTime for inventory management and aims to encompass elements of lean manufacturing.

According to Dung Nguyen, head designer at Network RV, on receiving an initial order, the design team use CAD for the floor plans, layout and furniture, to check specifications,

and to determine the position of gas and electricity. As cellular production incorporates Just In Time for inventory management, parts such as the chassis, windows and appliances are ordered.

On receiving the chassis, the floor is then built, and the walls installed. Wiring for electricity follows, then window installation. Each stage requires the measurements of the wall and floor to be checked before material is cut for the bunks, cabinets and any other fittings. As a result, there is quicker identification of defects. Quality is checked at each stage. Precise installation of the door is crucial for safety and security.

Aspects of lean manufacturing work well with Just In Time inventory management and good communication among employees. Implementation of zero defects is easier and waste is greatly reduced. Waste at the factories is separated into four bins for cardboard, timber, copper and aluminium, which can be recycled, reducing waste to a minimum.

Although the impact of the COVID-19 pandemic boosted Network RV's sales by over 50 per cent, the business struggled with efficiency. Buyers faced growing waiting times



Figure 8.19 Network RV employs a cellular production method to efficiently construct caravans.

as orders could not be completed promptly because of 3–6-month shipping delays for component parts, including fridges and stoves. Also affecting efficiency was the fact that should an employee test positive to COVID-19, the entire team had to isolate, disrupting the manufacturing process.

Sources: Author interview with Dung Nguyen, head designer at Network RV, January 2022; and data from RACV's RoyalAuto website

CASE STUDY ANALYSIS

- 1 Create a flow diagram to indicate the steps involved in the production of a caravan.
- 2 **Identify** the quality strategy implemented at Network RV.
- 3 **Describe** how CAD is used in the design process.
- 4 **Propose** two reasons why an automated production line would not be feasible for this business.
- 5 **Explain** how productivity is improved at Network RV through waste minimisation and lean production strategies.



ACTIVITY 8.3

Hilton Worldwide Holdings is an American-owned company with a portfolio of 18 world-class brands comprising more than 6000 properties. It was one of the first multinational organisations to receive ISO 14001 certification by establishing a comprehensive environmental management system (EMS).

An EMS supports organisations to improve their environmental performance with efficient use of resources and reduction of waste. Visit the Hilton ISO 14001 Hotels website and click on any of the European hotel destinations, then answer the following questions:



Figure 8.20 Crown, Alcoa's Kwinana Refinery and Southcorp Packaging have ISO 14001 accreditation.

- 1 **Identify** and **explain** how your chosen hotel supports an environmental management system.
- 2 **Evaluate** why ISO 14001 accreditation is advantageous for an organisation.
- 3 **Propose** two potential challenges that may occur in meeting the required ISO 14001 standards.

Total Quality Management

Total Quality Management (TQM) a proactive approach where each staff member is committed to maintaining high standards in every aspect of an organisation's operations

Total Quality Management (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. 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. Employees are required to have a commitment to ongoing, incremental quality improvements in everything they do.



Figure 8.21 TQM essential components

William Edwards Deming and the development of TQM

American statistician 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, with his central idea being to change the production system to prevent defects. Deming's definition of quality was 'meeting or exceeding the needs and expectations of the customer'.

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. During the 1980s, Western manufacturers began to adopt quality concepts and added other management techniques in the area of employee motivation. 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.



Figure 8.22 Statistician William Edwards Deming

Core Total Quality Management principles

1 A customer-focused system: everyone has a customer

- External customer – person who purchases the final product.
- Internal customer – those who use what your work group provides.
- Customers determine the quality of what is offered, hence TQM involves finding out exactly what their expectations are.

Key benefits of practising this principle include increased sales, market share and customer loyalty.

2 Total employee commitment and universal responsibility

- Commitment of all employees is vital for a business to increase productivity, improve its processes and sales.
- Clearly communicate and acknowledge each individual's contribution.
- Each work group seeks ways to improve the quality of its own product and processes.

The key benefit of this principle is increased retention of employees, who are empowered and motivated.

3 Process management

- A process is a sequence of tasks that together produce a product or service. Each work group has a supplier of inputs, and a customer for its outputs.
- Adhering to process ensures that steps are taken at the right time and safeguards consistency and efficiency.
- Evaluate the impact of processes on customers, suppliers and other stakeholders.

Key benefits in implementing this principle include focusing on continuous improvement, greater consistency and predictable outcomes.

4 Continuous improvement

- 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.

Key benefits in implementing this principle include improved knowledge and skills to increase performance, and objectives strategically aligned with organisational capabilities.

Table 8.5 Implementation of quality strategies designed to satisfy customer expectations

Quality strategy	Reactive/proactive	Benefits	Limitations
Quality control	Reactive	<ul style="list-style-type: none"> • Helps prevent defective goods being sold • Does not interrupt production 	<ul style="list-style-type: none"> • Potential waste of resources • More employees needed • Not all employees feel responsible for quality
Quality assurance	Proactive	<ul style="list-style-type: none"> • Enhances motivation of employees, who understand the importance of their effort • Competitive advantage nationally and internationally • Errors are prevented, reducing costs 	<ul style="list-style-type: none"> • High initial costs • Time-consuming to train staff to meet QA standards
Total Quality Management	Proactive	<ul style="list-style-type: none"> • Improved customer satisfaction • Improved productivity, employee morale and job satisfaction • Systematic decision-making and problem-solving • Consistently aiming for continuous improvement in processes, products and systems 	<ul style="list-style-type: none"> • Requires a deep, whole-organisation commitment • If management fails to fully implement, its partial efforts are likely to fail

REVIEW ACTIVITY 8.3



Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Outline** the three approaches to quality management and provide an example to illustrate how each approach operates.
- 2 **Discuss** the effectiveness of quality control as a strategy that supports the improvement of quality in operations.
- 3 **Compare** quality assurance and Total Quality Management methods of managing quality.
- 4 Benefit Skincare is a New Zealand based company producing natural skin, hair and body products. Sales have recently dropped and customer feedback indicates dissatisfaction with the seals of some products. **Propose** and **justify** one quality management strategy that will increase effectiveness and efficiency for this business.

8.4 Improving productivity through waste minimisation

Learning intentions – at the end of this chapter section I will be able to:

8.4.1 Identify different types of waste

8.4.2 Describe and discuss strategies to improve the efficiency and effectiveness of operations through 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 and rising costs of hazardous waste treatment and disposal. Faced with regulations, public pressure, landfill shortages and the need for increased resource efficiency, companies are moving away from the waste disposal or treatment approach and towards waste prevention.

waste includes any action in the production process that does not add value for the customer

Businesses are being forced to change the way they manage waste. Waste removal and disposal can be significant expenses. Materials that are not used efficiently are also unnecessary costs. Time and equipment used in fixing mistakes are not productive. Unnecessary storage and transport are direct costs and can contribute to energy and fuel costs. Reduction of waste generated by a business will usually result in significant cost savings and productivity improvements.

Types of waste

Waste includes any action in the production process that fails to add value for the customer. The late Taiichi Ohno, the former chief engineer of Toyota, identified seven wastes that need to be removed as part of lean production or manufacturing. He identified transportation, inventory, motion, waiting, overprocessing, overproduction and defects. The eighth waste, skills, was identified in the 1990s and, unlike the previous seven wastes, it is not associated with the manufacturing process. Skills refers to the underutilised talent of employees who may be inadequately trained or poorly managed.

Table 8.6 The mnemonic TIMWOODS is often used to assist in recalling the eight wastes.

<p>Transportation Moving items, information or people creates wasted time, resources and costs</p>	<p>Inventory Storage of inventory is a form of waste because of the costs involved</p>	<p>Motion Refers to excessive and unnecessary movement of people and processes</p>
<p>Waiting Waiting for information or materials wastes time, which translates to costs</p>	<p>Overprocessing Occurs when there are more steps in production than required by the customer</p>	<p>Overproduction Producing more than required by customer demand, resulting in surplus</p>
<p>Defects Waste created when a product or service fails to meet customer expectation</p>	<p>Skills Involves the waste of human potential</p>	



ACTIVITY 8.4

Alto Hotel Melbourne: 'Australia's first carbon neutral hotel'

- 1 Visit the Alto Hotel website and read its Environmental Sustainability Fact Sheet.
- 2 Construct a table to summarise its waste management strategies.

Waste prevention techniques such as the 4R principle – reduce, reuse, recycle and recover – are widely used in waste management:

- **reduce** – decrease use of resources, activities, labour and time to reduce waste production
- **reuse** – if waste is produced, make effort to repurpose instead of discarding
- **recycle** – convert waste material into usable products
- **recover** – recover materials or energy from waste that cannot be reused or recycled instead of discarding.

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 and treatment costs
- lower energy costs
- lower storage costs
- cost recovery through the sale of recyclable materials.



CASE STUDY 8.6

Applying sustainability goals



For over 30 years, Harry the Hirer Pty Ltd has set the standard for creating innovative and unique solutions for the major events, exhibition and conference industry across Australia.

Specialising in party hire, marquee, lighting, audiovisual and exhibition hire requires a wide and diverse range of stock. The impressive

range is stored at one location in Melbourne that covers 100 000 square metres.

Harry the Hirer takes responsibility in reducing its carbon footprint and implements an eco-friendly culture across all areas of the business, including organising sustainable events. The 4R principle of waste minimisation is implemented as part of the sustainability goals and core company values of Harry the Hirer.

Reuse

Products are reused for a long time before reaching the end of life. Clients are offered product solutions that can be reused over and over for a long time (hire products) as a priority over single-use products.

Table tops can be mixed and matched with over 200 combinations. Single-use items and materials continue to be used beyond the life of an event, through donations to charitable organisations or sent to auction to live another life.

Recycle and recover

The majority of damaged or unusable product is broken down into separate components,

with recyclable components such as steel, aluminium and most plastics being diverted from landfill to recycling programs.

Reduce

Recyclable packaging and products have been introduced, and energy-efficient technology is used to deliver events.

In 2020, Harry the Hirer released its first range of 'closed loop' furniture products, where recycled items are used to create new products (also called 'upcycling'). The Poppy table collection is a set of bar, cafe and coffee table bases made from 100 per cent recycled HDPE plastic.

Source: Adapted from the Harry the Hirer website

CASE STUDY ANALYSIS

- 1 **Explain** why reducing waste would be challenging for a business such as Harry the Hirer.
- 2 **Describe** how the 4R principle is being implemented at Harry the Hirer.
- 3 Suggest how implementing the 4R principle improves efficiency and effectiveness for this business.

REVIEW ACTIVITY 8.4

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Define** waste and identify the types of waste that can be produced.
- 2 **Explain** how waste minimisation can assist a business to achieve its objectives.
- 3 **Describe** the 4R principle of waste management and provide an example for each of the 4Rs.
- 4 **Outline** the benefits of efficient waste management for a business.



Figure 8.23 Toyota implemented lean production to help eliminate waste, reduce inventory, improve productivity and empower workers.

8.5 Improving productivity through lean management

Learning intentions – at the end of this chapter section I will be able to:

8.5.1 Describe and discuss the key principles of lean management, including pull, one-piece flow, takt and zero defects, in improving efficiency and effectiveness

lean management aims to deliver customer value by systematically eliminating waste and focusing on continuous improvement

Lean management (also known as lean production) 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. Lean management involves a systematic process in identifying and removing all activities 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 where materials were kept on hand in anticipation of future orders, and workers were assigned a single task to complete repetitively.

The Toyota Production System (TPS) has evolved by manufacturing vehicles based on customer orders in the most efficient way and ensuring that customer expectations have been met.

TPS is based on three pillars:

- **Just In Time** – materials are delivered just as they are required in the production process, so inventory costs are kept to a minimum.
- **Kaizen** – the notion of continuous improvement where employees at all levels of the company work together proactively to achieve regular incremental improvements in the production process.
- **Jidoka** – meaning 'automation with a human touch'. Should there be any issues, an employee is able to stop the production line and prevent a defect from being produced.



ACTIVITY 8.5

Visit the Toyota website, search for Toyota Production System (TPS) and answer the following questions:

- 1 **Identify** the desired outcomes of the Toyota Production System.
- 2 **Describe** how Just In Time improves efficiency and acts to ensure that neither overproduction nor underproduction occurs.
- 3 **Describe** the link between Kaizen and employee empowerment.
- 4 **Explain** how Jidoka is implemented as part of the Toyota Production System.

The four principles of lean management

There are a wide range of actions associated with the implementation of lean management, which may create confusion and uncertainty. In 2010, the developers of the four principles of lean management drew upon their experience at Toyota and Porsche to distil four key elements into a model that is accessible for many businesses to implement:

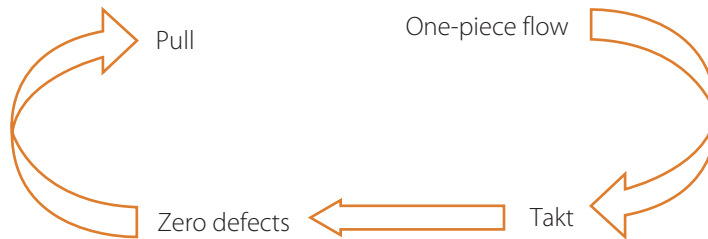


Figure 8.24 Pull, one-piece flow, takt and zero defects improve efficiency and effectiveness of operations.

- **Pull** is when the rate of production is determined by customer demand, which effectively ‘pulls’ value through the production process. This increases efficiency and effectiveness as inventory is kept minimal, waste is reduced, and customer satisfaction is assured as orders received are less likely to be damaged.
- **One-piece flow** is an uninterrupted flow of process from the beginning until the end of the production process. When all steps are aligned, value is added one piece at a time and unnecessary activities that are wasteful are removed from the process.
- **Takt** is a German term meaning ‘timing’, and refers to the consistent, continuous rhythm in production. When this is achieved, processes become easier and can respond flexibly to fluctuations in demand.
- **Zero defects** focuses on quality, identifying potential defects as soon as possible to ensure that any issues are resolved quickly and efficiently, resulting in high quality.

Table 8.7 Benefits and limitations of lean management

Benefits	Limitations
<ul style="list-style-type: none"> • Less infrastructure is required, with only the essential building space, equipment and manpower • Improved productivity • Reduced inventory • Reduced waste production • Increased employee motivation • Responsiveness to customer needs develops strong customer relationships 	<ul style="list-style-type: none"> • Focus on short-term gains valued at the expense of long-term sustainable solutions • Gains may not be sustainable and, as a result, targets may not be met • Culture of continuous improvement may fail to develop • Leadership not invested, impacting employees who may resist change

Given the shortcomings of lean production, proactive businesses sought further strategies to facilitate continued and sustained improvement. Lean leadership and Six Sigma principles can be integrated into an operations system to further increase efficiency and effectiveness.

pull a pull system is a lean manufacturing principle created to reduce waste in the production process. This kind of system offers many advantages, such as optimising resources, increasing flow efficiency, and more.

one-piece flow is a lean manufacturing principle that allows a business to move a single product through every step of the process instead of grouping work items into batches. The method is called this way because it allows goods to be sent to the market continuously. This provides the business opportunity to deliver value more often to its customers.

takt is a lean manufacturing principle where takt time is the rate at which you need to complete a product to meet customer demand. The term ‘takt’ originates from a German word meaning a beat or a pulse.

zero defects is a lean manufacturing principle aimed at eliminating rework, scrap, or defective products. Examples from the project management world would be incorrect data collection, communication errors, and unclear acceptance criteria.



CASE STUDY 8.7

Bombardier's quest for excellence: lean leadership and Six Sigma



Bombardier is a multinational aerospace and transportation company and is the world's leading manufacturer of both planes and trains, employing over 39 000 people in 27 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. In recent years, Bombardier has secured a \$300 million contract with Victoria's Department of Transport for 50 trams and for 54 VLocity train carriages to be used in regional Victoria.

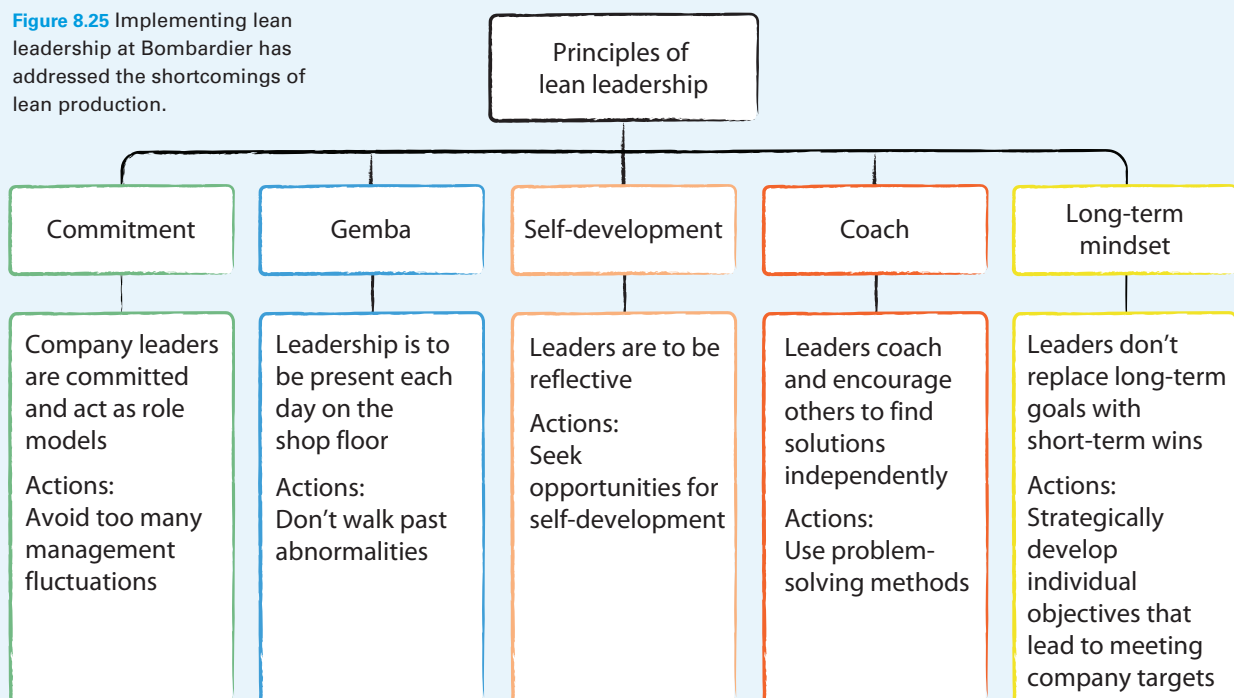
Introducing lean leadership

The company found that the focus on waste reduction meant that short-term wins were valued at the expense of developing long-term, sustainable strategies. It appeared that high-level management was not committed to the

process, and this led to questions regarding credibility. 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 expects leaders to commit to their employees, the system and making changes that bring about continuous improvement.

The introduction of Gemba (a Japanese term meaning 'real place') anticipates a regular presence on the factory floor by leaders. 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.

Figure 8.25 Implementing lean leadership at Bombardier has addressed the shortcomings of lean production.



Introducing Six Sigma

Continuing to look for an edge in a globally competitive market, the transport giant introduced Six Sigma alongside lean manufacturing and lean leadership. This model was developed by American electronics company Motorola. Six Sigma is a systematic, data-driven approach applied to resolve problems, and can be applied by

any sized business in any industry. Six Sigma aims to:

- reduce variations
- improve quality by reducing inefficiencies and defects
- improve productivity and reduce costs
- enhance customer satisfaction and loyalty
- develop a culture of continuous improvement.

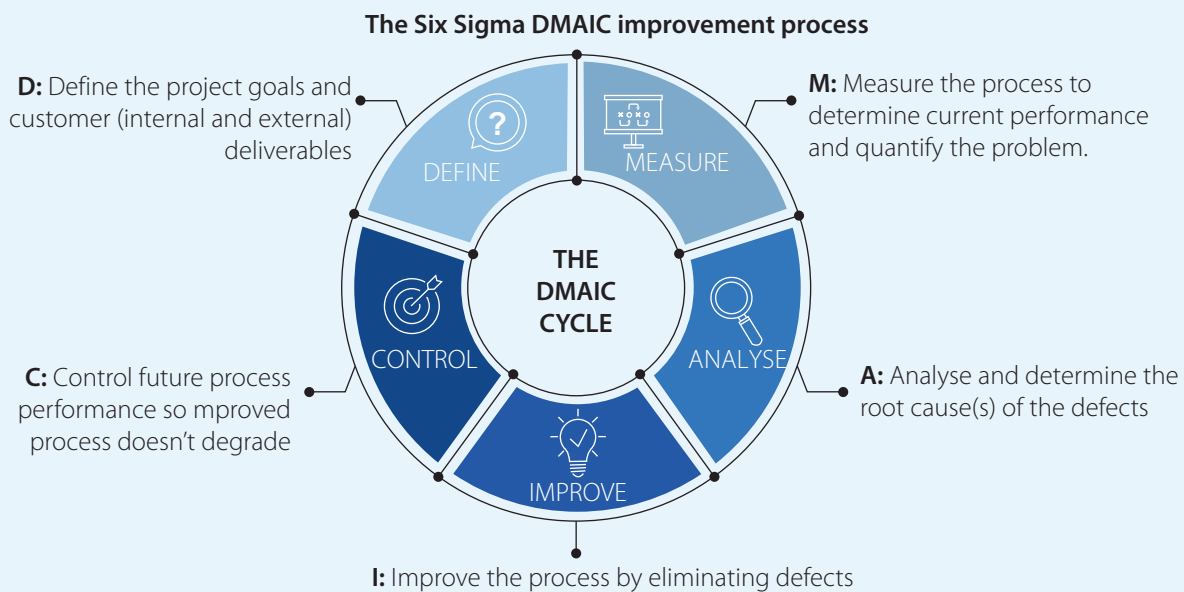


Figure 8.26 DMAIC is a five-step method for improving process problems with unknown causes.

Today, 'lean Six Sigma' (combining lean and Six Sigma) is applied in a wide range of industries and business sizes, including Amazon, Shell, Malaysia Airlines, Coca-Cola,

Boeing and Lego. Australian organisations are also recognising the benefits of Six Sigma, including Alcoa, Telstra, Qantas, University of Ballarat and ANZ.

CASE STUDY ANALYSIS

- 1 **Outline** 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 '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.
- 5 **Describe** how Six Sigma can further assist businesses with greater efficiency and effectiveness.



REVIEW ACTIVITY 8.5

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Define** the term 'lean management' and outline its four key principles.
- 2 **Compare** the principles of waste management to lean management.
- 3 **Evaluate** the effectiveness of lean management as a strategy in waste minimisation.

SAC AND EXAM TIPS – LINKED TO KEY SKILLS

Evaluate two 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 two strategies that you have selected. The final step to completing an evaluate question requires you to conclude with a statement about which strategy is preferred.

Propose and justify one strategy that can be used to improve efficiency through waste minimisation – requires you to put forward one strategy that can be used to improve efficiency through waste minimisation and provide explanation as to how efficiency can be gained through its implementation.



Figure 8.27 Assessing the operations system of the business

Chapter 8 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 3 Area of Study 3, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Automated production line	Online services	E-commerce
Computer-aided design (CAD)	Computer-aided manufacturing (CAM)	Computer-integrated manufacturing (CIM)
Forecasting	Master production schedule (MPS)	Materials requirement planning (MRP)
Just In Time (JIT)	Quality	Quality control
Quality assurance	Total Quality Management	Waste
Lean management	Pull	One-piece flow
Takt	Zero defects	

Examination preparation

Jason Matthew Fine Furniture is a highly successful Melbourne furniture manufacturer that designs and manufactures award-winning dining tables, coffee tables and side tables. Two competitors have recently become bankrupt, and management wishes to take advantage of the potential to increase the current market share. However, this will require significant investment. Management is nervous that the potential expansion of its operations function may impact on the quality of the final product.

Management has 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.

- Propose** and **evaluate** two technological strategies that Jason Matthew should introduce to improve efficiency and effectiveness in operations. **(4 marks)**
- Propose** and **justify** one strategy for Jason Matthew to implement that will improve the efficiency and effectiveness of operations related to materials management. **(4 marks)**
- Compare** and **evaluate** two quality management strategies that could be introduced to ensure that the furniture manufactured by Jason Matthew maintains high quality. **(8 marks)**
- Describe** and **discuss** two strategies that could be implemented by Jason Matthew to effectively minimise waste in the operations process. **(6 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
8.1 Strategies to optimise operations: technological development	8.1.1 Describe and discuss strategies related to technological developments to improve efficiency and effectiveness	Activity 8.1: Q1–2 Case study 8.1: Q1–3 Case study 8.2: Q1–4 Case study 8.3: Q1–4 Review activity: 8.1: Part 1 & Part 2 (Q1–3)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	8.1.2 Compare and evaluate strategies used in operations	Case study 8.2: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	8.1.3 Propose and justify strategies for improving effectiveness and efficiency in operations	Review activity 8.1: Part 2 (Q4) Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
8.2 Materials management strategies	8.2.1 Describe and discuss strategies related to materials management to improve efficiency and effectiveness in operations	Case study 8.4: Q1–4 Review activity 8.2: Part 1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	8.2.2 Propose and justify strategies for improving effectiveness and efficiency in operations	Review activity 8.2: Part 2 Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
8.3 Quality management	8.3.1 Describe and discuss strategies related to quality to improve efficiency and effectiveness	Activity 8.2 Case study 8.5: Q4–5 Review activity 8.3: Part 1 & Part 2 (Q1–2, 4)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	8.3.2 Compare and evaluate strategies used in operations	Review activity 8.3: Part 2 (Q3)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	8.3.3 Propose and justify strategies for improving effectiveness and efficiency in operations	Review activity 8.3: Part 2 (Q4) Examination preparation: Q3	Yes No <input type="checkbox"/> <input type="checkbox"/>
8.4 Improving productivity through waste minimisation	8.4.1 Identify different types of waste	Activity 8.4: Q1–2	Yes No <input type="checkbox"/> <input type="checkbox"/>
	8.4.2 Describe and discuss strategies to improve the efficiency and effectiveness of operations through waste minimisation	Case study 8.6: Q3 Review activity 8.4: Part 1 & Part 2 (Q2–4)	Yes No <input type="checkbox"/> <input type="checkbox"/>
8.5 Improving productivity through lean management	8.5.1 Describe and discuss the key principles of lean management, including pull, one-piece flow, takt and zero defects, in improving efficiency and effectiveness	Activity 8.5: Q2–4 Case study 8.7: Q1–5 Review activity 8.5: Part 1 & Part 2 (Q1–3) Examination preparation: Q4	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 9

Corporate social responsibility and global issues in operations management

'To build and sustain brands people love and trust, one must focus, not only on today but also on tomorrow. It's not easy ... but balancing the short and long term is key to delivering sustainable profitable growth, growth that is good for our shareholders but also good for our consumers, our employees, our business partners, the communities where we live and work, and the planet we inhabit.'

Irene Rosenfeld (1953–)

About the author:

Irene Rosenfeld is an American businessperson and former CEO of Kraft and CEO of global food company Mondelez International, manufacturing iconic snack foods. Rosenfeld has been listed as one of the most powerful women in the world by Forbes.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about corporate social responsibility and discuss your response to the following questions:

- 1 Discuss** why businesses need to take into account a broad range of stakeholders.
- 2** Suggest why businesses should consider short-term as well as long-term goals.
- 3** Should businesses be responsible for the 'communities where we live and work, and the planet we inhabit'? **Discuss.**

CHAPTER OVERVIEW

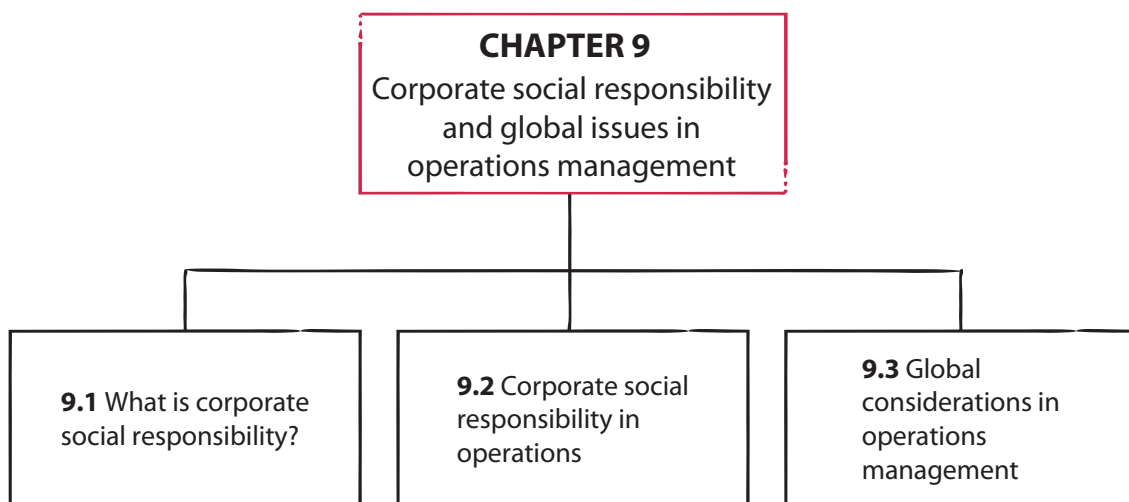
This chapter explores the importance of corporate social responsibility within the operations system. Specific operations strategies in the areas of environmental sustainability and the minimisation of waste will be examined. Corporate social responsibility also extends to global business activities, including supply chain management, global sourcing of inputs, overseas manufacture and global outsourcing.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Corporate social responsibility (CSR) considerations	9.1 What is corporate social responsibility? 9.1.1 Describe the concept of corporate social responsibility and its impact on stakeholders 9.1.2 Describe socially responsible decision-making in the management of operations 9.1.3 Examine how CSR can be measured: triple bottom line reporting, international agreements and standards
Implementation of CSR in an operations system	9.2 Corporate social responsibility in operations 9.2.1 Describe how CSR strategies can be implemented across the three stages of an operations system
Global considerations in responsible operations management	9.3 Global considerations in operations management 9.3.1 Discuss global considerations for operations management, including global sourcing of inputs, overseas manufacture and global outsourcing

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What's ahead



9.1 What is corporate social responsibility?

Learning intentions – at the end of this chapter section I will be able to:

9.1.1 Describe the concept of corporate social responsibility and its impact on stakeholders

9.1.2 Describe socially responsible decision-making in the management of operations

9.1.3 Examine how CSR can be measured: triple bottom line reporting, international agreements and standards

corporate social responsibility (CSR) the commitment to conduct business in an ethical manner, to take responsibility for the economic, social and environmental consequences of their activities

According to the Australian Human Rights Commission, **corporate social responsibility (CSR)** means that businesses are responsible for their economic activities as well as any social and environmental implications. The purpose of CSR is to encourage ethical practices that work towards a more positive impact on society. In managing their corporate social responsibility, businesses are expected to adopt practices that exceed statutory minimum requirements.

Businesses are able to participate in a range of activities associated with corporate social responsibility. Establishing corporate governance is an important starting point and includes the policies and processes used to manage a business, holding itself to account for its actions and impact on stakeholders. The basic principles of corporate governance include accountability, transparency, fairness and responsibility. Poor corporate governance can negatively impact the operations of a business. Additional areas of corporate social responsibility include:

- **Human resource-based consideration of employees**, where businesses aim to improve the lives of their employees. Actions are above the legal requirements for pay and conditions, equal employment opportunity and the provision of safe workplaces. Flexible work arrangements and extended family leave are examples.
- **Environmental initiatives**, which aim to reduce the harmful effects on the environment, such as pollution and greenhouse gas emissions, due to business operations. Businesses create practices to minimise the production of these by-products and work towards creating sustainable outcomes.
- **Human rights initiatives**, which aim to safeguard the wellbeing of society at local and global levels. Actions include fair labour practices (equal pay for equal work), fair trade practices and prevention of child labour.
- **Philanthropy**, where substantial charitable donations are given, with altruistic intentions, to help others or society as a whole.
- **Support for local community**, which can be demonstrated by sponsoring local projects, events or individuals with the intent to support and establish links with the community.



Figure 9.1 Values underpinning corporate social responsibility

In developing a corporate social responsibility approach, businesses work towards balancing the wide-ranging and often competing agendas of stakeholders. Consultation is necessary in deciding what is important, and businesses should negotiate to achieve trust, improve accountability and manage potential risks. Successful development of CSR strategies strengthens relations with stakeholders, both internal and external, and leads to increased business confidence:

- **Employees** often choose to work with employers with strong CSR policies and practices in place.
- **Customers** expect businesses to demonstrate CSR and are more likely to purchase from a business that demonstrates CSR.
- **Shareholders** increasingly make investment choices based on the level of responsible practices demonstrated by a business.
- **Suppliers** are pressured to implement CSR practices or potentially run the risk of losing business.
- **Community** awareness of improved CSR actions pressures businesses to meet community expectations.

Socially responsible management of operations

Ethical and socially responsible behaviours involve doing what is 'morally right' and enhance the law by outlining expected behaviours directly relevant to a business that may be otherwise difficult for a government to predict or enforce. A socially responsible organisation builds community goodwill and subsequently a positive reputation. 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).

Some ethical requirements for business are regulated by law – for example, providing safe working conditions and equal opportunity for all employees. Through the creation of policies, organisations are able to articulate expectations within a workplace and establish procedures to ensure that legal requirements are met and extended to satisfy CSR expectations. The objectives of a business should include CSR objectives and establish what the standards of performance are to be. Explicit planning provides a sense of direction for all areas of management, including operations, which will align operations processes to support the achievement of the business objectives.

Establishing ethical behaviour and decision-making creates a range of benefits for a business. There is a close connection between practising ethics and establishing high-level workplace culture. When management sets high, ethical expectations for itself, it is also providing role modelling for its employees. Employees, in turn, make decisions that benefit the organisation as well as themselves. With business ethics operating as a guiding principle, employees are likely to perform their duties to a higher standard, making improvements in productivity and effectiveness. Morale increases, as does productivity. Such businesses attract and often retain talented employees, creating stability within the organisation.

Business ethics may differ from industry to industry, and country to country. Businesses such as Google and PayPal, which conduct most of their operations online, are not scrutinised for their environmental impact in the same way that BHP or Viva Energy Group are. Many of the ethical issues in business stem from the operations level. Ethics in operations management is often focused on creating continuous growth in profit as opposed to determining the amount of profit that is sufficient. Tension can be created between the pursuit of profit and business responsibilities.

Why be socially responsible?

Communities increasingly expect businesses to demonstrate CSR in their actions. 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 companies 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 9.2 The community expects businesses to act in ways that are consistent with society's values.



CASE STUDY 9.1

Socially responsible operations strategies: Fairtrade and T2



T2 has been credited for transforming the Australian tea industry by moving a high-volume, old-fashioned supermarket product into a highly successful boutique setting.

T2 offers a wide range of teas and blends in contemporary packaging, sold exclusively in stores fitted out as boutiques designed to enhance a customer's sensory experience.

The company sells only Fairtrade Certified tea, a scheme that sets out to tackle poverty and empower primary producers in developing countries. Commodities that are protected,

such as tea, coffee, sugar, chocolate and cotton, are frequently grown in poor, developing countries.

When farmers sell their crops to Fairtrade cooperatives and plantations, they receive a better deal and a more stable income to feed and educate their children. Farmers also have the opportunity to invest in improved farming methods and clean water, and to improve the health of their communities. In return, they are guaranteed fair prices for their products to guard against fluctuations in world markets.



Figure 9.3 Products bearing this mark are Fairtrade certified.

Suppliers who purchase from certified producers are entitled to use the Fairtrade Mark on their products. Fairtrade offers businesses a credible way to ensure that their trade has provided a positive impact for farmers and communities at the end of the supply chain.

Businesses such as T2 recognise that ethical production, responsible sourcing and sustainable business practices are important to customers, who are able to buy products that are aligned to their own values and principles.

CASE STUDY ANALYSIS

Visit the Fairtrade website.

- 1 **Explain** in your own words how Fairtrade works.
- 2 **Discuss** the advantages and disadvantages of Fairtrade for Australian businesses such as T2 that use Fairtrade certified suppliers.
- 3 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.

Measuring social responsibility: triple bottom line reporting, international agreements and standards

Historically, businesses operated with three main objectives: to create profit, provide a return on investment and provide shareholder value. **Triple bottom line reporting** takes a more comprehensive approach in measuring the success and impact of a business. Assessment is based on environmental and social performance as well as economic results (profits). Tools used within the triple bottom line assist to measure, set goals and benchmark performance, providing data to monitor and evaluate progress.

This process gives businesses the opportunity to realise the connection between social wellbeing, environmental sustainability and a just economy. Triple bottom line reporting allows a business to gauge its level of corporate social responsibility.



Figure 9.4 China, India, Sri Lanka and Kenya are responsible for producing almost three-quarters of the world's tea.

triple bottom line reporting

where a business organisation reports on economic performance, social outcomes and environmental impact (profit, people, planet)

Economic (profit)

Economic or financial results are quantitative and easier to measure than social and environmental performance. CSR in the marketplace involves how a business interacts with its customers, suppliers and other stakeholders. Businesses are expected to engage in responsible supply chain management.

Social (people)

CSR in the workplace includes the ethical management of issues such as diversity, equality, employee engagement, training and development. Workplace CSR covers a range of best practices, including staff consultation and flexible work arrangements, which promote higher levels of staff satisfaction and retention.

Community-based CSR activities generate economic activity and social vitality. These mutually beneficial partnerships assist in supporting local communities, who in turn support business as loyal customers.

Environment (planet)

Integrating environmentally sustainable activities is crucial in a world where resources are no longer considered infinite. Businesses are continuously finding ways to become resource-efficient and aim to minimise environmental impact by reducing their carbon footprint. Customers and employees expect more sustainable practices, and companies that fail to adapt are likely to find the future challenging. Businesses that make changes to their facilities and operational procedures will gain a positive financial impact.

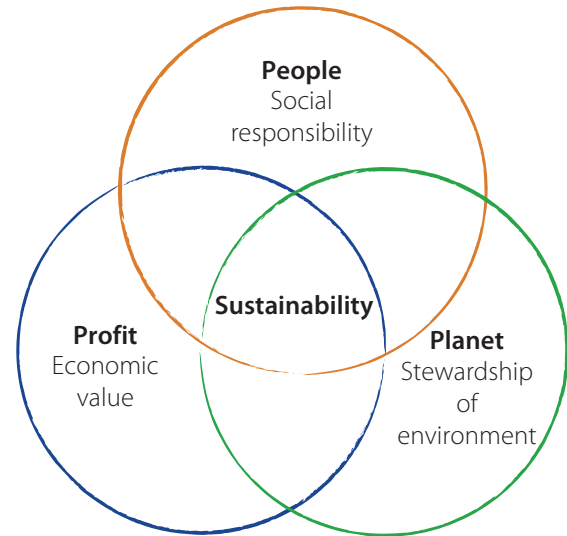


Figure 9.5 Triple bottom line reporting

Table 9.1 Triple bottom line reporting: components

Aspect measured	Examples of key performance indicators used
Organisational financial/economic performance is measured using financial key performance indicators	<ul style="list-style-type: none"> • Net profit • Financial turnover • Market share • Share price • Value of assets held
Organisational social performance is measured by examining the impact on people both within (employees) and outside the business (community)	<ul style="list-style-type: none"> • Community living standards • Contribution to the community • Staff satisfaction • Working conditions • Customer complaints
Organisational environmental performance is measured through impact on the natural environment	<ul style="list-style-type: none"> • CO₂ emission levels • Rates of recycling • Waste levels • Waste disposal costs

Sustainability: a long-term approach

It can be argued that corporate social responsibility focuses on current stakeholder interests that result in actions in the short term only. The concept of sustainability extends to long-term planning and benefits. The World Commission on Environment and Development defines sustainability as meeting 'the needs of the present without compromising the ability of future generations to meet their own needs'.

Sustainability balances resource usage and supplies over time, aiming to achieve intergenerational equity. Business sustainability responds to short-term needs without compromising the ability to manage future resource needs. Sustainable businesses plan to build long-term relationships, innovate, design and invest in long-term infrastructure that will help them to thrive in the future.

United Nations Global Compact

The United Nations Global Compact is the world's largest corporate sustainability initiative, providing a framework to guide all businesses regardless of location or size. The Global Compact identifies 10 principles related to human rights, labour, the environment and anti-corruption.

There are over 15 000 business signatories worldwide, representing nearly all business sectors. The adoption of the UN Global Compact requires a cycle of assessment, implementation and evaluation to ensure that companies adhere to the corporate sustainability initiatives.

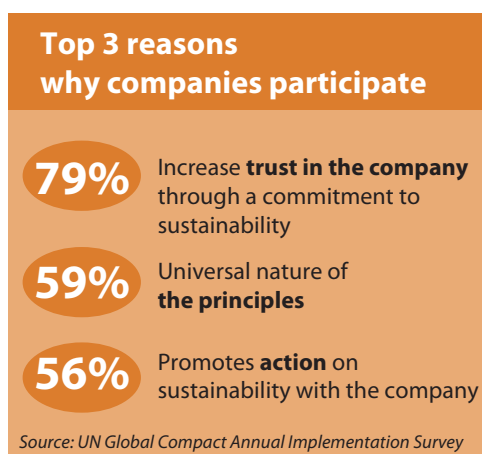


Figure 9.6 Three reasons why companies participate in the UN Global Compact

In 2020, the UN Global Compact launched a web-based interactive management tool that allows businesses to learn about, manage and improve their sustainability performance. The tool, developed by B Lab, recognises the power of business to work towards resolving global issues and inspire others. The tool aims to:

- inform which principles apply best to their business
- provide clarity on which operations, supply chains and business models will have a positive impact and assess any risks
- set goals to track and enter a cycle of continuous improvement.



ACTIVITY 9.1

Visit the United Nations Global Compact website, click on 'Ten Principles of the UN Global Compact', and complete the following tasks:

- 1 **Outline** the labour principles and suggest two actions that a business could implement to uphold these principles.
- 2 **Outline** the environment principles and suggest two actions that a business could implement to uphold these principles.
- 3 **Explain** why businesses should be concerned about corruption and propose one action that can be implemented to support the anti-corruption principle.

Internationally agreed standards: environmental management systems

environmental management system (EMS) a series of policies and practices that focus on an organisation's approach to environmental issues

An **environmental management system (EMS)** is a tool for managing the environmental performance aspect of the triple bottom line for a business. ISO standard ISO 14001 sets out the criteria for an EMS system (this was also covered in Chapter 8). Over 4000 Australian businesses have introduced environmental management systems that meet the ISO 14001 standards. An environment management system requires:

- development of an environmental policy and establishment of environmental objectives, targets and programs
- integration of environmental management practices into everyday operations, including staff training
- monitoring, measuring and review of the system and 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 with reduced waste and maximised use of resources. They are able to stay ahead of rising costs, increasing potential for long-term success.



ACTIVITY 9.2

Amcor Ltd

Amcor is a global leader in developing quality packaging that is used in a wide range of industries, including pharmaceutical and personal care. In 2020, Amcor reported an annual global revenue in excess of \$12.5 billion.

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 **Describe** the key initiatives implemented by Amcor designed to strengthen its environmental management system.
- 3 **Identify** and **describe** Amcor's sustainability partners.
- 4 **Describe** the key actions of Amcor's COVID-19 Community Program and explain how these strategies meet CSR expectations during the global pandemic.



Figure 9.7 Amcor is a global leader in packaging.



Figure 9.8 Amcor works with stakeholders throughout its supply chain to respond to the industry's environmental and social challenges.

REVIEW ACTIVITY 9.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** the concept of corporate social responsibility.
- 2 **Outline** the five areas of action associated with corporate social responsibility.
- 3 **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.
- 4 **Describe** the early actions required by a business to act in a socially responsible manner.
- 5 **Identify** and **explain** the gains created by establishing socially responsible practices.
- 6 **Describe** the three components of triple bottom line reporting and give an example of a key performance indicator that can be used to measure implementation for each.
- 7 **Explain** how the United Nations Global Compact and environmental management systems contribute to global understanding of corporate social responsibility.

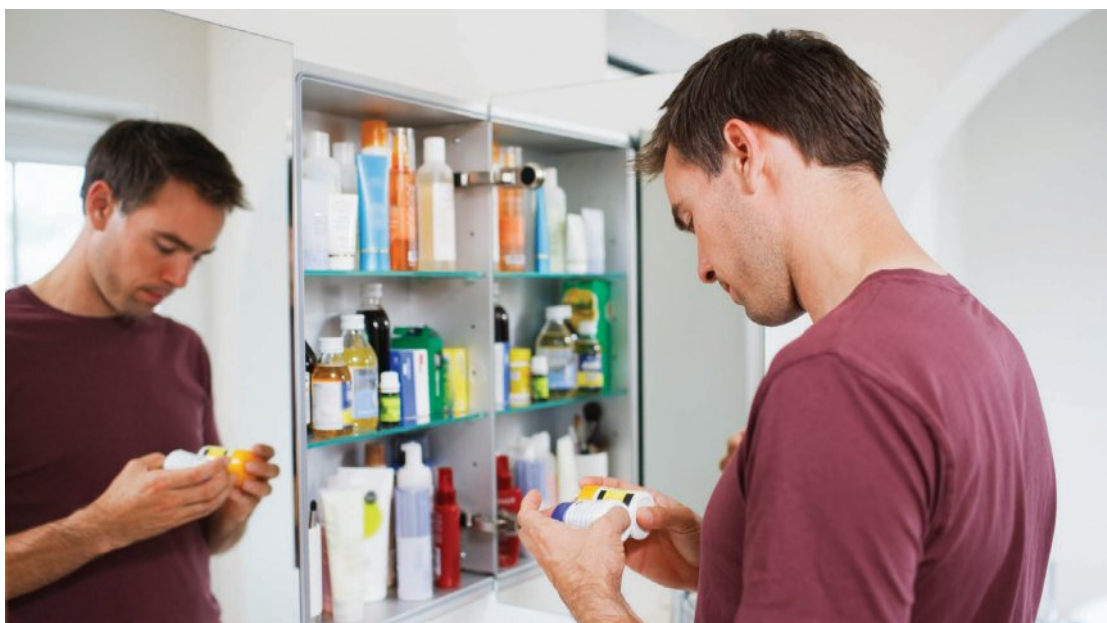


Figure 9.9 Animal testing can be an ethical concern. You can research online which of your favourite products and brands are cruelty-free.

9.2 Corporate social responsibility in operations

Learning intentions – at the end of this chapter section I will be able to:

9.2.1 Describe how CSR strategies can be implemented across the three stages of an operations system

A socially responsible organisation builds community goodwill and subsequently a positive reputation. It is an ongoing commitment to improving the quality of life of the workforce, the community and society in general. Developing CSR strategies across operations can be expensive and time-consuming in the short term. However, long-term benefits indicate that there are improvements made in efficiency and reduced costs.

Including ethical and socially responsible considerations when designing and operating an operations system requires intense planning from a strategic level through to operational implementation. CSR operations systems include processes that:

- minimise negative environmental impacts, and conserve energy and natural resources
- enhance quality of life for employees through safe working environments and respecting employee rights (above legal requirements)
- take responsibility for the environmental, social and economic impact of the organisation’s activities.

procurement
the process of sourcing and purchasing of goods or services from an external source

sustainable procurement
considers the long-term impact of social, economic and environmental factors, as well as price and quality in the procurement process

Inputs

Sustainable and socially responsible procurement of inputs

The **procurement** process involves decisions about what businesses need to buy, who to purchase from, the expected standards of suppliers and how supply chains are to be managed. **Sustainable procurement** requires businesses to consider the economic and social impact of the purchased goods or services, as well as their environmental footprint.



Figure 9.10 Steps in creating a sustainable procurement policy

The development of a **purchasing policy** provides a consistent and transparent approach in the ethical management of procurement. Simply having the lowest price is no longer the only criterion for a successful tender, as suppliers are frequently selected using social responsibility criteria. This will include ensuring that all stakeholders receive fair treatment, including fair wages, fair conditions and no tolerance of child labour. It is important for the reputation of a business to ensure that its approach to CSR is practised across all areas of the business, especially in operations.

purchasing policy determines the standard requirements for the purchase of goods or services by a business

Environmentally sustainable strategies in managing inputs

Managing operations in an environmentally responsible manner has become a business imperative as businesses deal with increased costs in materials, energy and compliance requirements. Reducing environmental impact in business operations benefits the environment and can support business growth and profit in the long term. Sustainable business practices use fewer resources, have lower emissions and less waste, and reduce costs. Following are examples of environmentally sustainable strategies:

- source global inputs responsibly through implementation of socially responsible purchasing policies
- purchase sustainably sourced inputs (e.g. recyclable materials)
- invest in renewable energy (almost 50 per cent of Australian businesses use renewable energy)
- improve energy consumption by installing insulation and double glazing for windows
- reduce carbon footprint by introducing energy-saving measures, such as motion-activated lighting, energy-efficient lighting such as LED, and programmable thermostats
- depending on industry requirements, develop greater efficiency in the use of water
- choose local suppliers to reduce carbon footprint and transport costs.



Figure 9.11 An additional benefit of CSR is that it enhances positive relationships among stakeholders and builds public trust.

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.





CASE STUDY 9.2

Adidas using success to leverage environmental and social responsibility



Being in the business of sport for over 70 years has taught Adidas many valuable lessons, including lessons on winning, losing and adapting to athletes' needs. These fundamental lessons have largely informed the brand's approach to corporate responsibility, which goes beyond making shoes and apparel.

Adidas believes that making quality products is just as important as waste reduction, upholding decent labour and health and safety standards, refining production methods, innovating use of recycled materials and activating communities to raise awareness of plastic waste. It is about the entire sustainable picture, not only what is seen on the shelves.

Environmental impact

Adidas is continually looking at ways to reduce the environmental impact created by production and consumption while working towards a more productive use of natural resources to provide economic growth.

As part of the company's drive to create a circular economy, the Ultraboost DNA Loop trainers are made from 100 per cent recycled material, including 11 plastic bottles. The trainers are to be recycled at the end of their life and remade into new runners. With the environmental organisation Parley for the Oceans, Adidas aims to produce 17 million pairs of shoes in 2021 using recycled plastic waste collected from beaches and coastal regions, after producing more than 15 million in 2020.

Figure 9.13 Via its Three Loop Strategy, Adidas is working towards becoming a circular company where products can be either recycled, remade or returned to nature. Pictured is the Adidas store at Chadstone Shopping Centre.



In partnership with the company's suppliers, Adidas aims to achieve global climate neutrality by 2050 in its entire supply chain.

Animal welfare

Although the brand continues to use leather, it does not use fur, exotic animal skin or exotic animal hair. Adidas is continuing to expand its vegan product and is developing a new material, a purely biological leather alternative made from mycelium.

Labour conditions

Adidas outsources most of its production, with more than 500 independent factories across the globe, and is committed to transparency by publishing factory lists disclosing its suppliers, subcontractors and licensees. In recent years, Adidas conducted wage assessments at 40 factories located in Cambodia, Indonesia and Vietnam, representing 50 per cent of its suppliers. Using this information as a base line, Adidas aims to achieve improvements in gender equity, pay equity and responsible sourcing by 2025.

In working with disadvantaged communities, Adidas supports refugees from Iraq, Turkey,

Russia, Syria and Afghanistan by offering employment integration in its German-based factories as well as humanitarian aid. In response to pressure by employees to increase its approach to tackle racism, in 2020 Adidas invested \$20 million into Black American communities. The funds will be used to provide community-based basketball programs and fund 50 university scholarships.

As the impact of the COVID-19 pandemic escalated, social distancing, strict hygiene, the provision of PPE and regular health checks were put in place to protect Adidas employees in its German-based factories that remained operational.

Adidas responded quickly to support workers and suppliers in China and throughout Asia by ensuring the continuity of pay during the shutdown period. It donated over 18 000 face shields per week for healthcare workers and over 100 000 masks to medical communities across the globe. Almost 3000 pairs of footwear and fleece tops were handed over to healthcare workers in South Africa. It also donated \$3.2 million to the WHO's COVID-19 Solidarity Response Fund.

CASE STUDY ANALYSIS

- 1 **Outline** the strategies developed by Adidas to address environmental impact.
- 2 **Propose** how the circular economy could be seen as a business opportunity for Adidas.
- 3 **Propose** why Adidas provides support to minority groups in society. To what extent do you think these actions are good business?
- 4 **Describe** how Adidas has met social obligations on a global scale during the COVID-19 pandemic.

Process/transformation

During the production of goods or services where inputs are transformed into outputs, operations managers are legally obliged to provide a safe and clean environment for all employees under occupational health and safety laws. To meet expectations regarding CSR, employees are to be offered conditions and facilities that are above basic legal requirements. Ethical treatment of employees, maximising local employment and offering high-level training and development are examples of socially responsible measures.

Table 9.2 Examples of socially responsible operations management strategies

Operations management strategies	Potential influence/impact of social responsibility
Introduction of technology	<ul style="list-style-type: none"> • Dangerous and repetitive tasks no longer undertaken by employees • Improved efficiency and effectiveness
Inventory management systems	<ul style="list-style-type: none"> • Reduces the potential for unused or obsolete stock that could be sent into landfill
Management of quality	<ul style="list-style-type: none"> • Proactive processes assist in reducing errors, protecting consumers from faulty goods and reducing waste
Waste minimisation	<ul style="list-style-type: none"> • Reducing waste creation provides greater efficiency • Reduced landfill and responsible disposal of waste • Appropriate procedures to handle toxic waste
Recycling of materials	<ul style="list-style-type: none"> • Materials that can be recycled are reused in the manufacturing process, reducing costs and improving business reputation • Lower landfill costs
Lean manufacturing	<ul style="list-style-type: none"> • Improvements in productivity, quality and competitiveness • Improvements in employee motivation through empowerment
Inventory management systems	<ul style="list-style-type: none"> • Greater efficiency and productivity through reduced waste and productivity improvements

Outputs

If the inputs and processes meet CSR expectations, it is important for the final element of the operations system to meet socially responsible and environmentally sustainable considerations. Key actions include:

- **Quality** outputs must be fit for purpose. Products that are unsafe, of poor quality or that have been produced unethically have the potential to cause harm by injuring or causing distress to consumers. Product recalls may be required to remove unsafe products from the marketplace.
- **Packaging** with minimal environmental impact, and that is non-offensive, will help maintain a reputation for ethical and socially responsible behaviour. Recyclable and/or biodegradable options are used as packaging materials.
- **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 their reputation and competitiveness.



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 operations management strategies listed.

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 close a manufacturing plant found to have produced large amounts of waste and carbon emissions		



CASE STUDY 9.3

Case study in CSR across an operations system



Coles Group Ltd has 2,480 retail outlets across Australia, employs more than 120,000 people, processes over 20 million customer transactions each week and holds approximately 27 per cent of the supermarket share. Coles provides fresh food, groceries, liquor, fuel and financial services through its stores and online platform.

Coles is on the way to becoming a digital leader in consumer staples, investing over \$200 million over a five-year period. The **Smarter Selling** initiative, which introduced new technology to forecast demand and improve stock availability, includes increased automation of manual tasks and improved logistics planning to reduce the movement of trucks.

In 2021, Coles refreshed its Sustainability Strategy under two focus areas, **Together to Zero** and **Better Together**, building on established good practice. Together to Zero sets out Coles' ambitions across key sustainability areas including climate change, waste and hunger. Better Together sets out Coles ambitions as to how it will work with stakeholders to drive positive change. The strategies support Coles' purpose to 'sustainably feed all Australians to help them live healthier, happier lives'.

Together to Zero aims to reduce environmental impact throughout Coles' operations by reducing carbon footprint, reducing waste and reducing hunger. Coles aims to have the entire group powered by 100 per cent renewable electricity by June 2025 and for net zero greenhouse gas emissions by 2050. Working

towards achieving 85 per cent of waste diverted from landfill by FY2025, the following strategies have been implemented:

- Each supermarket and distribution centre is connected to a food waste solution. Its first preference is to donate unsold edible food to food rescue organisations such as SecondBite and Foodbank. SecondBite supports more than 1,300 community organisations and Foodbank more than 2,600 agencies and community groups. Coles has donated the equivalent of 151.1 million meals to people in needs through its partnership with SecondBite since 2011.
- 517 Coles supermarkets and one distribution centre were connected with Coles' farmer donations program. The program donated more than 28 million kilograms of fruit, vegetable and bakery products to farmers and other organisations such as wildlife shelters and zoos.
- The range of 'I'm Perfect' fruit and vegetables, selling produce that is edible though not perfect in appearance, utilising more of farmers' crops and reducing waste.



Figure 9.14 Coles has implemented a number of CSR policies.

Better Together recognises the importance of collaboration among team members, suppliers, customers and the community to bring positive change. Coles focus on a 'team that is better together', includes active support and inclusion regardless of age, disability, race, gender identity, sexual orientation or background.

Better Together includes supporting communities through partnerships, sponsorships and fundraising. During the 2021 financial year, \$143 million was contributed to the community.

To help Australians lead healthier lives, Coles supports grassroots community sport by partnering with Little Athletics Australia, Athletics Australia and Rowing Australia. Over \$10 million was given in cash contributions to charities. Money was donated to communities impacted by natural disasters such as fire, flood and cyclones.

Sourcing that is better involves collaboration with suppliers and producers to source quality products in an ethical, transparent and responsible way, safeguarding human rights in Coles' supply chains. When sourcing tea, coffee and cocoa, Coles uses independent certification programs, including Fairtrade.

Farming that is better focuses on strengthening partnerships with Australian farmers and producers via Coles' Australian-first sourcing policy. In 2021, 96 per cent of fresh produce sold by Coles was Australian grown. Since 2015, Coles has responsibly sourced both wild-caught and farmed seafood. All fresh lamb, pork, chicken, beef, milk and eggs are Australian grown. In protecting animal welfare, Coles sells only RSPCA approved fresh chicken and 100 per cent Australian beef with no added hormones.

Source: Based on Coles Group, 2021 Sustainability Report, Coles Group, Melbourne, 2021

CASE STUDY ANALYSIS

- 1 **Identify** and **describe** three examples of CSR demonstrated in the operations system at Coles.
- 2 **Identify** and **describe** two potential challenges that might arise from the ethical and socially responsible activities identified.
- 3 **Identify** and **describe** two advantages that the ethical and socially responsible activities identified might bring to Coles.
- 4 **Describe** the competitive advantage that might arise from the activities as described.



REVIEW ACTIVITY 9.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** how CSR practices could be implemented in each of the three stages of an operations system. Provide examples to support your understanding.
- 2 **Explain** why environmental sustainability is an important CSR consideration in the management of inputs.
- 3 **Outline** three strategies from the process and output stages of an operations system that reduce the amount of waste that can be generated.

9.3 Global considerations in operations management

Learning intentions – at the end of this chapter section I will be able to:

9.3.1 Discuss global considerations for operations management, including global sourcing of inputs, overseas manufacture and global outsourcing

Advances in communication, technology and transportation have enabled a more competitive globalised world where goods and services can be imported and exported with greater ease than in the past. Globalisation allows businesses to increase both productivity and competitiveness, especially in operations management where:

- operations can occur internationally
- each stage of production can be located in parts of the world where it can be done for the least cost
- it is possible to communicate ideas for new products from around the world
- innovation is key with new ideas for making products.

There are a wide range of benefits for a business in sourcing opportunities internationally:

- ability to take advantage of the best use of resources across the globe
- ability to seek opportunities to lower input and production costs
- access to skills and resources that may not be readily available domestically
- providing employment opportunities in less developed countries.

Supply chain management

A **supply chain** is a network that involves a wide range of people, activities, information and resources in the development and sale of a product. Effective **supply chain management** involves meeting customer demand for goods and services by ensuring the flow of materials throughout the supply chain. As an operations system relies on inputs, the supply chain must be reliable, with resources delivered in time to ensure the continuity of the production process.

The coordination of a supply chain on a global scale can be challenging. Sourcing and moving goods and materials around the world involves operating in a variety of political and economic conditions. This is often complex and requires a great deal of coordination. 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.

There are five key elements in supply chain management:

- **plan** – develop an overall strategy based on forecasting the required resources to satisfy customer demand and expectations
- **procure** – source and acquire goods or services from a supplier or third party at the right price, the correct quantity and delivered at the right time
- **manufacture** – transform raw materials into the final product
- **logistics** – delivery of products, including the movement of materials and products from one location to another
- **returns** – also called ‘reverse logistics’, where products that do not meet customer expectations are returned.

supply chain
the network 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

When planning and operating a global supply chain, a business organisation must include ethical and social responsibility considerations, such as treatment of employees and environmental sustainability, as well as those of productivity and efficiency. Should the supply chain be interrupted, it will impact on the final product's availability, cost and quality.

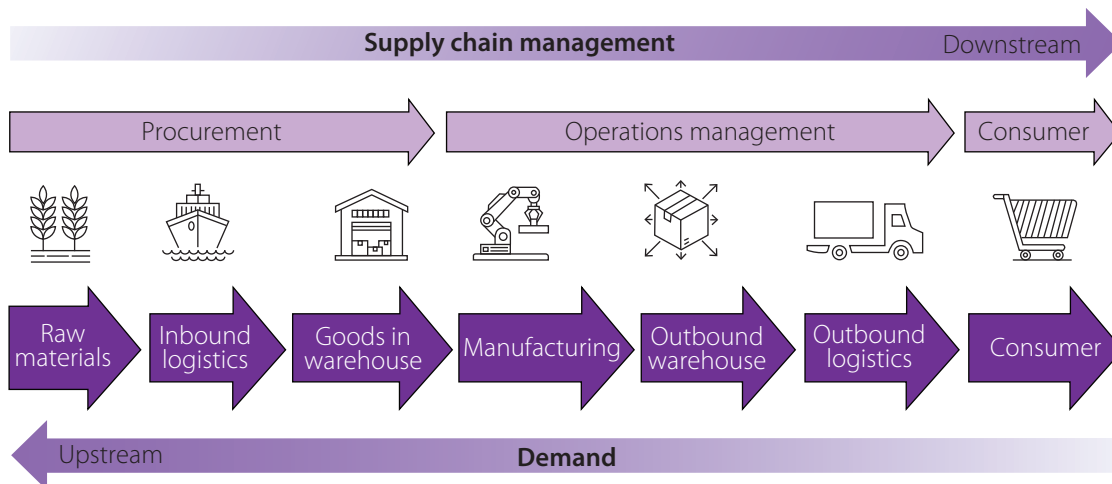


Figure 9.15 Pursuing suitable CSR guarantees is essential throughout all stages of the supply chain.

Disruption in supply chain management resulting from COVID-19

The Australian economy over the last 30 years has become deeply integrated into global commerce. The impact of the COVID-19 pandemic highlighted how economies across the globe have become interconnected. In an attempt to limit the spread of the virus, governments worldwide implemented strict measures to protect their communities. Businesses were closed, workforces were impacted by shutdowns or workforce limitations, movement was restricted, and borders were closed. As a result, manufacturing and distribution were severely impacted.

The disruption in global shipping severely impacted Australian industry, causing delays, product shortages, soaring raw materials costs, and a spike in shipping costs. The largest adverse impacts were in wholesale trade, retail trade, manufacturing and construction sectors.

Manufacturing businesses reliant on Just In Time inventories and lean production did not leave any margin for unpredictable circumstances. Many found that the shortage of supply for some products made it impossible to manufacture others.

Demand for new homes and renovations, stimulated by low interest rates and attractive government stimulus incentives, came to a sudden halt. A shortage of timber, steel and other supplies severely hit the construction industry. Locally based issues have also strained the supply chain. As a result of the 2019–2020 bushfires, the availability of locally produced timber is limited, and prices have increased by 25 per cent. It is predicted that the shortage of building materials may lead to a steep increase in prices, and uncertainty regarding wait times will continue to blow out expected timelines for many building projects in the short and medium term.

For the first time in decades, consumers faced unavailability of stock and little assurance regarding future availability. Consumers struggled to purchase cars, IT products, furniture, mattresses, homewares and toys. As 90 per cent of Australia's merchandise imports come from China, there was severe disruption to supply, throughout 2020 and into 2021. Continued COVID outbreaks closed major container ports in Shanghai and Ningbo, worsening congestion and creating a backlog that took months to clear.

Supply chain management in the future

Governments across the world restricted commercial activities during the COVID-19 pandemic, severely impacting the availability of sea freight services, a major driver of supply chain issues. Australian businesses will need to address these vulnerabilities and create opportunities to protect the global supply chain in the future.

Advances in technology, including robotics, artificial intelligence and 3D printing, are likely to lead to '**nearshoring**', where overseas operations are moved to countries closer in proximity to Australia. Nearshoring allows for closer coordination of supply chains, reduced shipping times and lower costs. Other approaches in creating a more resilient supply chain include:

- utilise digital technologies to build transparency and create real-time visibility across the supply chain
- increase automation (robots in warehouses, driverless forklifts and trucks)
- create a competitive advantage with an increased focus on environmental and sustainability goals. Plan towards a future circular economy where there is no waste.

nearshoring
similar to offshoring; although in these cases overseas operations are moved to another country closer to the base of operations (i.e. Australia for an Australian business)

The Boeing extended global supply chain

783 million parts are procured in one year

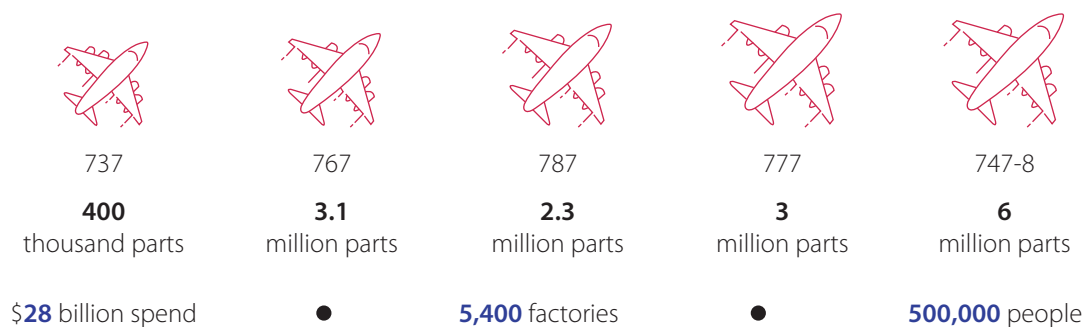


Figure 9.16 The Boeing global supply chain is extremely complex.



ACTIVITY 9.4

Where does your favourite takeaway come from?



To complete the table, select one of the following popular fast-food services, **investigate** where essential ingredients have been sourced for your favourite takeaway menu item and determine the CSR considerations.

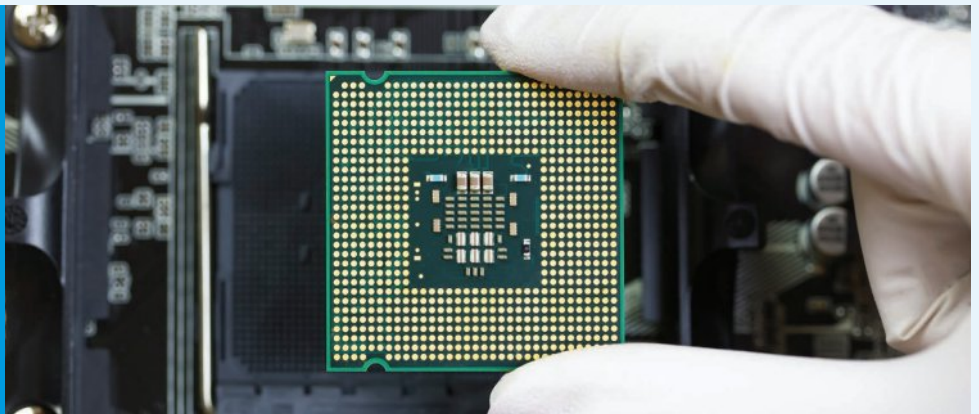
- Visit the Domino's website and look at the 'Stewardship' page.
- Visit the McDonald's website and look at the 'Responsibility' page.
- Visit the Nando's website and look at the 'Our Purpose' page.

Resource (ingredient)	Location of source	CSR considerations



CASE STUDY 9.4

A tiny part's big effect: car industry crippled by global chip shortage



Around the world, auto assembly lines are going quiet, workers are idle and dealership parking lots are looking bare. A shortage of semiconductors – the tiny but critical chips used to calibrate cars' fuel injection, run infotainment systems and provide the brains for cruise control – has upended automaking.

A General Motors plant in Kansas City, Kansas, closed in February for lack of chips and still has not reopened. Mercedes-Benz has begun to hoard its chips for expensive

models and is temporarily shutting down factories that produce lower-priced C-Class sedans. Porsche warned dealers in the United States that customers might have to wait an extra 12 weeks to get their cars because they lack a chip used to monitor tyre pressure. French automaker Peugeot has gone so far as to substitute old-fashioned analogue speedometers for digital units in some models.

The disruption could not come at a worse time. Demand for cars has bounced back strongly

from the pandemic slump, with consumers ready to spend money they saved over the past year, eager to avoid airplanes by taking road trips. The supply of semiconductors is depriving carmakers of a chance to make up sales they lost.

One big reason automakers cannot find enough chips is that semiconductor manufacturers have given priority to manufacturers of smartphones, video game consoles and other

consumer electronics, which tend to be more lucrative customers. A modern car can easily have more than 3000 chips. But cars account for a tiny share of chip demand. In 2020, Taiwan Semiconductor Manufacturing Company reported that only 3 per cent of the company's sales were generated by carmakers.

Source: adapted from 'A tiny part's big effect: Car industry crippled by global chip shortage'. Jack Ewing and Neal E. Boudette, The Age, April 27, 2021.

CASE STUDY ANALYSIS

- 1 **Outline** the resulting issues caused by a worldwide shortage of semiconductors.
- 2 Do you think that semiconductor manufacturers that have given priority to more lucrative customers have made an ethical decision regarding the lack of supply to car manufacturers? **Justify** your opinion.

Global sourcing of inputs

As global trading continues to expand and to remain competitive, businesses are under constant pressure to lower their costs, improve quality and meet customer demand by increasing supply. **Global sourcing** aims to exploit global efficiencies, such as cheaper raw materials, lower labour costs, reduced tax rates available in some countries, and free trade agreements.

global sourcing involves a business procuring inputs from overseas suppliers

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. Australia, for example, is able to produce agricultural commodities such as wheat and fine wool at a lower cost and higher quality than other nations.

There is also the opportunity in global sourcing to take advantage of lower labour costs. Many Asian countries have access to a large pool of labour at a lower cost than developed nations like Australia. Better value for money can also be achieved, especially by sourcing engineering component parts from overseas suppliers. This allows businesses to take advantage of reduced labour and manufacturing costs.

Table 9.3 Advantages and disadvantages in the global sourcing of inputs

Advantages	Disadvantages
<ul style="list-style-type: none"> • Opportunity to source inputs that are cheaper and potentially better quality • Opportunity for reduced labour costs, reducing overall production costs • Creates employment opportunities and assists in the economic development of less-developed economies 	<ul style="list-style-type: none"> • Supply can be disrupted depending on political or economic circumstances • Meeting CSR obligations where expectations differ is challenging • Environmental impact considerations



Figure 9.17 In response to supply chain issues due to COVID-19, the Australian Government allocated \$1.5 billion to attract Australian-based manufacturing.

Overseas manufacture

In seeking greater efficiencies and profit, businesses may look to relocate the production or assembly of products overseas. The goods are then imported to the company's home country or imported to other countries where they do business. This allows a business to reduce costs and potentially have products available to the market more quickly.

overseas manufacture/processing when the process stage of the operations system is conducted in an overseas location

Given Australia's isolated location, **overseas manufacture** can reduce transportation costs and shipping time in supplying goods to international markets. In working towards expanding across the Asia–Pacific region, Australian-owned bedding company Koala decided that it was in the company's interest to drop the Australian Made logo and transfer manufacturing to China. British pharmaceutical company AstraZeneca has production facilities in China and Mexico that sell to consumers in those countries.

Table 9.4 Advantages and disadvantages of overseas manufacture

Advantages	Disadvantages
<ul style="list-style-type: none"> • With the operations functions transferred overseas, businesses can focus on other areas, such as product development and marketing • Lower production costs with cheaper unskilled and skilled labour • Design and engineering of tools necessary to manufacture parts or components is more than 50 per cent cheaper in China than in Australia • With reduced costs, goods can be produced in large volumes 	<ul style="list-style-type: none"> • Issues with language barriers may prevent operations being carried out smoothly • Companies may risk their intellectual property if manufacturing in countries with poor enforcement of intellectual property laws • Increased costs related to international administration or communication, shipping costs • Delays and blockages in the supply chain can cause delays due to complicated logistics, government regulations and the time taken to clear customs



CASE STUDY 9.5

Social responsibility in global outsourcing



My Source Global Limited is a customised product sourcing company with its head office located in Vietnam. In addition to offices in Hong Kong and China, My Source networks with over 100 factory sources located in Vietnam, Indonesia, Cambodia and Thailand. The company deals with a wide range of Australian and American based clients, including leading craft retail chains and large online furniture suppliers.

Director Maria Nguyen grew up in Melbourne and attended Deakin University. In the early stages of her career, she was a buyer at Tennis Australia, sourcing and procuring merchandise for the Australian Open. Maria was ready for a change and seized the opportunity to start her own sourcing agency in Hong Kong. She began to diversify, outsourcing for Rugby Union football clubs and corporate gifts for large businesses.

Services offered by My Source are sought by clients who understand the importance of working with bilingual agents who understand local culture and, as a result, can communicate all aspects of the sourcing process accurately. These attributes assist in eliminating the risk of intellectual property infringement, securing accurate order fulfilment and achieving on-time delivery requirements. High standards in managing quality are maintained from order confirmation through to shipment.

Overview of the outsourcing process

Maria aims to establish exactly what a client wants and develops a brief. The client sends product specifications, which are forwarded

to three potential manufacturers for quotes. Samples are made and sent to clients for approval before placing an order.

A weekly production schedule is created, and quality control (QC) audits are scheduled. This is to ensure that production is on track and quality is maintained.

Final pre-shipment QC is carried out to ensure that the agreed standards have been adhered to. Photos and samples of the final product with tags are sent to the client for approval. Transportation of the goods to the port of shipment and loading the goods onto the shipping vessel are the final stages that conclude My Source responsibilities.

My Source follows CSR standards in expecting suitable working conditions for factory workers. Child labour is not tolerated. To ensure suitable working conditions, a factory profile must be provided for each order with social compliance certification. During the production process, an independent third party inspects the factory to check for safe working conditions.

Managing during COVID-19

Business slowed during the COVID-19 pandemic, hindered by supply chain issues and factory closures. Maria was in regular contact with clients to reassure and communicate next steps.

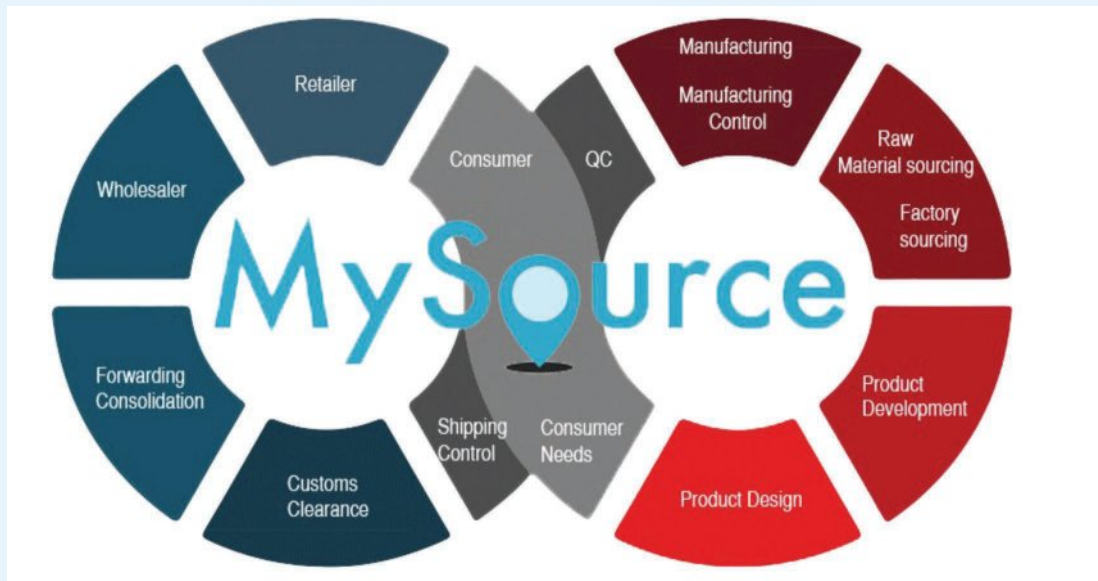


Figure 9.18 The My Source process

CASE STUDY ANALYSIS

- 1 **Outline** the responsibilities of My Source in coordinating a manufacturing contract for a client.
- 2 **Describe** the benefits in using the services of an agent in global outsourcing.
- 3 **Describe** the steps taken by My Source to ensure that corporate social responsibility is being adhered to in its operations.

Global outsourcing

global outsourcing
process of contracting a third party to conduct a specific business operation that is undertaken overseas

Global outsourcing is when a business contracts a specific business operation to be performed by another business overseas. Originally, these tasks would have been completed in the internal environment of the business. In a bid to reduce costs, enhance service quality or solve capacity issues, outsourcing is a common business practice, especially for the following areas:

- accounting
- customer support and service
- human resources such as payroll
- information technology.

Outsourced vendors are responsible for all logistics. Businesses simply need to provide the data or information, and the outsourced vendor will deliver as required. Global outsourcing provides access to an overseas talent pool who are skilled to manage the work assigned.

Table 9.5 Advantages and disadvantages of global outsourcing

Advantages	Disadvantages
<ul style="list-style-type: none"> • Potential to access greater expertise, resulting in improved quality • Reduces the need to hire and train new employees for the outsourced activities • Enables more time to be focused on core business and improving productivity 	<ul style="list-style-type: none"> • Coordination of workflow between different aspects of the business can be challenging • Communication issues resulting from working in different time zones, language and cultural differences • Loss of control, including control of quality



Figure 9.19 Many Australian businesses have outsourced call centre operations offshore in order to improve business efficiency.

REVIEW ACTIVITY 9.3

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Describe** supply chain management and suggest why CSR considerations extend to the global supply chain.
- 2 Suggest why it is important for a business to manage its supply chain effectively and efficiently.
- 3 Select one area of supply chain management that may be vulnerable to poor CSR management and **propose** how this vulnerability could be strengthened in the future.
- 4 **Describe** the impact of the COVID-19 pandemic on the global supply chain. Suggest two strategies to be implemented to assist in building a more resilient supply chain.
- 5 **Distinguish** between the following terms:
 - a global sourcing of inputs and overseas manufacture
 - b global outsourcing and overseas manufacture.
- 6 **Discuss** the opportunities and challenges that a business may experience by participating in the global supply chain.

SAC AND EXAM TIPS – LINKED TO KEY SKILLS

Describe how corporate social responsibility can be implemented throughout each stage of an operations system – requires you to provide a description of how a business can implement CSR in relation to the three stages of an operations system. An effective response would outline each stage and then provide an example of how CSR could be implemented in this stage of operation. Students are advised to consider the mark value of the question, which can help establish the depth required in the response.

Chapter 9 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 3 Area of Study 3, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Corporate social responsibility	Environment management system	Triple bottom line
Supply chain management	Sustainability	Logistics
Global sourcing	Overseas manufacture	Global outsourcing

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 impacts that the adoption of corporate social responsibility policies and actions might have on the operations system of an organisation. Use specific examples to **justify** your answer. **(10 marks)**
- 2** Assume that an Australian manufacturer of sports apparel is considering relocating its operations overseas. **Discuss** the opportunities and potential issues in ensuring a final quality product so as to remain competitive at a global level. **(8 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
9.1 What is corporate social responsibility?	9.1.1 Describe the concept of corporate social responsibility and its impact on stakeholders	Review activity 9.1: Part 1 & Part 2 (Q1–3)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	9.1.2 Describe socially responsible decision-making in the management of operations	Case study 9.1: Q1–3 Review activity 9.1: Part 2 (Q4–5)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	9.1.3 Examine how CSR can be measured: triple bottom line reporting, international agreements and standards	Activity 9.1: Q1–3 Activity 9.2: Q1–3 Review activity 9.1: Part 2 (Q6–7)	Yes No <input type="checkbox"/> <input type="checkbox"/>
9.2 Corporate social responsibility in operations	9.2.1 Describe how CSR strategies can be implemented across the three stages of an operations system	Activity 9.3 Case study 9.3: Q1–4 Review activity 9.2: Part 1 & Part 2 Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
9.3 Global considerations in operations management	9.3.1 Discuss global considerations for operations management, including global sourcing of inputs, overseas manufacture and global outsourcing	Case study 9.4: Q1–2 Review activity 9.3: Part 1 & Part 2 Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>

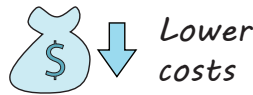
Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

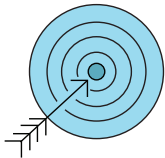
Unit 3 Area of Study 3 review Conceptual summary

How a business manages its operations will impact its ability to achieve its objectives

✓ To make a profit

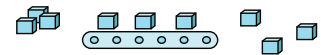


✓ To increase efficiency

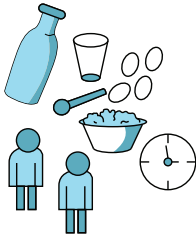


✓ To increase effectiveness

Improved quality of outputs, resulting in increased profit



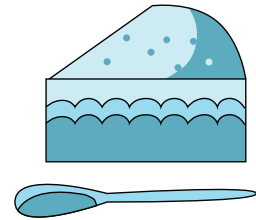
Make more outputs with less inputs



INPUTS: raw materials, labour, time and money



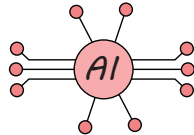
PROCESSES: the actions that transform inputs into outputs



OUTPUTS: the goods or services that are sold to customers

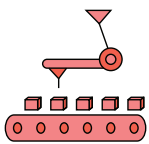
KEY ELEMENTS OF OPERATIONS

Artificial intelligence



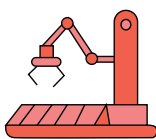
Computer-aided design

Businesses use strategies to optimise operations

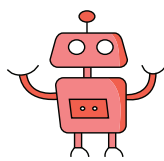


Computer-aided manufacturing techniques

TECHNOLOGY



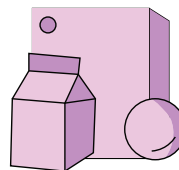
Automated production techniques



Robotics techniques

Goods

- Tangible
- Can be stored



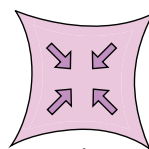
Services

- Intangible
- Hard to store

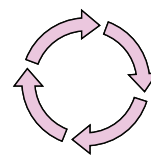


Online services

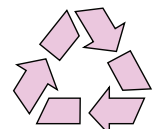
WASTE MINIMISATION



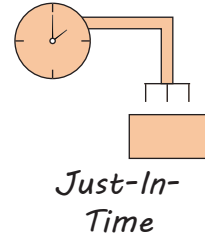
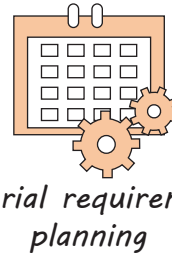
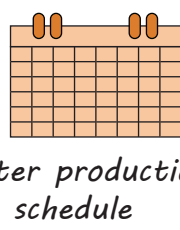
Reduce



Reuse



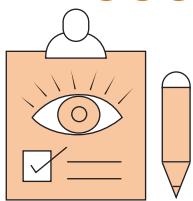
Recycle



MATERIALS MANAGEMENT

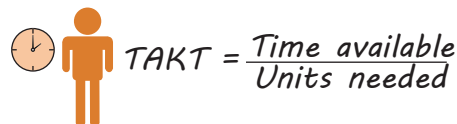
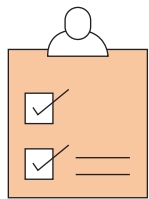
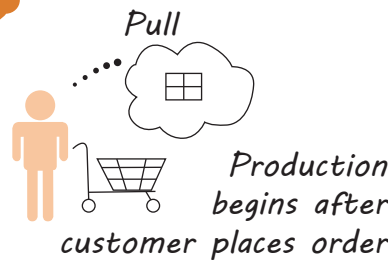
LEAN MANAGEMENT

A systematic process of reducing anything that does not add value throughout the operations process

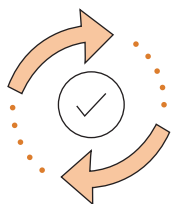
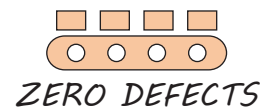


Reactive

QUALITY



The rate of production needed to meet orders

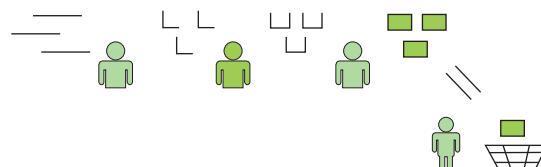


Total Quality Management

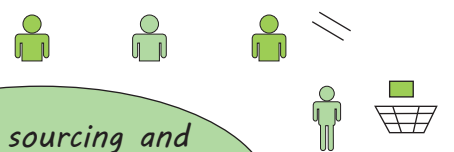
GLOBALISATION



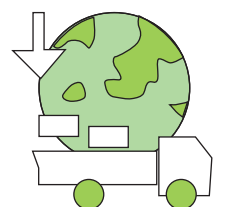
BATCH PRODUCTION



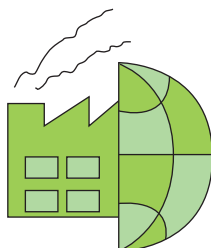
ONE-PIECE FLOW



One-piece flow results in less inventory



Overseas manufacture



CSR

Ethical sourcing and environmental sustainability of inputs and high-level waste management

Key knowledge summary: Unit 3 Area of Study 3

Key knowledge	Summary
<ul style="list-style-type: none"> The relationship between operations management and business objectives 	<ul style="list-style-type: none"> 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. Efficiency refers to how well a business uses its resources throughout the operations system. Productivity is a measure of the ratio of inputs to final outputs and supports further efficiency. Effectiveness refers to the degree to which a process or system is successful in achieving the business objectives. An efficient and effective operations system maximises efficiency, produces high-quality outputs, includes ethical and social considerations and assists in the achievement of business objectives. 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 (e.g. warranties). There are two categories of finished outputs: <ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Key elements of an operations system: inputs, processes and outputs 	<ul style="list-style-type: none"> The operations system has three key elements: <ul style="list-style-type: none"> Inputs: include all resources required to transform inputs into outputs, such as raw materials, component parts, human resources, information and knowledge, capital, plant and equipment, technology and time. Process: involves all of the activities required to transform inputs into outputs. Each activity adds value to the inputs. Outputs: the final product of the system can be either goods (tangible) or services (intangible).
<ul style="list-style-type: none"> Characteristics of operations management within both manufacturing and service businesses 	<ul style="list-style-type: none"> 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.



Key knowledge	Summary
<ul style="list-style-type: none"> Strategies to improve both the efficiency and effectiveness of operations related to technological developments, including the use of automated production lines, robotics, computer-aided design, computer-aided manufacturing techniques, artificial intelligence and online services 	<ul style="list-style-type: none"> The use of up-to-date technology is the strategy most frequently used by business to improve both efficiency and quality. Types of technology used to enhance efficiency and effectiveness include: <ul style="list-style-type: none"> automation replaces human effort with machinery automated production lines comprising series of sequential workstations robotics integrates computer science and engineering computer-aided design – a software tool that facilitates design development computer-aided manufacturing software, which creates detailed instructions that drive computer-controlled manufacturing online services provide information or services over the internet websites promote services and products on the internet e-commerce provides the opportunity to buy goods and products directly from the business.
<ul style="list-style-type: none"> Strategies to improve both the efficiency and effectiveness of operations related to materials, including forecasting, master production schedule, materials requirement planning and Just In Time 	<ul style="list-style-type: none"> Materials management strategies for managing the use, storage and delivery of materials ensure that the right amount of inputs are available when required for production. <ul style="list-style-type: none"> 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.
<ul style="list-style-type: none"> Strategies to improve both the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management 	<ul style="list-style-type: none"> Implementing quality management programs assists in ensuring that outputs are of a consistently high level of quality. To deliver the highest possible quality product or service to customers at a competitive price, quality management strategies are implemented in the operations process. These strategies include quality control, quality assurance and Total Quality Management. <ul style="list-style-type: none"> Quality control is a reactive strategy where faulty items are detected and withdrawn from the production process. Quality assurance is a proactive strategy that prevents mistakes and defects in manufactured products by ensuring that the right processes, tools and skills are used. Quality assurance accreditation is obtained from an external agency that checks compliance with Australian or international standards. Total Quality Management is a proactive strategy where each staff member is committed to maintaining high standards and continuously improving every aspect of an organisation's operations.



Key knowledge	Summary
<ul style="list-style-type: none"> • Strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including reduce, reuse, recycle, recover 	<ul style="list-style-type: none"> • Waste minimisation strategies reduce the operating costs of a business, increasing productivity, thereby allowing a business to become more competitive. • 4R principles (reduce, reuse, recycle, recover) are widely used in waste management: <ul style="list-style-type: none"> — reduce: decrease use of resources, activities, labour and time — reuse: repurpose instead of discarding — recycle: convert waste material into usable products — recover: recover materials or energy from waste that cannot be reused or recycled.
<ul style="list-style-type: none"> • Pull, one-piece flow, takt, zero defects strategy to improve the efficiency and effectiveness of operations related to lean production 	<ul style="list-style-type: none"> • Lean management 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. The four principles of lean management are: <ul style="list-style-type: none"> — pull: rate of production is determined by customer demand, which effectively ‘pulls’ value through the production process — one-piece flow is an uninterrupted flow of process from the beginning until the end of the production process — takt refers to the consistent, continuous rhythm in production — zero defects: attention to quality, identifying and eliminating potential defects.



Key knowledge	Summary
<ul style="list-style-type: none"> • Corporate social responsibility considerations for an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs 	<ul style="list-style-type: none"> • Corporate social responsibility (CSR), including ethical and social considerations, is crucial to the optimisation of an operations system. CSR is the commitment to conduct business in an ethical manner and take responsibility for economic, social and environmental considerations across the three areas of an operations system. • Areas of CSR include sustainability and environment, ethical treatment of employees and customers, human rights, philanthropy 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. • International agreements such as the United Nations Global Compact, and international standards such as environment management systems contribute to developing global expectations regarding CSR. • 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.
<ul style="list-style-type: none"> • Global considerations for operations management: global sourcing of inputs, overseas manufacture and global outsourcing 	<ul style="list-style-type: none"> • Businesses are increasingly participating in global supply chains involving global sourcing of inputs, overseas manufacture and global outsourcing. • Advantages of participation in a global supply chain include: <ul style="list-style-type: none"> — 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 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: <ul style="list-style-type: none"> — impact of currency exchange rates — tariffs and import restrictions — legal and cultural differences, such as intellectual property laws — political stability in developing nations.

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Sample examination questions and advice

Unit 3 Area of Study 3: Operations management

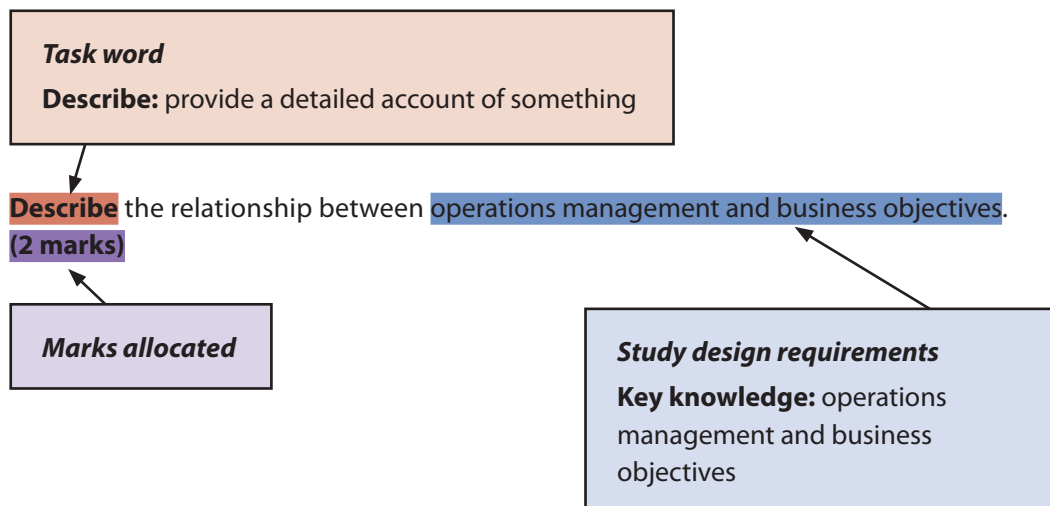
In this area of study, students examine strategies used by organisations to optimise their operational performance, such as technology, materials management, quality management and waste minimisation. Students also consider approaches to meet expectations regarding corporate social responsibility in the operations system.

Area of Study 3 requires students to analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations.

Question 1

Describe the relationship between operations management and business objectives.
(2 marks)

Extended response question – let's unpack it



Hints:

- The response should focus on the link between operations management and business objectives.
- The response does not require a definition regarding operations management or business objectives.

A possible answer to the question might be:

Sample response

Operations management is the business function responsible for managing the process of creating goods and services. Efficient and effective operations enables businesses to achieve their broader objectives, as goals such as increased sales or increased market share rely on goods being of a high quality, while the goal of increasing profit depends on the efficient use of resources to minimise costs.

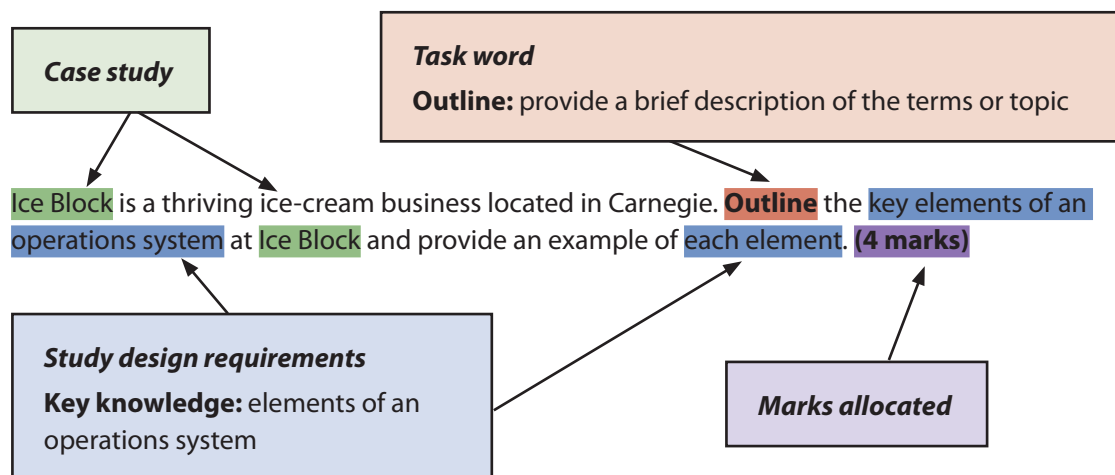
Marking guide

- No marks for a response that includes a definition of operations management or business objectives
- 1 mark for a response that may outline one point that links the relationship between operations management and business objectives
- 2 marks for a response that clearly demonstrates the importance of operations management in the achievement of business objectives.

Question 2

Ice Block is a thriving ice-cream business located in Carnegie. **Outline** the key elements of an operations system at Ice Block and provide an example of each element. **(4 marks)**

Extended response question – let's unpack it



Hints:

- **Outline** requires an overview; detailed explanation is not expected for this term.
- An outline of the key elements (inputs, process and outputs) is required.
- A relevant example is to be provided for each element.

A possible answer to the question might be:

Sample response

An operations system consists of inputs, processes and outputs. Ice Block requires a large number of inputs, including raw materials such as milk as well as technology, labour, the building, utilities and time. The second element is the transformation process, where inputs are transformed into outputs. This stage may involve mixing and pouring. The outputs stage is the final element of the operations system. At Ice Block, this is the final product that is ready to be distributed for sale, such as ice cream served in a cone.

Marking guide:

- 1 mark for identifying the three elements
- 2 marks for outlining the elements
- 3 marks for outlining inputs, processes and outputs but not all examples are accurate
- 4 marks for outlining inputs, processes and outputs and accurately providing an example of each element.

Question 3

Compare and **evaluate** two technological developments a business could use to improve the efficiency and effectiveness of its operations system. **(7 marks)**

Extended response question – let's unpack it

Task words

Compare: bring together for noting the points of likeness and difference (e.g. compare management theory and practice, compare the management style of manager A with manager B)

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

Compare and **evaluate** two technological developments a business could use to improve the efficiency and effectiveness of its operations system. **(7 marks)**

Study design requirements

Key knowledge: improving operations

Limiting word

Determines the number of examples you must use

Marks allocated

Hints:

- **Compare** requires you to consider how two technological developments may be similar and also identify how they are different.
- **Evaluate** requires an analysis of the strengths and weaknesses (or advantages and disadvantages) of each technological development.
- An evaluate question also requires a student to conclude with an opinion.
- This question also contains a limiting word, expecting *two* technological developments to be compared and evaluated.
- Should a student add a third technological development, this will not be marked.

A possible answer to the question might be:

Sample response

Technology is frequently implemented into the operations system. To improve the efficiency and effectiveness of an operations system, businesses often select technological developments.

In the manufacturing industry, automation replaces human effort with machinery and is a feature in modern manufacturing operations systems. Automation assists in increasing speed in production with greater precision and accuracy. As a result, productivity increases and the overall quality of the product will also improve. One disadvantage when introducing automation is the high set-up costs and potential maintenance costs that may require specialised servicing.

In recent years, cloud computing technology has been integrated successfully into the operations systems of service-based industries. Cloud computing involves storing and accessing data and programs over the internet instead of a local computer or server. This allows greater flexibility, mobility and collaboration for businesses, as information can be accessed anywhere in the world and at any time, improving effectiveness and efficiency. One disadvantage of cloud technology is a potential threat to security where a hacker may try to access data and information of a business.

Introducing automation and cloud computing will assist businesses in improving efficiency and effectiveness in the operations system. However, additional strategies such as the management of quality should also be integrated to optimise overall efficiency and effectiveness of the operations system.

Note: This question can be adopted for other strategies used in operations, such as materials management, quality or waste minimisation.

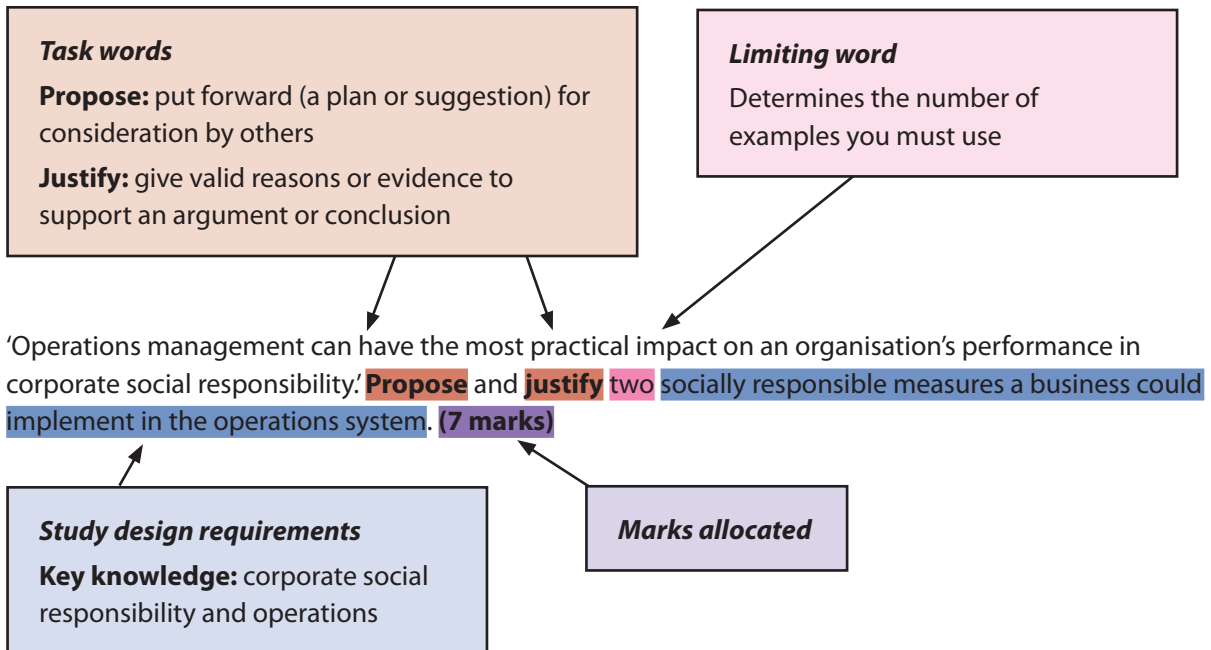
Marking guide:

- 2 marks for describing both technological developments
- 2 marks for comparing the similarities and differences
- 2 marks for describing the strengths and weaknesses of each development
- 1 mark for overall opinion.

Question 4

'Operations management can have the most practical impact on an organisation's performance in corporate social responsibility.' **Propose** and **justify** two socially responsible measures a business could implement in the operations system. (7 marks)

Extended response question – let's unpack it



Hints:

- **Propose** requires students to put forward a suggestion.
- **Justify** requires you to give reasons for the measure you have selected.

A possible answer to the question might be:

Sample response

Corporate social responsibility (CSR) is where businesses take into account the interests of society by taking responsibility for the impact of their activities on stakeholders. It is expected that CSR measures are over and above standard legal requirements. CSR can be achieved across all three elements of an operations system.

Businesses can exercise CSR in the procurement of inputs. Businesses such as David Jones implement a purchasing policy that requires suppliers to agree to improve working conditions for people employed along their supply chain, protect the environment and promote animal welfare. This measure supports the overall health and safety of employees who may be working overseas in conditions substantially lower than in Australia. There is also a benefit for Australian consumers, who can confidently purchase products that have been sourced to meet CSR expectations.

The second measure a business could implement to improve CSR is to introduce an environmental management system (EMS). This can create a positive impact, especially in large businesses such as Crown Melbourne. An EMS comprises a series of policies and practices that focus on improving environmental issues faced by the organisation. An environmental management plan details methods and procedures to achieve targets to improve environmental performance. Improved environmental performance often results in reduced waste, productivity gains and a competitive advantage.

Marking guide:

- 1 mark for a definition of CSR
- 3 marks for the first proposed CSR measure with detailed explanation
- 3 marks for the second proposed CSR measure with detailed explanation.



UNIT 4 TRANSFORMING A BUSINESS

UNIT DESCRIPTION

Businesses are under constant pressure to adapt and change to meet their objectives. Students consider the importance of reviewing key performance indicators to determine current performance and the strategic management necessary to position a business for the future. They also study a theoretical model to undertake change and consider a variety of strategies to manage change in the most efficient and effective way to improve business performance. Students investigate the importance of effective management and leadership in change management. Using one or more contemporary business case studies from the past four years, students evaluate business practice against theory.

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AREAS OF STUDY IN THIS UNIT

- 1 Reviewing performance – the need for change
- 2 Implementing change

AREA OF STUDY 1

REVIEWING PERFORMANCE – THE NEED FOR CHANGE

NEW MINDSET

NEW RESULTS

AREA OF STUDY DESCRIPTION

In this area of study students develop their understanding of the need for change. Managers regularly review and evaluate business performance through use of key performance indicators and use the results to make decisions affecting the future of a business. Managers can take both a proactive and reactive approach to change. Students investigate the ways a business can search for new business opportunities as a source of future business growth and consider current forces for change on a business. They apply Lewin's Force Field Analysis theory to contemporary case studies from the past four years and consider approaches to strategic management using Porter's Generic Strategies.

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OUTCOME 1

On completion of this unit the student should be able to explain the way business change may come about, analyse why managers may take a proactive or reactive approach to change, use key performance indicators to analyse the performance of a business, explain the driving and restraining forces for change, and evaluate management strategies to position a business for the future.

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

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CHAPTERS IN THIS AREA OF STUDY

10 Reviewing performance – the need for change

11 Force Field Analysis and forces for change

12 Porter's Generic Strategies approach

CHAPTER 10

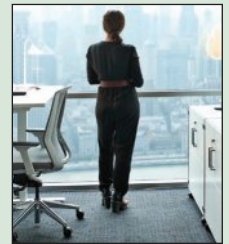
Reviewing performance – the need for change

'All the measurement in the world is useless if you don't make any changes based on the data.'

Amber Naslund (1975–)

About the author:

Amber Naslund is an American social business strategist and the co-founder of a social business consultancy. She is an author, a professional speaker, and a community and social media strategist.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about measuring performance and discuss your response to the following questions:

- 1 What do you believe this quote means?
- 2 Do businesses only consider those factors they can measure when reviewing their performance?
- 3 **Identify** and **explain** one other factor that may be used to review business performance.

CHAPTER OVERVIEW

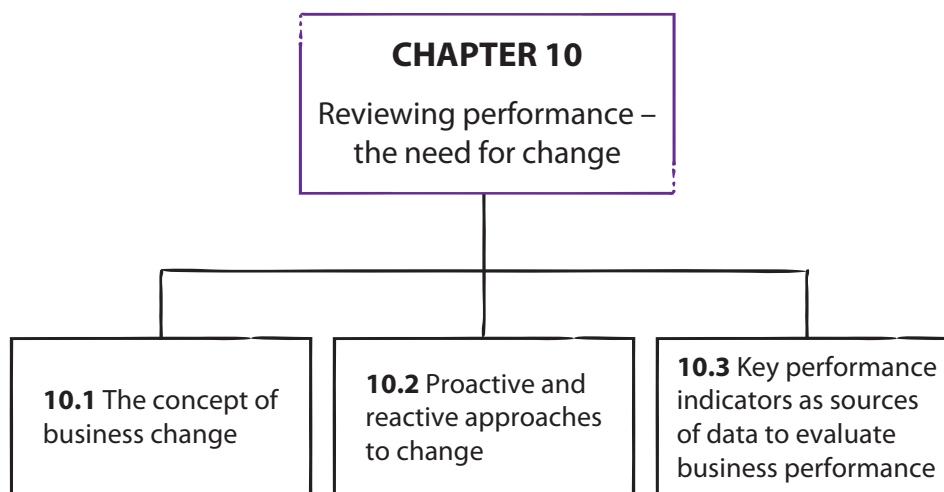
You will learn about the importance of business change, and examine proactive and reactive approaches to change and how a business uses key performance indicators to determine the success of the business. You will also investigate why managers regularly review and evaluate the performance of a business.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
The concept of business change	10.1 The concept of business change 10.1.1 Define the concept of business change
Proactive and reactive approaches to change	10.2 Proactive and reactive approaches to change 10.2.1 Explain the two approaches to change
Key performance indicators used as tools and methods to analyse the performance of a business	10.3 Key performance indicators as sources of data to evaluate business performance 10.3.1 Explain the reasons why businesses need to analyse performance 10.3.2 Define each of the key performance indicators 10.3.3 Apply key performance indicators to a contemporary business case study

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What's ahead



10.1 The concept of business change

Learning intentions – at the end of this chapter section I will be able to:

10.1.1 Define 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 an existing business, altering it and establishing a new or modified form. Change occurs because of pressures placed on the business to adjust and make modifications to its departments or functions, operations and activities, employee jobs and tasks, policies, behaviours, management styles and corporate culture. Change can take many forms and can be incremental or rapid, and it can be widespread or only impact on some areas of the business.



Figure 10.1 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 change as they may feel anxious, suffer a loss of personal identity, be unsure about the impact of change on their jobs, be afraid of failing or feel disoriented and uncertain about the future.

Management of change is difficult but there can be no progress without it, so managers, owners and leaders must be committed to the change and have the skills and knowledge to ensure that it occurs as smoothly as possible.



ACTIVITY 10.1

Imagine that you have arrived at school to find that the school is locked and no one is there. You check your schedule and find that the school has changed its school day hours and you cannot understand the new timetable.

- 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.



REVIEW ACTIVITY 10.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Define** the concept of business change.
- 2 **Explain** why it is important for a business to consider how change is introduced.
- 3 **Explain** why it is important for a business to manage change.

10.2 Proactive and reactive approaches to change

Learning intentions – at the end of this chapter section I will be able to:

10.2.1 Explain the two approaches to change

A business with a proactive approach makes changes to the structures, processes and workplace in order to avoid a potential future threat or problem, or to take advantage of a future opportunity. A company that takes a proactive stance would, for example, recall faulty products before it received complaints from customers, rather than wait for the situation to worsen.

On the other hand, a reactive approach to change is initiated by a business because of external forces. The change usually happens after an event, threat or opportunity has occurred. A business, for example, learns that its competitors have developed a new service and decides that it needs to do something similar.

Usually a business that can anticipate and foresee events or opportunities is likely to be more successful in the long term.



Figure 10.2 Businesses can take a proactive or reactive approach to change.

REVIEW ACTIVITY 10.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Define** proactive and reactive approaches to change.
- 2 **Distinguish** between the two concepts.
- 3 Provide an example of a proactive approach to change.

10.3 Key performance indicators as sources of data to evaluate business performance

Learning intentions
– at the end of this
chapter section I will
be able to:

10.3.1 Explain the reasons why businesses need to analyse performance

10.3.2 Define each of the key performance indicators

10.3.3 Apply key performance indicators to a contemporary business case study

key performance indicators (KPIs) measures or a set of data that allows a business to determine whether it is meeting its business objectives

effectiveness the degree to which a process or system is successful in achievement of 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 how the business is progressing against its business objectives. 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. Examples of efficiency include:

- a bus line operator changes the routes along which its buses run in order to overcome 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.

Another important concept for businesses is **effectiveness**. This can be defined as the ability of the business to achieve its previously determined business objectives (see Chapter 1). 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.

Why is it important for a business to analyse its performance?

Everyone and every business needs to evaluate or make a judgement as to how they are performing against their objectives and goals. All businesses should regularly assess their performance and use a range of data and key performance indicators to ensure that information is relevant, accurate,

reliable and timely. Businesses will often make major decisions based on the information available. Therefore, it is critical that a business, regardless of its size, gathers and uses KPIs and other information.

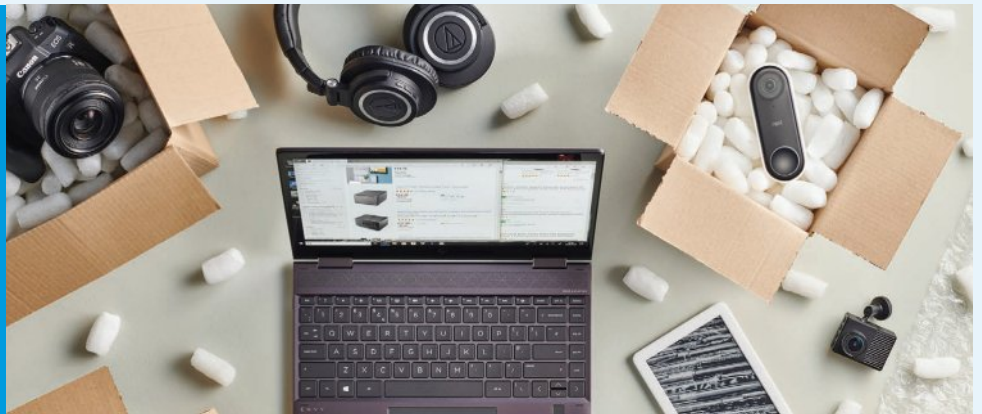


Figure 10.3 Performance evaluation helps to ensure that a business operates at its peak.



CASE STUDY 10.1

Analysing performance: Kogan



In 2021, Kogan founder Ruslan Kogan was hoping that strong Christmas sales would help the business after it reported a steep decline in profit.

Increased storage costs and marketing expenses occurred while the company was also heavily discounting excess stock

for expected sales increases, which did not occur.

Ruslan Kogan was hopeful that increased stock would support an increase in sales, as many retailers would have trouble locating stock for Christmas sales. He stated that the business was operating in a very challenging environment.

CASE STUDY ANALYSIS

- 1 **Describe** how Kogan ended up with excess inventory.
- 2 **Explain** how this situation has had an impact on Kogan's performance.



Figure 10.4 KPIs assist a business to evaluate performance.

Key performance indicators as sources of data to analyse the performance of businesses

A key performance indicator is a tool used to measure progress towards the achievement of business objectives. A key performance indicator can be defined as a measure or a set of data that allows a business to determine whether it is meeting business objectives. For a business to make accurate evaluations about performance, it should use a range of indicators and data.

Table 10.1 Characteristics of key performance indicators and data

General characteristics of KPIs and data	
Relevant	Provides required information
Valid	Data has been collected correctly
Reliable	Source of data is known
Valuable	The information is useful
Comparative	Able to track what has happened over time
Benchmark	Compare performance to industry performance
Budget vs actual	The performance can be compared to budgeted – whether it is under or over budget can be determined

There are a large number of key performance indicators that a business can use to judge business performance.



Figure 10.5 KPIs allow a business to determine whether it is achieving its business objectives, such as meeting shareholder expectations.

Percentage of market share

The **percentage of market share** can be defined as the proportion or amount of the market. If the 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 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

5G crosses tipping point as enabled smartphones take 55% of market share in Australia



5G has reached a new milestone in Australia as smartphones capable of connecting to the higher-speed network now account for more than half of all phones available.

has also broadened the number of consumers who are willing to purchase a 5G device. All of the three major telecommunication businesses are expanding their 5G coverage in Australia.

IDC Australia associate market analyst John Riga said the growth is mostly driven by availability. Access to more low-cost options

Source: Adapted from Ben Moore, '5G crosses tipping point as enabled smartphones take 55% of market share in Aus', CRN website, 3 June 2021

CASE STUDY ANALYSIS

- 1 **Define** the concept of the percentage of market share.
- 2 **Explain** one reason why the sales of 5G compatible phones have increased in Australia.

Net profit figures

Net profit is the difference between revenue and expenses. If a business makes a profit, it may be considered 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 is deemed as an acceptable net profit figure 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.

net profit the amount left after all expenses (e.g. costs, taxes) have been paid; also referred to as the bottom line



CASE STUDY 10.3

Snapchat powers up to \$6.8m profit as people take to screens during pandemic



Social media network Snapchat is using advertising sales to drive growth, securing a \$6.8 million profit as it battles TikTok, Instagram and Facebook for market share.

The social media platform – on which users exchange pictures and messages that then disappear – recorded \$78.2 million in revenue for the year that ended 31 December 2020, on the back of \$56 million in advertising sales in Australia.

Snapchat's revenue was up from \$50.8 million the previous year when it sold \$36 million of advertising. Australia is proving a lucrative market for the US company. It has around six million local users, surpassing rival TikTok.

Its users are devoted, with the average Snapchat user opening the app 30 times a day. Its users are mainly aged between 13 and 24 years old, and 85 per cent of people in this age group use it.

Snapchat's managing director for Australia, Kathryn Carter, said the coronavirus pandemic had seen an increase in new users of Snapchat and time spent on the platform.

Ms Carter said Snapchat had grown both its user community and commercially. Advertisers have recognised the opportunity to increase their own sales and profit by using the platform.

Source: Adapted from Cara Waters, 'Snapchat powers up to \$6.8m profit as people take to screens during pandemic', The Age, 16 May 2021

CASE STUDY ANALYSIS

- 1 **Define** net profit.
- 2 **Outline** why businesses focus on profit.
- 3 **Explain** why Snapchat focused on developing the Australian market in 2020.

rate of productivity growth productivity measures the business's ability to transform inputs into outputs. The ability of a business to increase output or production from a given amount of inputs measures the rate of productivity growth.

Rate of productivity growth

Productivity measures the business's ability to transform inputs into outputs. The ability of a business to increase outputs from a given level of inputs gives an indication of the rate of growth. 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 per cent using the same amount of inputs, then productivity has increased.



CASE STUDY 10.4

How is productivity measured?



In Australia, the Australian Bureau of Statistics (ABS) produces measures of output and inputs for different industries, sectors and the economy as a whole.

Productivity is not measured directly but is calculated by dividing a measure of output by a measure of inputs.

What drives productivity growth?

It can be driven by:

- technical improvements, such as microeconomic reforms (e.g. in taxation and market regulation)
- expanding productive capacity (e.g. innovation and advances in technology).

Source: Adapted from 'Productivity', Reserve Bank of Australia website

CASE STUDY ANALYSIS

- 1 **Define** the concept of productivity.
- 2 **Explain** one factor that can drive growth in productivity.
- 3 **Explain** why innovation is important and how it links to productivity growth.
- 4 **Explain** two benefits of productivity growth.



Figure 10.6 The number of sales will determine whether a business is meeting forecasts.

Number of sales

The **number of sales** can be defined as the total quantity of a particular product or service sold. The level or number of sales 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 long 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.

number of sales
the total quantity of sales of a particular product or service



ACTIVITY 10.2

Darcy and Adam have established the Shearers Hub, a small takeaway 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

The **rate of staff absenteeism** measures the number of days staff are not at work, using personal or sick leave. 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. It can also be costly as someone might need to be employed to take over the job, as well as the staff member receiving payment while 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, and this may result in lost sales and net profit.

If a business has high or increasing rates of staff absenteeism, this may indicate that staff are unhappy. Businesses need to monitor rates of staff absenteeism and take steps to reduce it if it becomes an issue across the business.

A business can compare its rate of staff absenteeism for a period with rates from previous years or against an industry **benchmark** to determine how it is faring.

Employee absences can be a substantial cost for a business. Knowing the reasons for employee absenteeism can assist a business in dealing with the issue if it is causing concern. There are a number of ways that staff absenteeism can be reduced, as outlined in Table 10.2.

Table 10.2 Reducing staff absenteeism

Track staff absences	This may help a business determine if there are patterns or concerns about some employees. If these are identified, they may be able to be addressed.
Introduce wellness programs and reduce workplace stress	This may assist in supporting employees and their wellbeing and reduce staff absenteeism
Flexible working conditions	Offering conditions such as flexible work hours and the ability to work from home may support employees



ACTIVITY 10.3

- 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.

rate of staff absenteeism

a percentage indicating the number of workdays lost due to unscheduled staff absence from work, especially without a good reason

benchmark

a level of quality or achievement used as a standard of comparison for others; it is a point of comparison used to evaluate success levels

Level of staff turnover

The level of **staff turnover** measures the number of people or employees permanently leaving a business. If the level of staff turnover is high (e.g. higher than other similar businesses), it may indicate dissatisfaction in the workplace. Staff turnover is also a financial cost to a business, including costs for advertising, recruiting, inducting and training new employees. There is also a cost to the business when staff leave, as people take business knowledge and experience with them.

staff turnover measures the number of employees who had to be replaced within a given period

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 adversely impact on the business. Larger businesses can also be severely affected by high rates of staff turnover. Along with the costs of finding new employees, a business may also gain a reputation as one that is undesirable, and it may have trouble attracting, recruiting and keeping high-performing employees.

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
- encouraging employees to get involved in decision-making
- providing opportunities for employees to provide feedback
- encouraging employees to upgrade their skills and access training.



CASE STUDY 10.5

Engaging staff and reducing turnover



Staff turnover can be costly to a business. Statistics show that on average it can take between 10 and 16 weeks to recruit a new employee when someone leaves. It may be even longer if there is a shortage of people with the skills and qualifications required.

Employing good policies and practices to help reduce employee stress and improve employee satisfaction should assist in reducing turnover.

Ways to reduce staff turnover include:

- choose good managers (technical and interpersonal skills)
- provide clear expectations – people need to know exactly what is expected of them
- provide recognition – let employees use their skills
- provide support where needed – get to know staff and offer help and support when required

- be people-proud and committed – there should be shared pride in the work people do
- encourage staff to get involved in decisions, ask for ideas, feedback and opinions
- develop the skills of employees by promoting learning opportunities
- organise regular fun activities to reward and build teams and a positive corporate culture.

Source: Adapted from 'Engage staff and reduce turnover: increase productivity and build a dedicated team', Business Victoria website

CASE STUDY ANALYSIS

- 1 **Explain** why the level of staff turnover is an important KPI for a business to measure.
- 2 'Sometimes staff turnover 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 per cent
 - b Number of staff leaving: 12
Hourly rate: \$35
Percentage of resignations: 32 per cent

Level of wastage

level of wastage in a production process will give an indication of business efficiency and is a measure of resources that have not been converted to outputs

The **level of wastage** is an indication of the extent to which a company's processes are lean and effective. The level or proportion of waste in a production process will impact on business efficiency. Reducing waste levels will usually 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.



Figure 10.7 Businesses are looking at ways to reduce waste in their processes.

Sustainability Victoria works with producers and regulators to examine ways to reduce waste, increase recycling and boost revenue by extending the lifespan of materials used in products. It also tries to assist with recovery and reuse of materials and supporting businesses to try to reduce emissions and waste across the supply chain.

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 monitor the number of complaints over time and also to compare this number with the performance of their competitors. An increase in the number of 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.

For many businesses, regardless of their size, customer complaints and unhappy customers may adversely impact on the business's reputation. A small business in a local area may find that comments and reviews by unhappy customers can impact on future sales if the complaint has not been dealt with properly.

number of customer complaints
the number of written or verbal expressions of dissatisfaction from customers about an organisation's products or services



CASE STUDY 10.6

Customer complaints



When a customer complains, it provides a great opportunity for a business to foster a better relationship with them.

Even the most dissatisfied customer can become an ambassador for your business, winning new customers for you through word of mouth.

This means you need to deal with a customer problem, even when you're not at fault.

A customer complaint handling procedure should include the following:

- listening sympathetically to establish the details of the complaint
- recording the details together with relevant material – such as a sales receipt or damaged goods
- offering to fix it – by repair, replacement or refund

- handling the complaint courteously, considerately – and above all swiftly
- implementing an appropriate follow-up action – such as a letter of apology or a phone call to make sure the problem has been resolved.

Staff should also be trained so that when they are dealing with customers, they have the authority to resolve the issue when a complaint is made.

All staff need to be made aware of the ongoing goodwill earned through well-managed complaint processes. The complaint may be a one-off situation due to a faulty product or service, but it can also be an ongoing problem that can be traced to a flaw in operations or a problem with one of the suppliers.

It is also important for a business to collect customer feedback to help reduce the number of customer complaints. Ways to gain feedback include:

- find out what customers are complaining about, or what kind of service or product they are asking for
- short surveys – ask simple questions that customers can answer quickly
- informal conversations with customers to learn about their needs and wants
- market competitor observation – observe the actions of competitors

- market research
- documenting sales
- online discussion groups – these can provide information about the perceptions of customers and assist in determining the target market or group of customers the product or service is aimed at.

Source: Adapted from 'Solve customer complaints: Turn a negative situation into an opportunity to build customer loyalty, engage staff and reduce turnover', Business Victoria website

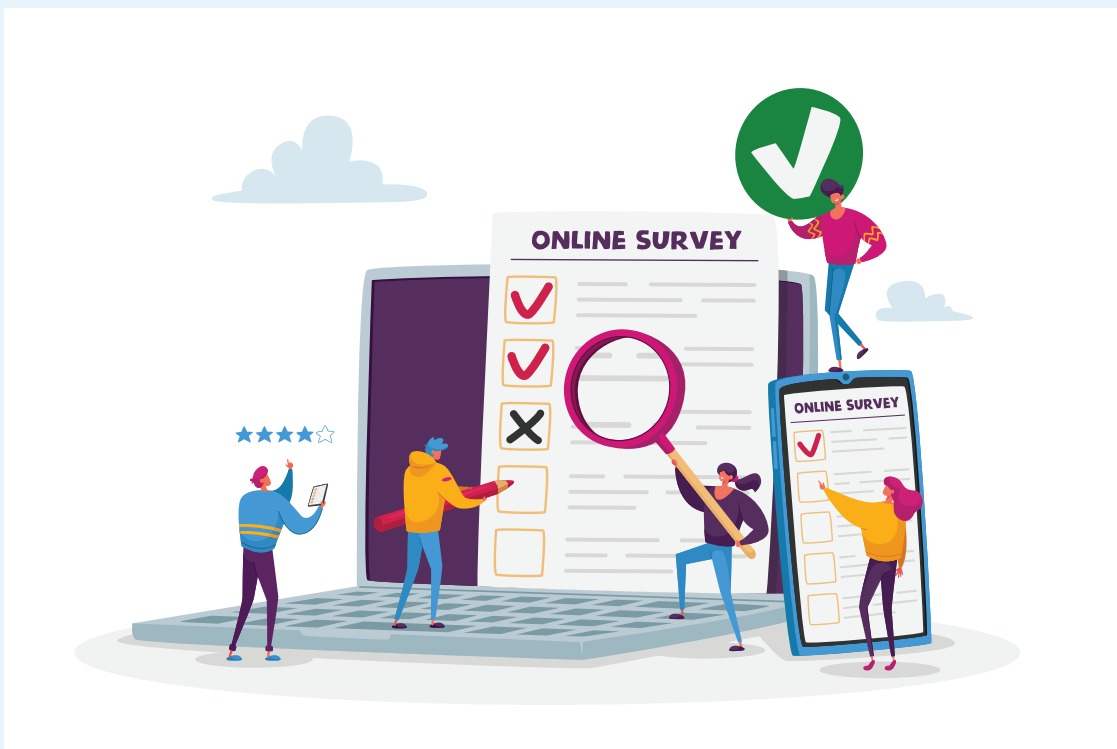


Figure 10.8 Unhappy customers could influence future business performance when they share their negative experiences with others.

CASE STUDY 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 website hits

This key performance indicator can be used by a business to identify how many people, and potential customers, have sent a request to a web server. The request to a web server can be a web page, image or JavaScript. Any of these are known as a 'hit'. There are a number of analytical tools that a business can use to measure website traffic, and these form the basis for measuring the performance of a business's website.

Data that a business could collect includes:

- number of visitors
- percentage of new sessions (are customers new to the website or returning?)
- channels (how did someone find the website – direct, search, referral, email, social and advertising?)
- average time spent on the website.

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 that staff know that their safety is a priority for the business.

Increasing workplace safety and thereby reducing the number of accidents has the following benefits:

- reduction in number of disruptions to work and production
- reduction in time lost due to accidents and consequent disruption
- reduction in lost production
- reduction in management time required to manage the effect of accidents and the administrative work resulting from these
- enhancement of the business's reputation
- improvement in staff morale and loyalty.



Figure 10.9 Many businesses rely on the web to attract customers.

number of workplace accidents

the number of unplanned events interrupting the workflow that may or may not include injury or property damage



Figure 10.10 Increasing workplace safety reduces the costs associated with accidents.

ACTIVITY 10.4

Visit the WorkSafe Victoria website and answer the following questions:

- 1 **Identify** why it is important for a business to ensure that 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 10.5

- 1 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** an online clothing store.
- 2 Identify** two KPIs that you believe would be important for a restaurant to monitor. **Justify** your answer.

Analysis of business performance using 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 business objectives.



Figure 10.11 Monitoring employees against business benchmarks

ACTIVITY 10.6

Matt Harris is the 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.



Matt has collected the data shown in Table 10.3.

Table 10.3 MH Car Detailers: key performance indicators, 2020–22

Key performance indicator	2020	2021	2022
Number of customer complaints – per month (average)	1	6	10
Percentage of market share	18%	17%	17%
Net profit – for 12 months	\$234 000	\$253 000	\$251 000
Number of workplace accidents – per month (average)	13	17	18
Rate of productivity growth – per year	5%	3%	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 **Examine** the data in Table 10.3 and construct a brief report (one or two paragraphs) on what data and trends the KPIs provide.
- 2 Choose two KPIs from Table 10.3 and **recommend** what Matt might do now to try to improve the performance of the business.

REVIEW ACTIVITY 10.3

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** why a business would use data and key performance indicators to evaluate performance.
- 2 'Performance measurement is a complex issue.' **Discuss** this statement in terms of the use of KPIs in a business.

Chapter 10 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 4 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Business change	Proactive approach to change	Reactive approach to change
Key performance indicators	Level of wastage	Net profit
Number of customer complaints	Number of sales	Number of workplace accidents
Percentage of market share	Rate of staff absenteeism	Level of staff turnover
Number of website hits		

Examination preparation

Retro Theatre is a small boutique business operating in the northern suburbs of Melbourne. The business shows old movies and also has live music performances on Fridays, Saturdays and Sundays. The business has been in operation for 40 years and employs 55 staff. Over the past four years, it has seen declining profits due to changing preferences of customers who can access movies via streaming services and have a reluctance to attend live music performances. 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 improve the performance of the business.

- 1 Define** the concept of percentage of market share. **(2 marks)**
- 2 Analyse** why a business should use KPIs to evaluate performance. **(3 marks)**
- 3 Identify** and **describe** two other KPIs that Retro Theatre might use to evaluate performance. **(4 marks)**
- Ava is considering introducing live streaming of some music performances and charging customers to access the performance. **Discuss** how this might improve the performance of the business and increase net profit and the number of sales. **(6 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
10.1 The concept of business change	10.1.1 Define the concept of business change	Activity 10.1: Q4 Review activity 10.1: Part 1 & Part 2	Yes No <input type="checkbox"/> <input type="checkbox"/>
10.2 Proactive and reactive approaches to change	10.2.1 Explain the two approaches to change	Review activity 10.2: Part 1 & Part 2	Yes No <input type="checkbox"/> <input type="checkbox"/>
10.3 Key performance indicators as sources of data to evaluate business performance	10.3.1 Explain the reasons why businesses need to analyse performance	Case study 10.1: Q2 Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>
	10.3.2 Define each of the key performance indicators	Activity 10.2: Q1 Activity 10.3: Q1 Activity 10.4: Q1, 3 Case study 10.2: Q1 Case study 10.3: Q1–2 Case study 10.4: Q1–2 Case study 10.5: Q1–2 Case study 10.6: Q1–3 Examination preparation: Q2–3	Yes No <input type="checkbox"/> <input type="checkbox"/>
	10.3.3 Apply key performance indicators to a contemporary business case study	Review activity 10.3: Part 1 & Part 2 Examination preparation: Q4	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 11

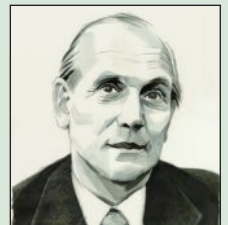
Force Field Analysis and forces for change

'If you want to truly understand something, try to change it.'

Kurt Lewin (1890–1947)

About the author:

Kurt Lewin was a German-American psychologist, known as one of the modern pioneers of social, organisational and applied psychology in the United States.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about change and discuss your response to the following questions:

- 1 Explain** the meaning of the quote.
- 2 Discuss** the reasons why it is often difficult to bring about changes.

CHAPTER OVERVIEW

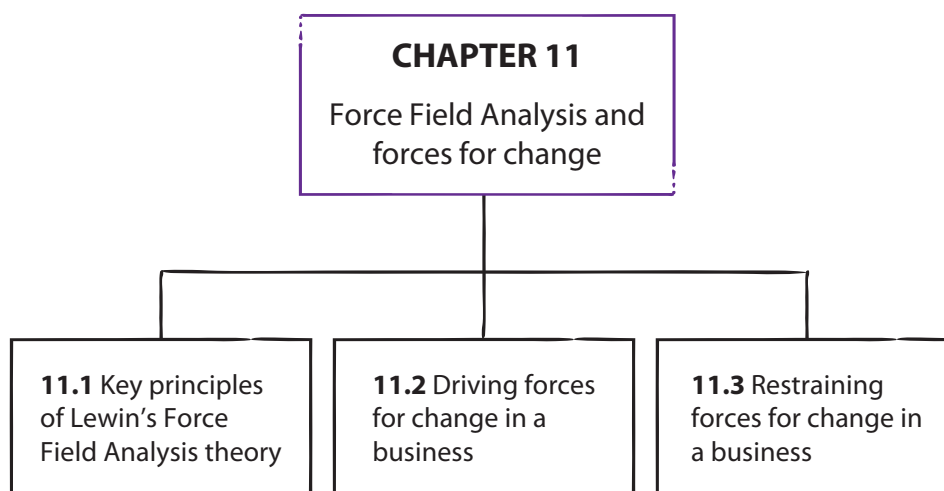
On completion of this chapter students will be able to outline the key principles of the Force Field Analysis theory (Lewin), including weighting, ranking, implementing and evaluating a response. They will discuss the driving forces (owners, managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes) and restraining forces for change (managers, employees, time, organisational inertia, legislation and financial considerations) in business.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Key principles of the Force Field Analysis theory (Lewin), including weighting, ranking, implementing a response and evaluating a response	11.1 Key principles of Lewin’s Force Field Analysis theory 11.1.1 Outline the key principles of the Force Field Analysis theory
Driving forces in businesses	11.2 Driving forces for change in a business 11.2.1 Identify and explain the driving forces for change, including owners, managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes
Restraining forces in businesses	11.3 Restraining forces for change in a business 11.3.1 Identify and explain the restraining forces for change, including managers, employees, time, organisational inertia, legislation and financial considerations

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What’s ahead



11.1 Key principles of Lewin's Force Field Analysis theory

Learning intentions – at the end of this chapter section I will be able to:

11.1.1 Outline the key principles of the Force Field Analysis theory

Businesses are affected by change in many ways. To successfully manage or cope with change, managers, leaders 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 respond. Successful businesses 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. 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 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 or legislation.

Restraining forces are pressures acting to hinder 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.

Figure 11.1 Driving forces push or support businesses and people towards the intended change.



Force Field Analysis looks at forces that are either driving movement towards a goal or change (driving forces) or blocking movement towards a goal or change (restraining 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

Lewin's model focuses on the following steps:

- 1 **Weighting** – this means leaders or managers in a business may need to identify the driving and restraining forces and then provide them with a number according to how important they are perceived to be.
- 2 **Ranking** – the considerations or forces are placed in order from the most important to the least important.
- 3 **Implementing a response** – once the business has weighed up the factors, it then makes a decision.
- 4 **Evaluating a response** – once the response or decision has been made, the business must continue to monitor the situation to ensure that the decision was the correct one.

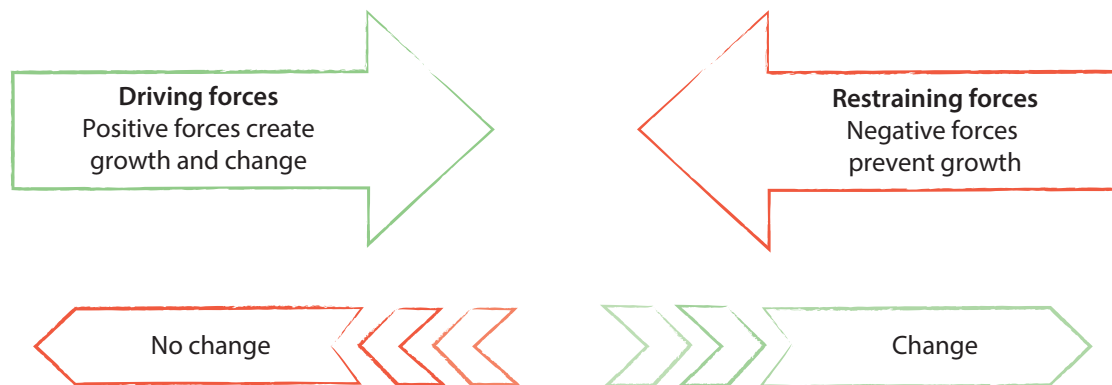


Figure 11.2 Model for change

It is important that a business uses a structured approach to work through a situation and to decide on a plan of action. A business should:

- define its goal or vision for change
- identify the forces for change – driving forces (these can be internal and external)
- identify the forces against change – restraining forces (these can be internal and external)
- assign a numeric weighting or score once the forces are identified
- implement a response and continue to monitor and evaluate to ensure that the business is achieving what it set out to do.

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 that promote driving forces in order for change to be successful.

Worked example of Force Field Analysis

An example of the Force Field Analysis process could be a business looking at introducing a new ICT software package into the sales and marketing department (see Table 11.1).

Table 11.1 Force Field Analysis example: introducing a new ICT software package

Forces for change	Score – plus (1–4)	Proposed change	Forces against change	Score – minus (1–4)
Employees want easier to use software to save time	4	Upgrade the ICT software package	Cost of the new software package	2
Improved workflows	3		Need to train staff	2
Less time to process sales	2		Maintenance of the system	2
Employees able to improve their skills and productivity	4		Resistance to change by some employees	2
			Increased risk of cyber security breaches	1
Total	13		Total	9



Figure 11.3 A successful business will always be prepared for change as it can drive innovation and progression.

It is important to determine whether the change should be implemented and to weigh up the costs and benefits identified by the business. In this case, the forces for change and advantages outweigh the costs or forces against the change, and therefore the new ICT software should be implemented.

It is also important that the business considers how this will occur and plans for its implementation. In addition, the new system needs to be monitored and evaluated to determine whether the expected benefits have occurred.

ACTIVITY 11.1

Fatima and Eleanor have established an interior styling business and, while they take clients, a large proportion of their business is through their work with a local real estate agent where they work with vendors to style their homes for sale.

They are considering whether to work exclusively with three real estate agents and cease the other part of their business.

- 1 Complete the Force Field Analysis exercise using the following template or the digital version provided in the InteractiveTextbook.
- 2 Advise Fatima and Eleanor on whether they should work exclusively with real estate agents.

Forces for change	Score – plus (1–4)	Proposed change	Forces against change	Score – minus (1–4)
		Focus the business on exclusively working with real estate agents		
Total				Total

REVIEW ACTIVITY 11.1**Part 1: Digital quiz**

Please see the InteractiveTextbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the InteractiveTextbook.

- 1 **Outline** the key principles of Force Field Analysis theory (Lewin).
- 2 **Explain** why managers and owners of a business should apply the theory before introducing change.
- 3 **Analyse** the importance of monitoring and evaluating the implementation of any change.
- 4 **Discuss** why a business is unlikely to successfully implement change unless driving forces are greater than restraining forces.

11.2 Driving forces for change in a business

Learning intentions
– at the end of this
chapter section I will
be able to:

11.2.1 Identify and explain the driving forces for change, including owners, managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes

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.

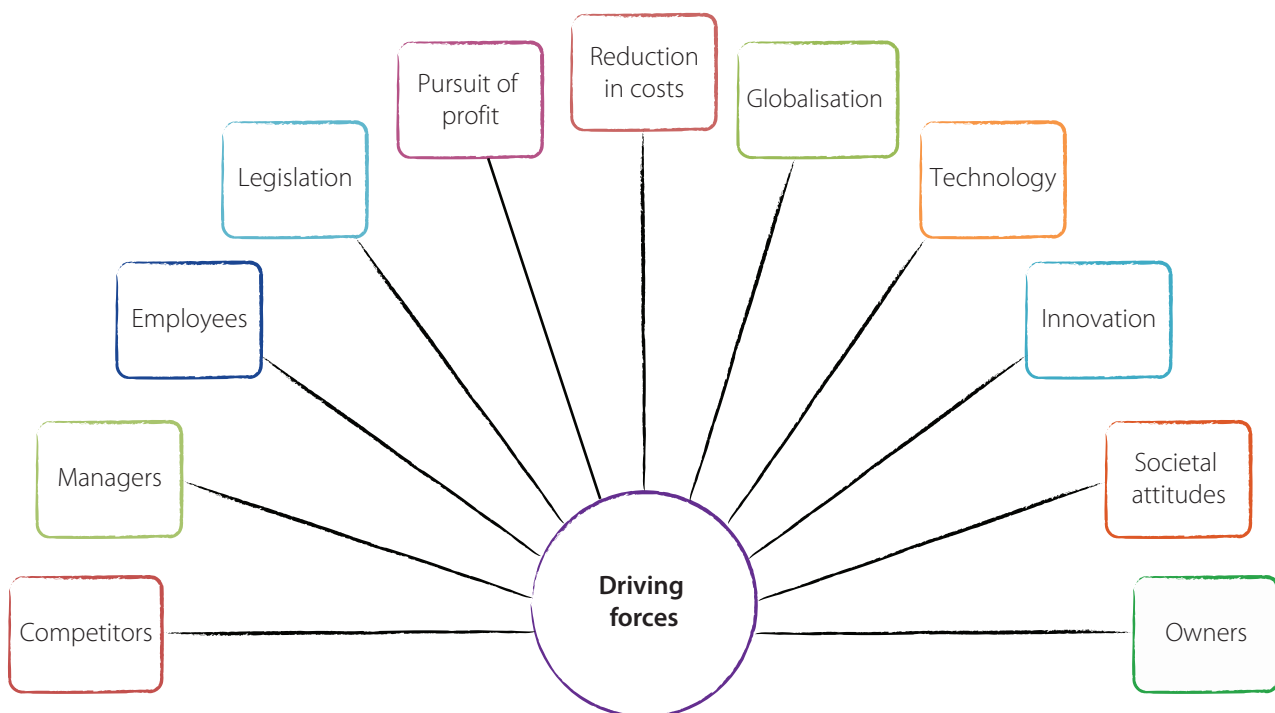


Figure 11.4 Driving forces for change

Owners

Owners have a vested interest in the success and performance of a business. Many businesses are owned and run by their owners (e.g. partnerships and sole traders) and therefore the owners are directly responsible for the overall performance of their business. They need to ensure that they have anticipated and acted upon any trends or developments that could directly impact on the business. If they are not able to do this, they may not be successful in the long term. Shareholders are also owners of a business and, as they have a direct financial stake in the business, they want the business to anticipate and perform so that their monetary investment in the business increases and dividends can be paid. All owners need to be proactive and anticipate possible changes, threats and opportunities.



Figure 11.5 Owners need to take a proactive approach to forces for change.

Managers

Managers are critical to the success of change. Managers therefore act as an important driving force. Managers have influence and will either provide the strategic direction for the change or be involved in a 'hands-on' role in implementing the change. In a small business, the owner/manager may be involved in the whole change process, from initiation of the change through to ensuring that the change is introduced.

Managers must be prepared for change and ensure that the leadership and management across the business are all clear about what is required and that a consistent message is sent to all stakeholders. Managers need to support and drive the change if it is to have any chance of succeeding.



CASE STUDY 11.1

Driving forces for change: managers



Five tips for managing change in the workplace

In order to stay ahead of new technological and economic developments, companies need to embrace change. According to research and advisory company Gartner, the average business has undertaken five major organisational changes in the past three years. Typically, an organisational change is pursued because it is believed that it will improve the performance of the business. Gartner indicates that just 34 per cent of all organisational change initiatives are considered a 'clear success'.

Managers and leaders must understand their role in managing change and be clear about what they are trying to achieve – it may be transformational (may be a radical shift or change in the business) or adaptive (small and incremental) change.

There are a number of strategies to successfully manage change, including:

- 1 Understand the process and clearly outline the vision.
- 2 Understand the forces of change. Why is the change necessary?
- 3 Create a plan.
- 4 Communicate. Communication should be clear, focused and include all affected stakeholders.
- 5 Prepare for and anticipate resistance. Try to remove as many obstacles to change as possible.

Source: Adapted from Tim Stobierski, '5 tips for managing change in the workplace', Harvard Business School Online, 23 January 2020

CASE STUDY ANALYSIS

- 1 The article states that most businesses implement change within their organisation. **Explain** why a business would implement change.
- 2 Change can be 'transformational' or 'adaptive'. **Explain** the differences between the two.
- 3 Choose three of the five ideas or strategies outlined in the article and **propose** why these will assist a business in managing the change process successfully.

Employees

Employees can be a critical driving force for change. If employees support the change and are willing 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 that the change is successful. 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 suggest changes or to support those changes implemented by managers.



CASE STUDY 11.2

Driving forces for change: employees



The generation most keen on a return to the office – and why it may not be full-time

It comes as no surprise to 22-year-old Ariauna Sanis that her generation is the keenest to return to the workplace in real life after the COVID-19 pandemic.

In a nationally representative survey of employed people, three out of four Generation Z workers – those aged 18 to 26 – said they found meaning and social connection in their workplaces.

Ms Sanis worked from home for more than a year and missed the social connection and professional development of the workplace.

The research by Mainstreet Insights found the workplace was the number one source of meaning and social connection for seven out of 10 Australians of all ages. Generation Z was the highest at 76 per cent and Baby Boomer workers (aged 57 to 65) the lowest, at 63 per cent.

Grant Brecht, an organisational and clinical psychologist, said the findings were not

surprising, despite the reputation of Generation Z as digitally connected.

‘Younger people in general have less responsibility in their personal life – they tend to crave more social interaction at work because they don’t yet have as many meaningful pursuits outside of work,’ Mr Brecht said.

The research found attitudes have shifted since the start of the pandemic, when nine out of 10 Australians were happy about the shift to remote work and 78 per cent believed it would be the new normal.

Social researcher Mark McCrindle stated there was little appetite to return to the workplace full-time. The survey found 15 per cent of working Australians would prefer to have everyone working remotely all the time and 26 per cent would prefer to have everyone in the workplace all the time, but most people would prefer a mix of both.

Many large technology companies – such as Facebook and Atlassian – have shifted to allow people to work remotely by default.

Dom Price, workplace futurist at Atlassian, said giving people flexibility on where and when they work let employees fit work around their life circumstances and delivered a loyal and engaged workforce.

Source: Adapted from Caitlin Fitzsimmons, 'The generation most keen on a return to the office – and why it may not be full time', The Age, 13 June 2021

CASE STUDY ANALYSIS

- 1 **Describe** how an employee can act as a driving force for change in a business.
- 2 The case study outlines the attitudes of different generations of employees to working at home. **Discuss** why a business might need to consider how the needs and interests of employees can be accommodated in a business.
- 3 **Outline** how this change in where employees might work could impact on businesses across Australia.

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 are highly competitive, so businesses always need to be ready to respond to any changes to ensure that they do not lose customers or market share. Businesses try 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 can effectively manage the change process, it is likely to keep ahead of its rivals.



CASE STUDY 11.3

Driving forces for change: competitors



One year on from panic buying, supermarkets are no longer all in it together.

In the years after the first lockdown and subsequent lockdowns, and with the rush for toilet paper and other essential items, the largest supermarket chains benefited from the pandemic.

Sales and revenue became a secondary factor for the supermarkets as they focused on supporting Australians through the pandemic. Since then the two major supermarkets, Woolworths and Coles, have seen increased sales.

Analysts and shareholders warned that Coles could now be losing market share to

Woolworths, with the latter pulling ahead thanks to its larger store network and more evolved online offerings. However, both could be losing ground to independents, which have quietly grown through the pandemic into a force to be reckoned with.

Recent sales data showed that Woolworths continued to increase sales at a faster rate than Coles. Woolworths' early move into e-commerce gave it an edge and has helped the company retain its percentage of market share. Woolworths has also continued to develop 'micro fulfilment' centres and is increasing the automation of large distribution centres. Coles is also building centralised automated centres; however, it will be a few years before these are completed.

Jarden analyst Ben Gilbert agrees that online sales and a smaller store network are both key battlegrounds for Coles in its supermarket war.

However, an often-untold story in Australia is the impact of independents, along with smaller competitors such as Aldi and Costco. Gilbert, along with a number of other analysts, believes the independent sector has gained significantly on both Coles and Woolworths during the pandemic and may have retained a share of these shoppers. Many customers are trying to shop locally and closer to home than in the past.

Source: Adapted from Dominic Powell, 'One year on from panic buying, supermarkets are no longer all in it together', The Age, 27 February 2021



Figure 11.6 Costco and other smaller supermarkets have increased their market share in Australia.

CASE STUDY 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 are important for each of the businesses.
- 3 **Explain** how competition is driving changes in online sales for both Woolworths and 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 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 2020 the federal government set out to provide benefits to people to keep the economy going after COVID-19 impacted on businesses and employment. Federal legislation can also lead to changes in policies and procedures within a business. Laws relating to employment, equal opportunity, anti-discrimination and privacy all mean businesses must comply with and respond to these new laws.

At the state level, governments will also pass laws that can directly impact on businesses. In Victoria, the 2021/22 state budget placed a levy on payroll tax for employers with national payrolls of more than \$10 million to fund mental health programs to support the community. Legislation was also changed to increase land tax by 0.25 per cent on landholdings with a taxable value of between \$1.8 and \$3 million, and by 0.3 per cent on landholdings with a taxable value of more than \$3 million.

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 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.



Figure 11.7 Legislation impacts on all businesses.

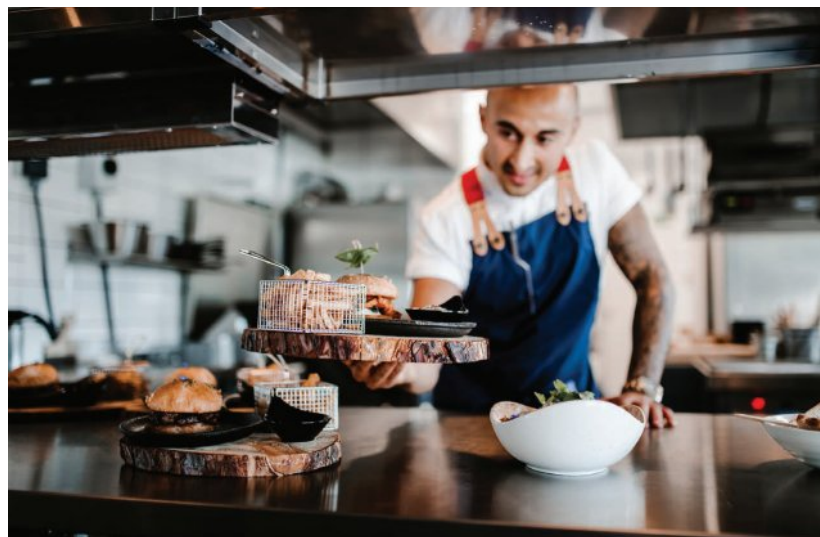


Figure 11.8 Businesses that sell food are classified by the type of food they sell.

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.



ACTIVITY 11.2

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 per cent.
- 2 The local council has offered to support new businesses to encourage them to set up in their local area.
- 3 The Victorian Government has increased payroll tax for large companies.

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 some businesses focus on improving the quality of their 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.



CASE STUDY 11.4

Driving forces for change: pursuit of profit



Kayo'd: cheap streaming, complex ticketing keeps fans away from the footy

During the 2020 and 2021 AFL season, many regular football fans and club members moved away from or were unable to attend a football match in person and subscribed to the streaming service Kayo instead. The streaming service costs approximately \$15 a month.

Many members of football clubs became frustrated with the time and expense involved in trying to book tickets to go to a match when it was allowed. This has helped Kayo – which is considerably cheaper than Foxtel, its broadcast parent – surge to more than one million subscribers during a very short period of time.

In a sense, the adjustment of footy fans to COVID-19 was similar to what occurred in other fields of entertainment. For many, there was a reluctance to go out and to use public transport. With many people working from home, this often led to people watching sport from home as well. In 2021, Foxtel's audience, combined with Kayo, increased by 17 per cent on the 2019 season.

While Kayo has seen many crowds watching footy on a screen, the AFL remains confident that, over time, the live experience will prevail and there will not be a great realignment of footy habits.

Source: Adapted from Jake Niall and Jon Pierik, 'Kayo'd: cheap streaming, complex ticketing keeps fans away from the footy', The Age, 17 May 2021

CASE STUDY ANALYSIS

- 1 **Explain** why profit is a driving force for change in a business.
- 2 **Outline** how economic conditions and the pandemic have impacted on the performance and plans of both Kayo and the AFL.

Reduction of 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. Costs in areas such as purchasing, production, sales and marketing, finance and administration can all impact on the profitability of a business and may be areas where costs can be reduced. Cost cutting can include employing staff part-time rather than full-time, outsourcing some tasks, relocating all or some of the business, 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.

ACTIVITY 11.3

Driving forces for change: reduction of costs

Thang and Emma have run Fun Photo Booths for five years. The business provides photo booths for formals, birthday parties and other events. It is a successful business and has steadily grown 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 those of other businesses such as Fun Photo Booths. Thang and Emma 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 11.9 A photo booth business



Figure 11.10 Globalisation

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 and there is increasing interdependence of national economies and of the international scope and availability of markets, distribution systems, capital, labour and technology.

Globalisation has developed and has been influenced by a number of key drivers, including:

- trade has grown between Australia and the rest of the world
- free trade agreements have opened up countries (Australia, for example, has recently signed agreements with Japan, the United Kingdom, the United States and South Korea)
- development of 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.



ACTIVITY 11.4

Using the annual reports and internet sites of businesses, answer the following questions. Visit the website of one of the following companies to complete this activity:

- Wesfarmers
- BHP
- Nestlé
- Google
- Qantas.

- 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.

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.

Globalisation provides a number of advantages for businesses and can drive change. Benefits of globalisation include:

- giving increased access to markets and customers around the world
- improving the living standards of people in a number of countries
- providing the potential for faster business growth, as companies can develop more trading relationships with other countries
- providing opportunities 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).

ACTIVITY 11.5

Driving forces for change: globalisation

Study the information in Figures 11.11 and 11.12, then answer the questions that follow.



Australia's Top Two-Way Trading Partners 2019-20

Australia's top ten trading partners in order were China, the United States, Japan, the Republic of Korea, United Kingdom, Singapore, New Zealand, India, Germany and Malaysia.

China remained our largest two-way trading partner with a 28 per cent share of our two-way trade valued at just over \$250 billion. The United States moved up as our second two-way trading partner, replacing Japan, but with only nine per cent of the market valued at \$80 billion. The United Kingdom moved up from seventh to become our fifth two-way trading partner replacing Singapore who moved to sixth.



Based on ABS trade data on DFAT STARS database, ABS catalogue 5368.0.55.003 and unpublished ABS data.

Figure 11.11
Australia's top
two-way trading
partners, 2019-20

Australia's Top 20 Exports 2019-20

Rank	Commodity ^(a)	\$ million	% share	% change
1	Iron ores & concentrates	102,864	21.6	32.7
2	Coal	54,620	11.5	-21.5
3	Natural gas	47,525	10.0	-4.4
4	Education-related travel services ^(b)	39,661	8.3	4.9
5	Gold	24,394	5.1	29.3
6	Personal travel (excl education) services	16,368	3.4	-27.1
7	Beef	11,258	2.4	18.8
8	Aluminium ores & concentrates (incl alumina)	8,875	1.9	-21.9
9	Crude petroleum	8,568	1.8	0.9
10	Copper ores & concentrates	6,854	1.4	14.8
11	Professional services	6,107	1.3	9.2
12	Telecom, computer & information services	5,909	1.2	17.0
13	Financial services	5,696	1.2	14.7
14	Meat (excl beef)	5,520	1.2	7.2
15	Technical & other business services	5,154	1.1	9.3
16	Wheat	3,847	0.8	5.2
17	Aluminium	3,761	0.8	-11.5
18	Other ores & concentrates ^(c)	3,678	0.8	4.4
19	Pharm products (excl medicaments)	3,631	0.8	22.9
20	Copper	3,433	0.7	-12.8
	Total exports ^(d)	475,240	100.0	0.9

Figure 11.12
Australia's top 20
exports, 2019-20





- 1 **Explain** how globalisation has become a significant driving force for change over the past few decades.
- 2 **Identify** five products or services that Australian businesses export to the rest of the world.
- 3 **Identify** three products or services that declined in terms of exports in 2019-20.
- 4 **Identify** the countries that are Australia's top three trading partners.
- 5 Visit the DFAT website and **identify** and **describe** two export grants and/or financial assistance schemes that are available for Australian businesses.
- 6 **Explain** why the Australian Government would provide this type of assistance to businesses.



Figure 11.13 Technology has become an everyday element of business.

Technology

Technology has an impact on businesses, regardless of size. Technology is now part of our everyday lives and is often taken for granted by businesses and customers. It impacts on all areas of a business and is a major driver of change.

The areas of a business that can be impacted by technology are outlined in Table 11.2.

Table 11.2 Technology as a driving force

Stakeholder/factor	The effect of 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
Corporate culture	May change due to staff coming into the business with a specific skill set centred on utilising technology
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.
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.
Customers	Customers expect businesses to have and use the latest technology to ensure that it is efficient and quick. Retail stores need to have a website, and successful ones are expanding their use of social media.
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 various forms of technology

Many businesses are integrating technology. Examples include:

- Hotels.com is a website for booking hotel rooms online and by telephone. The company was founded in 1991 and has 85 websites in 34 languages and lists over 325 000 hotels in approximately 19 000 locations.
- Webjet Limited is a travel booking website offering flights, hotels, holiday packages, cruises, car hire, travel insurance and travel deals. The company has operations in Australia, New Zealand, North America, Singapore and Hong Kong.
- Airtasker operates online by offering users the chance to outsource tasks. Services offered include home cleaning, gardening, pickup and delivery, IKEA furniture assembly and photography.
- Shippit launched in February 2015. It began working with a handful of fashion and homeware boutiques in Sydney. Shippit now powers delivery for hundreds of retailers across Australia, sending thousands of deliveries every month.



CASE STUDY 11.5

Driving forces for change: technology



In Washington, in the United States, Amazon has established a new Amazon Fresh store. While it looks like any supermarket, it is not.

To enter the store, a customer has to scan a QR code on Amazon's app. Inside the supermarket there are no checkouts or cashiers and no queues. Once a customer has finished shopping, they simply walk out.

Shopping around the globe has become increasingly automated, and Woolworths in

Australia offers contactless 'scan and go' shopping. Amazon Fresh has removed the need to scan barcodes. While it is convenient, many observers are concerned that the system may breach civil liberties as people are under surveillance and being tracked. Anything taken off the shelf is added to their virtual cart and then customers are billed for purchases on their Amazon account. While there are privacy concerns, unions are also concerned about the loss of jobs as fewer staff are required.

CASE STUDY ANALYSIS

- 1 **Propose** why technology has such a large impact on businesses and acts as a driving force for change.
- 2 **Explain** the possible impact of the rise in online shopping and contactless shopping for the following businesses:
 - a Australia Post
 - b supermarkets
 - c bricks-and-mortar shops.
- 3 Survey the members of the class and determine how many people or their families have purchased items online. **Outline** the reasons why they decided to shop this way.

innovation generally refers to changing or creating more effective processes, products and ideas, and can increase the likelihood of a business succeeding

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. Innovation is a major driving force for change, and many businesses focus on it as a way to improve performance, develop a market niche and gain a competitive edge. Often small and medium-sized businesses cannot compete against large businesses and multinational corporations; however, they may be able to develop markets across the world through innovation.

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 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.

There are several ways businesses can take steps to innovate. These are shown in Figure 11.15.



Figure 11.14 Innovation is a major driving force for change.



Figure 11.15 Innovation is important for all businesses. Source: Based on 'Innovation', Australian Government, Business website, 31 August 2018.



CASE STUDY 11.6

Driving forces for change: innovation

This case study is available in the Interactive Textbook.





CASE STUDY 11.7

Driving forces for change: innovation



The Australian Government has introduced several programs and initiatives to support innovation in a number of ways. These are shown in Figure 11.16.

	Education Respond to the changing nature of work by equipping all Australians with skills relevant to 2030
	Industry Ensure Australia's ongoing prosperity by stimulating high-growth firms and raising productivity
	Government Become a catalyst for innovation and be recognised as a global leader in innovative service delivery
	Research & Development Improve R&D effectiveness by increasing translation and commercialisation of research
	Culture & Ambition Enhance the national culture of innovation by launching ambitious National Missions

Source: Adapted from 'Australia 2030: Prosperity through innovation: a plan for Australia to thrive in the global innovation race', Department of Industry, Science, Energy and Resources website, November 2017

Figure 11.16 Australian Government programs to support innovation

CASE STUDY ANALYSIS

- 1 **Explain** how innovation can be a driving force for change in Australia.
- 2 **Describe** why each of the areas shown in Figure 11.16 can support businesses to innovate.
- 3 **Discuss** why state and federal governments implement programs to support businesses to innovate and grow.



Figure 11.17 Changing societal attitudes mean that flexible working arrangements can be required.

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, influenced by a range of factors, including changes in the demographic make-up of the population. 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. Since 2020, many employees want to have more flexible work arrangements and to work from home. This has also had an impact on people's lives.

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, job sharing, and more 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 (e.g. dual-income households, fewer children, single-person households and share houses) and changing attitudes to work and what constitutes work (e.g. starting up a business, changing jobs and careers, and increased mobility of the workforce). The workforce is also becoming more educated and skilled, and this impacts on people's expectations regarding the type of job taken and career opportunities. 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.



CASE STUDY 11.8

Driving forces for change: societal attitudes



Four times a year in the office: Atlassian goes all in on WFH.

Atlassian's billionaire co-founder and co-chief executive Scott Farquhar has only been in the office three times over the past year.

His absence from the project management software giant's famously employee-friendly head office signals a broader shift in the way the company is planning to operate in the future. In short, Atlassian is going all in on working from home.

Atlassian's 5700 staff around the world can work from any location in a country where Atlassian has a corporate entity, where they have the legal right to work and where the time zone they are in is broadly aligned with that of their team members.

The policy is remarkably lenient, even for the tech industry. Google recently outlined requirements for employees to live within commuting distance of its offices and apply if they wish to work from home for more than 14 days a year. Other prominent tech companies such as Netflix and Amazon have also signalled a desire for their employees to return to the office.

Farquhar is confident the policy makes sense for Atlassian, which is a global collaboration software company that has always faced a fierce battle for talent. The business has always tapped into the global talent base, and so the idea of 'Team Anywhere' is that talent exists anywhere in the world.

Atlassian's staff have indicated they expect to be in its offices on average around 50 per cent of the time, but the company only requires staff to travel to their nearest office about four times a year. Farquhar thinks these office visits will resemble attending a work conference.

Atlassian will still maintain its physical offices and is proceeding with plans to build a new head office in Sydney. It will also consider creating smaller co-working hubs closer to where employees live.



Figure 11.18 Atlassian's co-founder and co-chief executive Scott Farquhar

Atlassian employees have adapted quickly, with over 1000 moving location since the advent of the pandemic and about 1500 new hires in the same time period.

Farquhar said companies requiring staff to return to the office a certain number of days a week are not really enabling staff to work from different locations. He says change needs to come from the top, because if managers or bosses are in the office five days a week there is going to be a social norm to follow suit.

Source: Adapted from Cara Waters, 'Four times a year in the office: Atlassian goes all in on WFH', The Age, 29 April 2021

CASE STUDY ANALYSIS

- 1 **Outline** how societal attitudes can act as a driving force for change in a business.
- 2 **Discuss** how the changes flagged at Atlassian will impact on the way employees will work.
- 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.



ACTIVITY 11.6

Copy and complete the following table.

Factors that can be driving forces for change	How the factor can be a driving force
Owners	
Managers	
Employees	
Competitors	
Legislation	
Pursuit of profit	
Reduction in costs	
Globalisation	
Technology	
Innovation	
Societal attitudes	



REVIEW ACTIVITY 11.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** why it is important for a business to **identify** driving forces for change.
- 2 **Describe** how legislation can be a driving force for a business.
- 3 Technology will continue to impact on businesses. **Analyse** how a business might need to change as a result of changes in technology.
- 4 **Outline** why it is important for managers and/or owners of a business to work with employees to ensure that change is successfully implemented.

11.3 Restraining forces for change in a business

Learning intentions
– at the end of this
chapter section I will
be able to:

11.3.1 Identify and explain the restraining forces for change, including managers, employees, time, organisational inertia, legislation and financial considerations

There are several different forces on a business that can inhibit or stop change from occurring. If a business comes up against these forces, this may mean that the change will not be implemented, and the performance of the business may be 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 11.19 Restraining forces for change

Managers

Managers can act as a crucial driving force or, as in the previous section, 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 other managers refusing to implement it (active resistance) or failing to actively support it (passive resistance). Employees and managers might both resist change 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 other stakeholders. If decisions have been made by the senior managers and the middle or lower levels of management have had no input, they may resist change or not understand it in the same way that employees would.



ACTIVITY 11.7

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 take advantage of the interest by Victorians to holiday in their state. He has decided to join with other operators of wineries, hotels and fine dining to develop boutique luxury holiday packages. He believes that the focus on short, deluxe holidays and experiences will mean that sales will increase.

He tells employees about the changes in an email. The changes will come in within six weeks and will mean that some employees will start to work with other businesses, and that two managers and six employees will no longer be required.

Some of the other managers in the business find out about the changes at the same time as employees and are concerned that they will change the core focus of the business and the type of clients they cater for. Many employees have been asking about who will lose their jobs and what the changes will mean to them. 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 changes are likely to be successful. Provide reasons for your answer.
- 4 **Discuss** how the managers could act as a restraining force for change.



Figure 11.20 Employees can take time to adapt to change.

Employees

Employees in a business are often the difference or competitive edge for one business over another. While many employees are happy to embrace change, others are likely to resist the changes suggested by management. Employees who do not feel part of the business or are uncertain about the impact of the change will usually resist and may make the process difficult. 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. Employees may feel a loss of personal identity, be afraid of failing, feel like they are outside their comfort zone, feel disoriented, threatened and feel disorientated about where the change is leading them. There are 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 is overcome. 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. Managers should also take on board ideas and feedback provided by staff, although sometimes resistance will be met regardless of the process followed.



CASE STUDY 11.9

Restraining forces for change: employees



'Morale is at an all-time low': AMP Australia to cut 20 per cent of staff

AMP Australia will dismiss up to 20 per cent of its staff during a one-year period as part of a restructure designed to make the business more sustainable as the company focuses on domestic operations under a new executive leadership team.

The new chief executive hired a new executive team to create a 'lean, efficient and competitive' business and is now working on a restructure plan that includes staff retrenchments as part of a cost-savings plan.

One source said staff had been given little information about which teams would be affected by the restructure, but many were aware terminations would occur.

'Morale is at an all-time low as staff either wait for redundancies or are resigning in

droves in disgust at the lack of changes in the company and additional work due to large restructures and no pay rises,' the source said.

An AMP spokesman said the group had communicated with staff about changes to the business but were still working through the details, which would include redundancies at different levels in the business.

'We are very conscious of the impact that this has on our people, these types of changes are always challenging for all of those involved and impacted – and we will provide our people with all the support they need through this change,' an AMP spokesman said. 'We are working as quickly as possible to give our people certainty.'

Source: Adapted from Charlotte Grieve, "Morale is at an all-time low": AMP Australia to cut 20 per cent of staff', The Age, 27 May 2021

CASE STUDY ANALYSIS

- 1 **Discuss** how employees can act as a driving force and as a restraining force for change in a business.
- 2 **Outline** the impact on employees and the performance of AMP as a result of uncertainty about the future.

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 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 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 11.10

Restraining forces for change: time



Time management tips to overcome lack of time

Time is a scarce resource and cannot be taken back. If time is not well spent, it is a restraining force on a business.

According to *Forbes* magazine, there are a number of ways that time can be used more effectively. These include:

- Prioritise plans and tasks to ensure that deadlines are met and all important tasks are completed.
- Ensure that actions align with business objectives.
- Learn to say no. Many employees and managers find it difficult to say no, which means they may not get work completed to meet deadlines.
- Ensure that the team is skilled and able to do the tasks they have been assigned.
- Focus on ensuring that interactions are meaningful and there are clear objectives for meetings.

CASE STUDY ANALYSIS

- 1 **Explain** why time is an important resource that is not always measured.
- 2 **Outline** how time can act as a restraining force on a business.
- 3 Look at the five points outlined in the article. **Propose** three strategies and **justify** why they are important for a business.

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 difficult to implement lasting change. Some businesses are very conservative, and the management style, corporate culture and policies may make change problematic.

Organisational inertia is the tendency of a mature business to continue on its current trajectory. This inertia is made up of two elements: resource rigidity and routine rigidity. Resource rigidity stems from an unwillingness to invest, while routine rigidity stems from an inability to change the patterns and logic that underlie this. While resource rigidity relates to the motivation to respond, routine rigidity relates to the structure of that response. If a business is bogged down by organisational inertia, it is difficult for the business to succeed and sometimes even to survive.

There are a number of suggestions as to how inertia can be overcome, including changing resources and routines. However, sometimes inertia can be difficult to overcome because people become even more rigid in their ways as this allows them to cope with the situation.



Figure 11.21 Organisational inertia makes it difficult for a business to succeed.

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



CASE STUDY 11.11

Restraining forces for change: organisational inertia



Why did Nokia fail?

In the early 2000s, Nokia was one of the most popular mobile phone companies. It became the bestselling brand in a decade and catered for all segments of the market with different models and different prices. In 2007, it had nearly 50 per cent share of the mobile phone market.

Nokia was also seen as an innovator in the market. Over time its sales went down, and it ended up selling the mobile phone division.

There were several factors that led to Nokia's failure, including:

- A change in top management. Under the new management, smartphones and basic phone operations were merged together, which hindered innovation.
- After dominating the mobile industry for more than a decade, Nokia's sales went down. It was a result of both internal decisions and the external environment.

- The arrival of new companies such as Apple and Google; Nokia did not believe its competitors were a threat.
- Delays in the release of new phones, which meant that other companies were able to establish themselves.
- An unsuccessful partnership with Microsoft (which later bought the company).
- lack of focus on innovation and a lack of coordination of different areas of the business
- focus on traditional phones rather than software-driven phones
- frequent changes in management with a number of new CEOs
- refusal to make Android phones
- slow decision-making.

The underlying reasons for Nokia's failure include:

- failure to adapt
- failure to innovate
- failure to reposition the business and missed opportunities
- overconfidence and ignoring the new ideas and technologies taken up by its competitors

In 2014, Nokia decided to focus on network equipment, network infrastructure, communications and network service platforms. In 2017, HMD Global released an Android-based smartphone under the brand name of Nokia. It was well received but Nokia has not caught up to its competitors.

Source: Adapted from Parth Verma, 'Why did Nokia fail?', Feedough website, 9 October 2020

CASE STUDY ANALYSIS

- 1 **Explain** the concept of organisational inertia.
- 2 **Describe** how inertia can act as a restraining force on a business.
- 3 **Explain** why Nokia was unable to build on its earlier success.
- 4 **Identify** three factors outlined in the article that demonstrate organisational inertia at Nokia.



Legislation

While legislation can act as a driving force for change (see page 313), 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.

Changes in legislation such as consumer law and taxation will have a direct impact on businesses of all sizes. Some other changes in legislation or new laws that can impact on a business are changes in smoking regulations (e.g. 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 11.22 Smoking regulations can impact on the processes of a business.



CASE STUDY 11.12

Restraining forces for change: legislation



The Victorian Government will introduce a cash reward for the return of drink cans, cartons, and bottles.

The system will be designed to provide better recycling, less waste, less rubbish and litter, and new employment opportunities. It will also provide opportunities for community groups, charities and sporting clubs to raise extra funds.

The process is shown in Figure 11.23.

The recycling cost will be included in the price of the drink, empty containers can be returned to a variety of locations across Victoria, and there will be a 10 cents refund per container to the person who returns it.

Source: Adapted from 'Container deposit scheme', Victorian Government website



Figure 11.23 Victorian Government recycling scheme

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

- 1 **Describe** how legislation can be a restraining force on a business.
- 2 **Outline** how the new container deposit scheme may impact on retailers and manufacturers.



Video 11.1
Container
deposit
scheme

Financial considerations

Financial considerations can act as a restraining force for change on businesses. Lack of access to finance can be an inhibitor for many small businesses. While interest rates are relatively low, there is still a cost involved, and some financial institutions may be reluctant to lend money without security. One of the main reasons why many small businesses fail is lack of finance; if a business wishes to expand and does not have the funds, it must access finance, 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 and there may be risks associated with it. The inability to obtain or manage funds will be a restraining force on the business.



Figure 11.24 A common cause of failure for small businesses is lack of finance.



ACTIVITY 11.8

Sarah and Ahmed own a clothing store in Eltham. They have located another suitable store in the nearby suburb of Heidelberg. The store is available to purchase. Sarah 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.

ACTIVITY 11.9

Copy and complete the following table.



Factors for change	How the factor can be a restraining force
Managers	
Employees	
Time	
Organisational inertia	
Legislation	
Financial considerations	

REVIEW ACTIVITY 11.3**Part 1: Digital quiz**

Please see the Interactive Textbook to access a digital activity.

**Part 2: Short-answer questions**

Answer these questions on paper or in the Interactive Textbook.

- 1 **Distinguish** between driving and restraining forces for change.
- 2 **Describe** how employees may act as a driving force and as a restraining force for change.
- 3 **Explain** how restraining forces can hinder change in a business.

Figure 11.25 Driving and restraining forces for change are often at odds for businesses.



Chapter 11 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 4 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Force Field Analysis theory (Lewin)	Driving forces
Restraining forces	Organisational inertia

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 six months and, while there would be opportunities for training to assist in the transition, a number of employees would not be required. A survey by one of the managers found that 70 per cent of employees either did not understand the changes or were thinking about leaving the business.

- 1 Distinguish** between driving and restraining forces for change. **(3 marks)**
- 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. **(3 marks)**
- Using Force Field Analysis theory (Lewin), **evaluate** the proposed changes and determine whether they should be implemented. Use the same table format as Table 11.1 to complete this question. **(8 marks)**
- Change can have a major impact on a business. **Discuss** the possible forces for change in the business environment. **(8 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
11.1 Key principles of Lewin's Force Field Analysis theory	11.1.1 Outline the key principles of the Force Field Analysis theory	Activity 11.1: Q1 Review activity 11.1: Part 1 & Part 2 Examination preparation: Q1–5	Yes No <input type="checkbox"/> <input type="checkbox"/>
11.2 Driving forces for change in a business	11.2.1 Identify and explain the driving forces for change, including: <ul style="list-style-type: none"> • owners • managers • employees • competitors • legislation • pursuit of profit • reduction of costs • globalisation • technology • innovation • societal attitudes 	Activity 11.2: Q1–3 Activity 11.3: Q1 Activity 11.4: Q4 Activity 11.5: Q1 Case study 11.1: Q1–2 Case study 11.2: Q1–3 Case study 11.3: Q1 Case study 11.4: Q1 Case study 11.5: Q1 Case study 11.6: Q1–2 Case study 11.7: Q1–3 Case study 11.8: Q1 Review activity 11.2: Part 1 & Part 2 Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>
11.3 Restraining forces for change in a business	11.3.1 Identify and explain the restraining forces for change, including: <ul style="list-style-type: none"> • managers • employees • time • organisational inertia • legislation • financial considerations 	Activity 11.7: Q1–4 Activity 11.8: Q1 Activity 11.9 Case study 11.9: Q1 Case study 11.10: Q1–2 Case study 11.11: Q1 Case study 11.12: Q1 Review activity 11.3: Part 1 & Part 2 Examination preparation: Q3	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 12

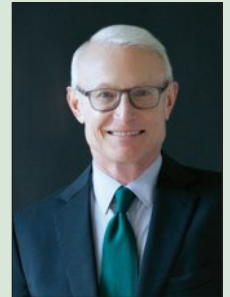
Porter's Generic Strategies approach

'Strategy is about making choices, trade-offs; it's about deliberately choosing to be different.'

Michael Porter (1947–)

About the author:

Michael Porter is an American academic known for his theories on economics, business strategy and social causes.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about starting a business and discuss your response to the following questions:

- 1 Explain** why businesses have to make choices when developing strategies.
- 2 Explain** why a business might choose 'to be different' from other businesses.

CHAPTER OVERVIEW

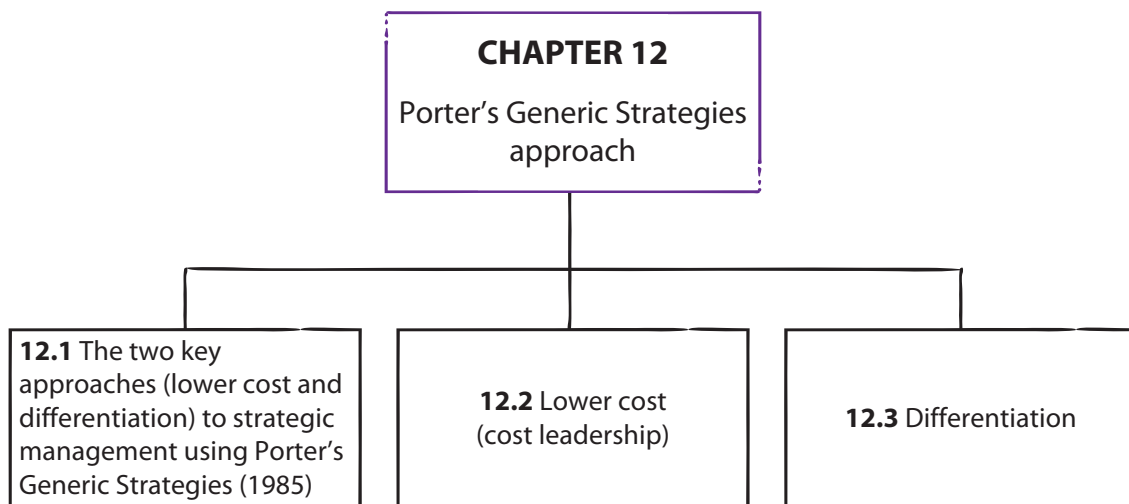
On completion of this chapter students will be able to outline the two key approaches (lower cost and differentiation) to strategic management according to Porter's Generic Strategies.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of the chapter I will be able to:
Examine the different types of approaches (lower cost and differentiation) to strategic management using Porter’s Generic Strategies (1985)	<p>12.1 The two key approaches (lower cost and differentiation) to strategic management using Porter’s Generic Strategies (1985)</p> <p>12.1.1 Examine, describe and apply the different types of approaches to strategic management using Porter’s Generic Strategies</p> <p>12.2 Lower cost (cost leadership)</p> <p>12.2.1 Examine, describe and apply the lower cost approach to strategic management using Porter’s Generic Strategies</p> <p>12.3 Differentiation</p> <p>12.3.1 Examine, describe and apply the differentiation approach to strategic management using Porter’s Generic Strategies</p>

Source: Adapted from VCE Business Management Study Design © VCAA; reproduced by permission

What’s ahead



12.1 The two key approaches (lower cost and differentiation) to strategic management using Porter's Generic Strategies (1985)

Learning intentions – at the end of this chapter section I will be able to:

12.1.1 Examine, describe and apply the different types of approaches to strategic management using Porter's Generic Strategies

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

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. If you are planning a holiday to Queensland, for example, there are a number of things to consider. Questions about where to stay, how to get there – drive, bus or fly – and what to do and see are all important. Along the way, you will make decisions and eventually plan a trip that suits you. If you choose to stay in a caravan park and self-cater, it will cost you less than if you decide to stay in a fully catered luxury resort. The cheaper option will mean that your holiday is less expensive, and some of this is due to the businesses 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 different approaches of 'Generic Strategies' that can be applied to all industries and to businesses of all sizes. The two generic strategies that will be covered are 'lower cost' (cost leadership) and 'differentiation'.

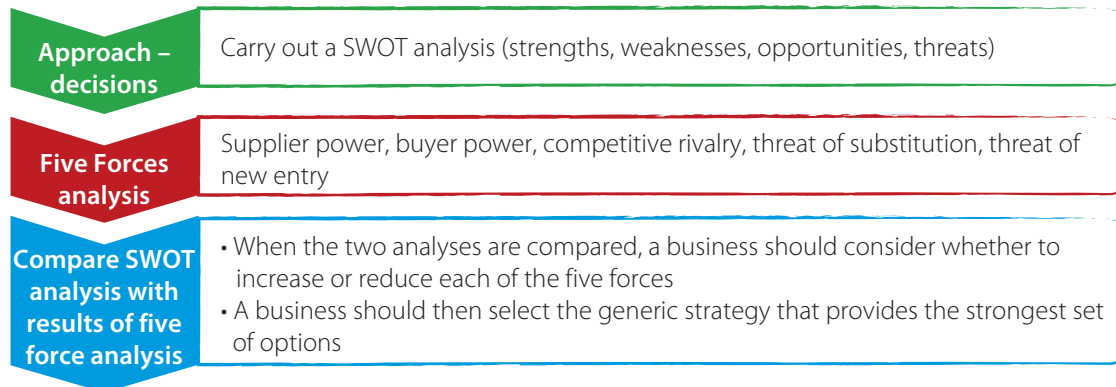
Porter developed a framework that he used to outline the major strategic options open to businesses that wish to achieve a sustainable competitive advantage. He published his ideas in 1985. Two of these approaches, lower cost and differentiation, need to be considered within the context of:

- **competitive advantage**, which establishes whether the products are differentiated in any way, or if the business is 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.

Businesses need to decide whether they are going to pursue lower cost or differentiation. Once an approach has been determined, it should be the main strategy. It is important that the business also takes into account 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.

To determine which generic approach a business is going to focus on, a business should work through the steps shown in Figure 12.1.



Source: Based on Michael E. Porter, 'How competitive forces shape strategy', March 1979. Copyright © 1979 by the Harvard Business School Publishing Corporation; all rights reserved

Figure 12.1 There are a number of steps to follow to determine the approach to use.

Porter's Five Forces analysis is an approach used to analyse a business's competitive environment. The number and power of a company's competitive rivals, potential new market entrants, suppliers, customers, and substitute products influence a company's profitability. Five Forces analysis can be used to guide business strategy to increase competitive advantage.

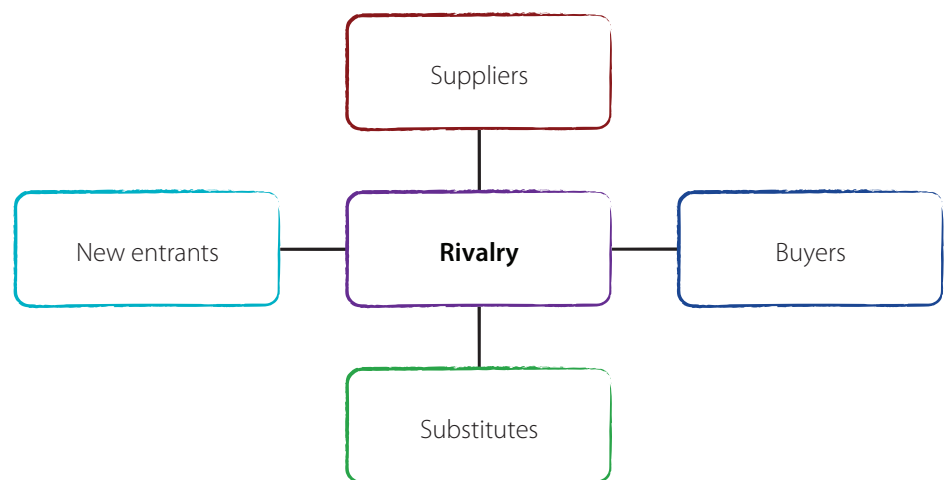


Figure 12.2 Five force analysis

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 that Eli and Jonah would have to contemplate when deciding about expanding the business.

REVIEW ACTIVITY 12.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Describe** the approaches to strategic management using Porter's Generic Strategies (1985).
- 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 **Explain** why a business would complete a SWOT and force analysis before determining which approach to use.

12.2 Lower cost (cost leadership)

Learning intentions – at the end of this chapter section I will be able to:

12.2.1 Examine, describe and apply the lower cost approach to strategic management using Porter's Generic Strategies

In cost leadership, a business sets out to become the low-cost producer. The sources of cost advantage are varied and depend on 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.

The cost leadership strategy is exactly that – it involves being the industry cost leader 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 hinder 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 lower cost leadership. These are outlined in Table 12.1.

Table 12.1 Ways to achieve lower cost leadership

Asset utilisation	This means being able to use resources efficiently. Examples include a restaurant having a large number of customers come through by having a number of different sittings in the evening.
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 of service. Production costs are kept low by using fewer parts, standard components and limiting the number of models produced to make sure there are larger production runs. This strategy requires continuous focus on cost reductions.
Control over all departments or groups of the business	This approach involves checking and reviewing all areas of the business. The review would look at factors such as 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, preferential access to materials and components or integrating supply chains into the business.



Figure 12.3 Businesses that achieve cost leadership become above-average performers in their industry.

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, a new airline, Bonza, opened in 2022 as a low-cost airline. The focus is on the domestic market, and the airline plans to fly out of regional airports rather than compete directly with the established airlines. It is hoping to be an independent low-cost airline in the Australian market.

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 12.4 Some airlines try to compete based on lower cost.



CASE STUDY 12.1

Porter's Generic Strategies approach: lower cost – Amazon



How Amazon operates

Amazon focuses on four core principles. These are:

- 1 Customer obsession rather than competitor focus – Amazon focuses on innovation and starts with the customer and works back from there. It also pays attention to what competitors are doing.
- 2 A passion for invention – Amazon fosters a culture of innovation and invention within the business and looks at ways to simplify. It is also continually looking for new ideas from within and outside the business.
- 3 A commitment to operational excellence – Amazon prioritises operational performance and having an effective and efficient operations system to improve the quality of service and delivery.
- 4 A focus on long-term thinking – Long-term thinking is a core value cemented in Amazon's history since its inception. It has invested for the long term and continues to refine and improve offerings based on customer feedback.

Source: Adapted from Amazon staff and Lia Cummins, 'How Amazon operates', Amazon Australia website, 23 May 2018



Figure 12.5 Amazon has a focus on the customer as the first priority.

CASE STUDY ANALYSIS

- 1 **Describe** the lower cost approach.
- 2 **Evaluate** why Amazon is so successful around the world.
- 3 **Explain** why Amazon focuses on customers.
- 4 **Discuss** why Amazon needs to continue to focus on having an effective and efficient operations management system.



CASE STUDY 12.2

Porter's Generic Strategies approach: cost leadership – Ikea



Ikea has built a corporate culture based on enthusiasm, togetherness and a 'get-it-done' attitude. It is constantly looking for new and better ways to do things, from how to design a rocking chair that fits into a flat-pack to creating LED light bulbs that are affordable for everyone.

The business wants to have a positive impact on the world – from the communities where materials are sourced to the way products help customers to live a more sustainable life at home.

Ikea's vision is 'to offer a wide range of well-designed, functional home furnishing products

at prices so low, that as many people as possible will be able to afford them'.

Ikea focuses on creating products that have a beautiful design, good function, are sustainable, of good quality and are available at a low price. Lower prices are able to be sustained because of the large production volumes; and because products are packed and shipped in space-efficient flat-packs, storage and transportation costs are reduced.

Source: Adapted from 'Vision & Business idea', Ikea Australia website

CASE STUDY ANALYSIS

- 1 **Identify** the three ways a business can obtain cost leadership.
- 2 **Describe** how Ikea has been able to succeed across the world as a manufacturer and retailer of furniture and homewares.

REVIEW ACTIVITY 12.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** what low cost (cost leadership) is.
- 2 **Outline** two ways a business can pursue a cost leadership strategy.
- 3 **Discuss** the advantages and disadvantages of pursuing a lower cost or cost leadership strategy.

12.3 Differentiation

Learning intentions – at the end of this chapter section I will be able to:

12.3.1 Examine, describe and apply the differentiation approach to strategic management using Porter's Generic Strategies

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 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 as the approach focuses on uniqueness of the product or service and its attractiveness. Differentiation can be based on a number of factors, including product durability and use, support and after-sales service, and brand image. This allows a business to create an ideal image 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.

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.

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.

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.

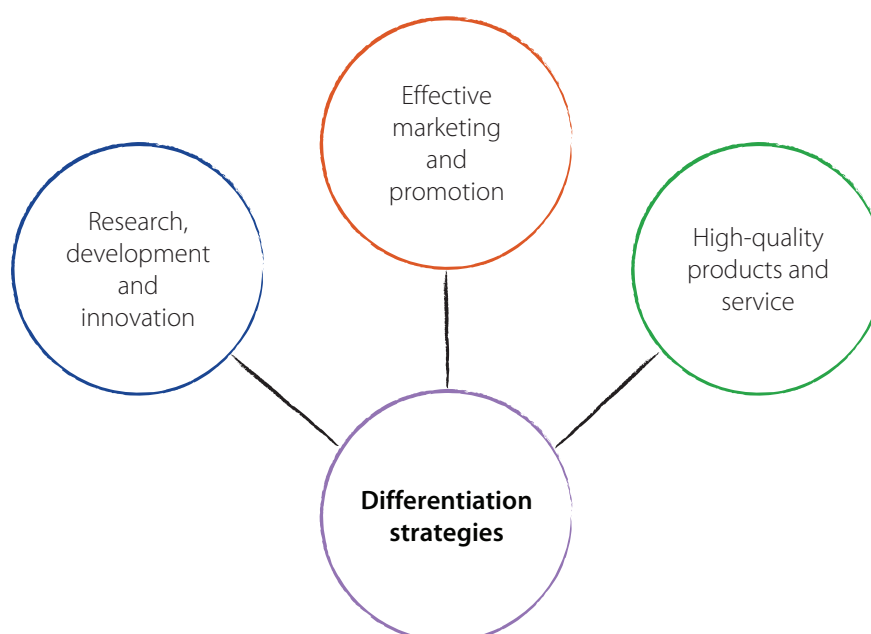


Figure 12.6 There are different ways to implement a differentiation strategy.



Figure 12.7 Differentiation is a strategy used to focus on the uniqueness of the product or service.



Figure 12.8 Prada is known as a luxury brand.



Figure 12.9 BMW is an established brand that customers recognise.

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. 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.

Usually, 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.





CASE STUDY 12.3

Porter's generic strategies approach: differentiation - Mini Motor Vehicles



Mini is now owned by the BMW Motor Company. The first Mini was manufactured in 1959. The car is known and sold around the world and has a target market and dedicated drivers and enthusiasts who join Mini Clubs across the globe.

The cars focus on being different from other motor vehicles with an iconic design. Core to all Mini cars is a unique go-kart feeling, a creative use of space and many different colour combinations. Mini is seen as straightforward, sincere and authentic.

CASE STUDY ANALYSIS

- 1 **Explain** the concept of differentiation.
- 2 **Describe** how Mini is a motor vehicle that has a specific target market and why it is an example of differentiation.

The impact of Porter's Generic Strategies



MARKET ANALYSIS

Figure 12.10 Businesses that control a high market share of their product are often profitable.

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 a low market share. 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.

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?

If a business is starting from scratch, an important consideration is whether the business will follow a lower 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.



CASE STUDY 12.4

Porter's Generic Strategies approach: differentiation - GlamCorner



Fashion rentals bounce back as 'micro-occasions' take centre stage.

Fashion rental businesses have been affected by the coronavirus pandemic. However, they have been able to increase sales, with one business, GlamCorner, seeing its membership base double as customers look for any excuse to dress up.

Fashion rentals, where customers rent expensive clothes rather than owning them outright, fell out of favour at the peak of the COVID-19 lockdowns. However, the trend is

back and GlamCorner co-founder Dean Jones said the pandemic had accelerated demand for fashion rentals and what he calls 'sustainable circular fashion'.

Mr Jones said the behaviour of GlamCorner's 'tens of thousands' of customers was back to where it was pre-pandemic and they were renting clothes for a wider variety of occasions.

Source: Adapted from Cara Waters, 'Fashion rentals bounce back as "micro occasions" take centre stage', The Age, 15 June 2021

CASE STUDY 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 GlamCorner has been able to build its business back up.
- 4 Complete some research and **investigate** other businesses that have been successful in using a differentiation approach. (Examples that could be considered are Porsche, 2XU, Bird & Knoll and Chanel.)

ACTIVITY 12.3

Select two businesses that use a differentiation approach. **Explain** why the businesses are successful.



REVIEW ACTIVITY 12.3

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** Porter's differentiation approach.
- 2 **Describe** the three different strategies a business can use to pursue a differentiation approach.
- 3 **Explain** why businesses focus on quality and service when using a differentiation approach.

Chapter 12 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 4 Area of Study 1, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Porter's Generic Strategies (1985)	Cost leadership
Competitive advantage	Differentiation

Examination preparation

- 1 Compare** the concepts of cost leadership and differentiation strategic management 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)**
- 3** 'When determining the strategy to use, a business must determine whether a lower cost or a differentiation approach should be followed.' **Discuss** this statement. **(8 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
12.1 The two key approaches (lower cost and differentiation) to strategic management using Porter's Generic Strategies (1985)	12.1.1 Examine, describe and apply the different types of approaches to strategic management using Porter's Generic Strategies	Activity 12.1 Review activity 12.1: Part 1 & Part 2 Examination preparation: Q1–2	Yes No <input type="checkbox"/> <input type="checkbox"/>
12.2 Lower cost (cost leadership)	12.2.1 Examine, describe and apply the lower cost approach to strategic management using Porter's Generic Strategies	Case study 12.1: Q1 Case study 12.2: Q1 Review activity 12.2: Part 1 & Part 2	Yes No <input type="checkbox"/> <input type="checkbox"/>
12.3 Differentiation	12.3.1 Examine, describe and apply the differentiation approach to strategic management using Porter's Generic Strategies	Activity 12.2: Q1–2 Activity 12.3 Case study 12.3: Q1 Case study 12.4: Q1–2 Review activity 12.3: Part 1 & Part 2	Yes No <input type="checkbox"/> <input type="checkbox"/>

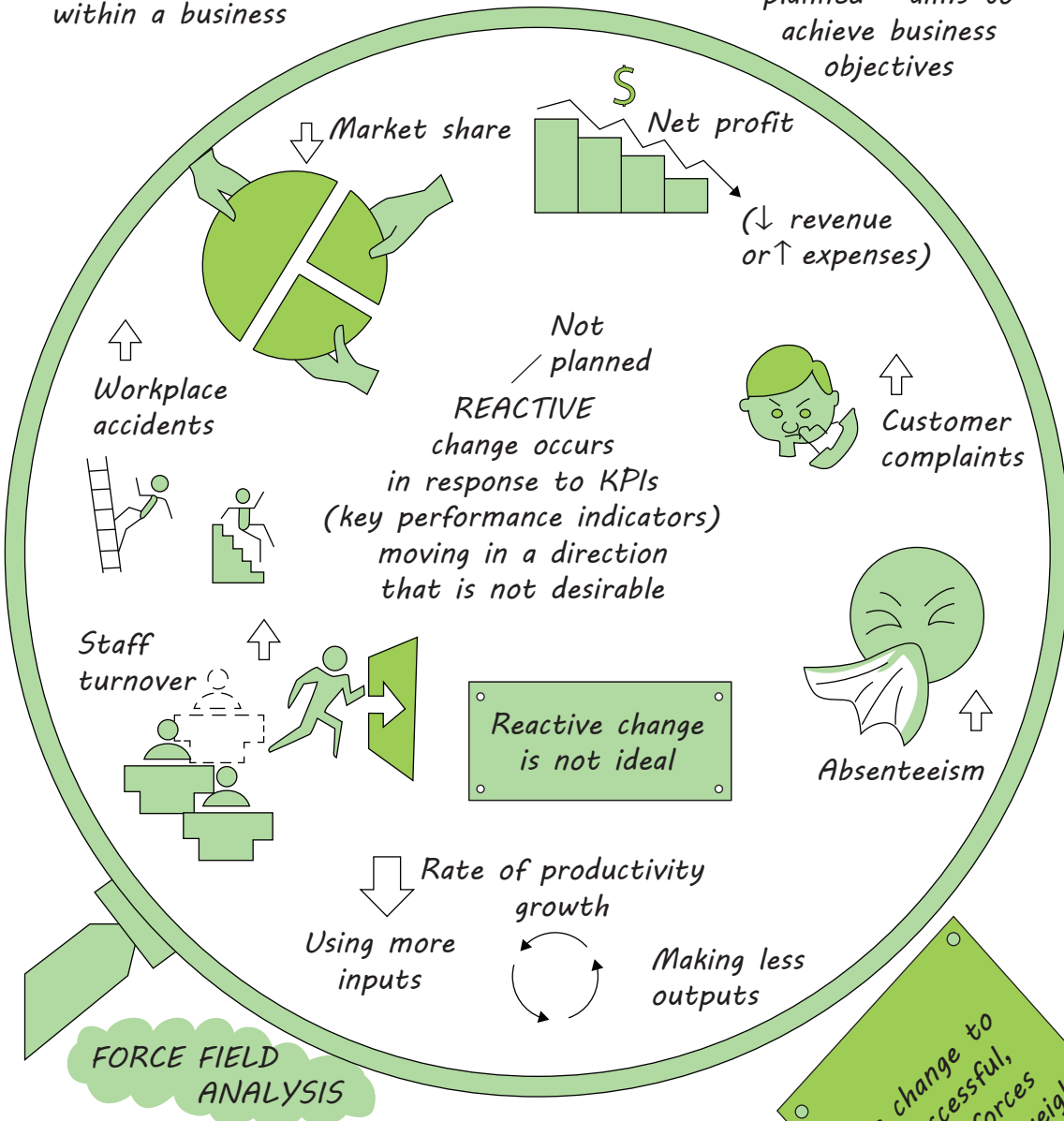
Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorcher timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

Unit 4 Area of Study 1 review Conceptual summary

Business change is the alteration of policies, behaviours and practices within a business

PROACTIVE change is planned - aims to achieve business objectives



- 1 Identify the need for change
- 2 Identify internal and external driving forces
- 3 Identify restraining forces
- 4 Assign scores
- 5 Finalise and apply - employ strategies to minimise restraining forces

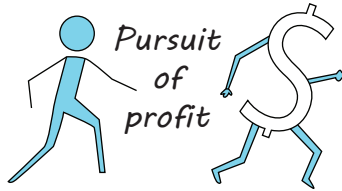
Driving forces promote change



Owners

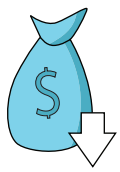
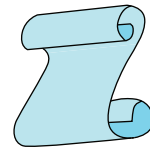


Managers

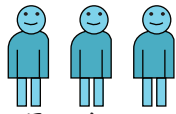


Pursuit of profit

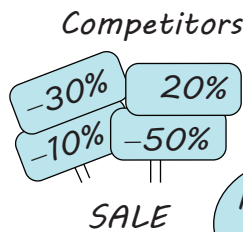
Legislation



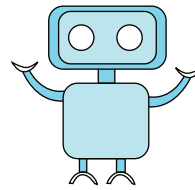
Reduction of costs



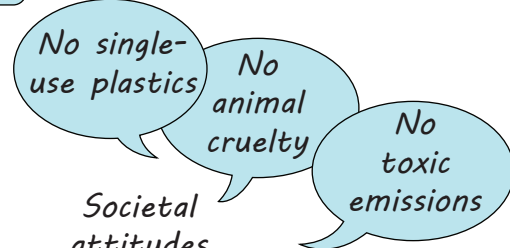
Employees



Competitors



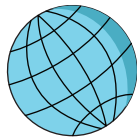
Technology



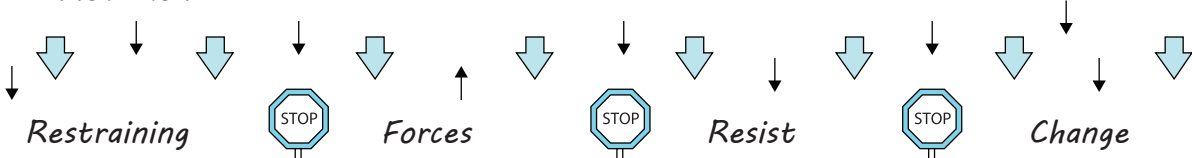
Societal attitudes



Innovation



Globalisation



Restraining



Fores



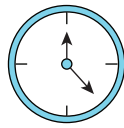
Resist



Change



Managers



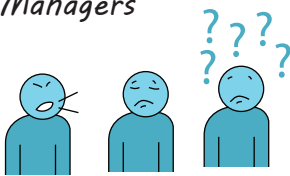
Time



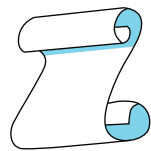
Financial considerations



Organisational inertia



Employees

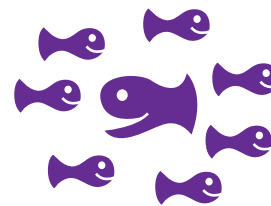


Legislation

Porter's Generic Strategies
Pick just one to pursue competitive advantage



Lower cost strategy



Differentiation strategy

Key knowledge summary: Unit 4 Area of Study 1

Key knowledge	Summary
<ul style="list-style-type: none"> • The concept of business change 	<ul style="list-style-type: none"> • Business change can be defined as a modification, transformation or alteration in a business.
<ul style="list-style-type: none"> • Proactive and reactive approaches to change 	<ul style="list-style-type: none"> • Businesses can adopt a proactive or reactive approach to change.
<ul style="list-style-type: none"> • 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, number of website hits and number of workplace accidents 	<ul style="list-style-type: none"> • 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. • 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, staff turnover and the number of website hits. • Businesses use KPIs to assess how the business has been performing against business objectives.
<ul style="list-style-type: none"> • Key principles of the Force Field Analysis theory (Lewin), including weighting, ranking, implementing a response and evaluating the response 	<ul style="list-style-type: none"> • Lewin's Force Field Analysis theory identifies driving and restraining forces for change. • Lewin's model focuses on the following steps: <ul style="list-style-type: none"> — weighting: this means leaders or managers in a business may need to identify the driving and restraining forces and then provide them with a number according to how important they are perceived — ranking: the most important considerations or forces are placed in order from the most important to the least important — implementing a response: once the business has weighed up the factors, it makes a decision — evaluating a response: once the response or decision has been made, the business must continue to monitor the situation to ensure that the decision was the correct one.

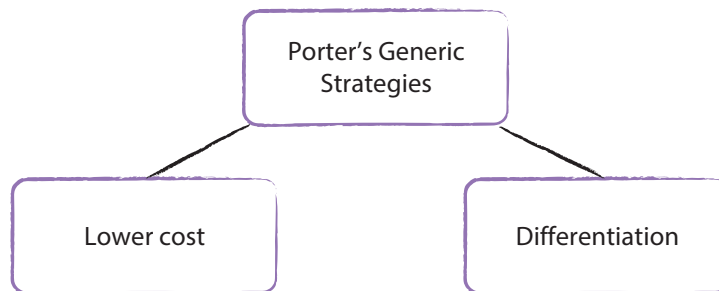


Key knowledge	Summary
<ul style="list-style-type: none"> • Driving forces for change in business, including owners, managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes 	<ul style="list-style-type: none"> • Driving forces push change in a particular direction and support the proposed change or objective. • Driving forces can include owners, managers, employees, competitors, legislation, pursuit of profit, reduction in costs, globalisation, technology, innovation and societal attitudes.
<ul style="list-style-type: none"> • Restraining forces in businesses, including managers, employees, time, organisational inertia, legislation and financial considerations 	<ul style="list-style-type: none"> • 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. • 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. By delivering a product to satisfy these, it is able to charge a higher price.
<ul style="list-style-type: none"> • The two key approaches (lower cost and differentiation) to strategic management according to Porter's Generic Strategies 	<ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> — 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.

Sample examination questions and advice

Unit 4 Area of Study 1: Reviewing performance – the need for change

The focus of this section will be the two key approaches to strategic management by Porter's Generic Strategies. To recap, these are:



Question 1

Compare the two key approaches of Porter's Generic Strategies, lower cost and differentiation, to strategic management. **(4 marks)**

Extended response question – let's unpack it

Task word

Compare: bring together for noting the points of likeness and difference (e.g. compare management theory and practice, compare the management style of manager A with manager B)

Compare the two key approaches of Porter's Generic Strategies, lower cost and differentiation, to strategic management. **(4 marks)**

Study design requirements

Key knowledge: the concept of business change, Porter's Generic Strategies: lower cost and differentiation

Marks allocated

Hints:

- You need to compare the two approaches to strategic management. Comparing does not mean that both concepts have to be defined first, but it may help to illustrate the differences between the two approaches.
- The similarities and differences between the two concepts must be included in your explanation.
- A good way to compare two concepts such as the two approaches is to use words and phrases such as 'whereas', 'on the other hand', 'in contrast to' and 'similarly'.
- The question requires some detail to achieve the full 4 marks. It is not enough to define each concept – you will get some marks for this, but it is not what the question asks you to do.

A possible answer to the question might be:

Sample response

One of Porter's approaches to strategic management is lower cost. In the lower cost approach, a business sets out to become the low-cost producer through pursuing economies of scale, new technology and preferential access to raw materials. A low-cost producer must find and exploit all sources of cost advantage and has to maintain this competitive position.

In the differentiation approach, a business selects one or more attributes that customers in the market consider important. It can be based on a number of different factors, including product durability and use, support and after-sales service and brand image. This allows a business to create an ideal image 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.

Therefore, the lower cost approach focuses on cost at all times in contrast to the differentiation approach, which focuses on a point of difference between the brand and product and others in the same market.

To gain full marks for this question, it is important that both approaches are explained and that there is a comparison between the two approaches. Note that the question is easier to complete if the differences are focused on.

Marking guide:

- 1 mark for each explanation of lower cost and differentiation approach (2 marks)
- 2 marks for a comparison of the two approaches – the differences and/or similarities must be included.

AREA OF STUDY 2

IMPLEMENTING CHANGE

AREA OF STUDY DESCRIPTION

In this area of study students explore how businesses respond to evaluation data. It is important for managers to know where they want a business to be positioned for the future before implementing a variety of strategies to bring about the desired change. Students consider the importance of leadership in change management and discuss and evaluate effective strategies for managing change. Students consider how leaders can inspire change and the effect change can have on stakeholders of a business. They consider the principles of Senge's Learning Organisation and apply the Three Step Change Model (Lewin) in implementing change in a business. Using one or more contemporary business case studies from the past four years, students evaluate business practice against theory, considering how corporate social responsibility can be incorporated into the change process.

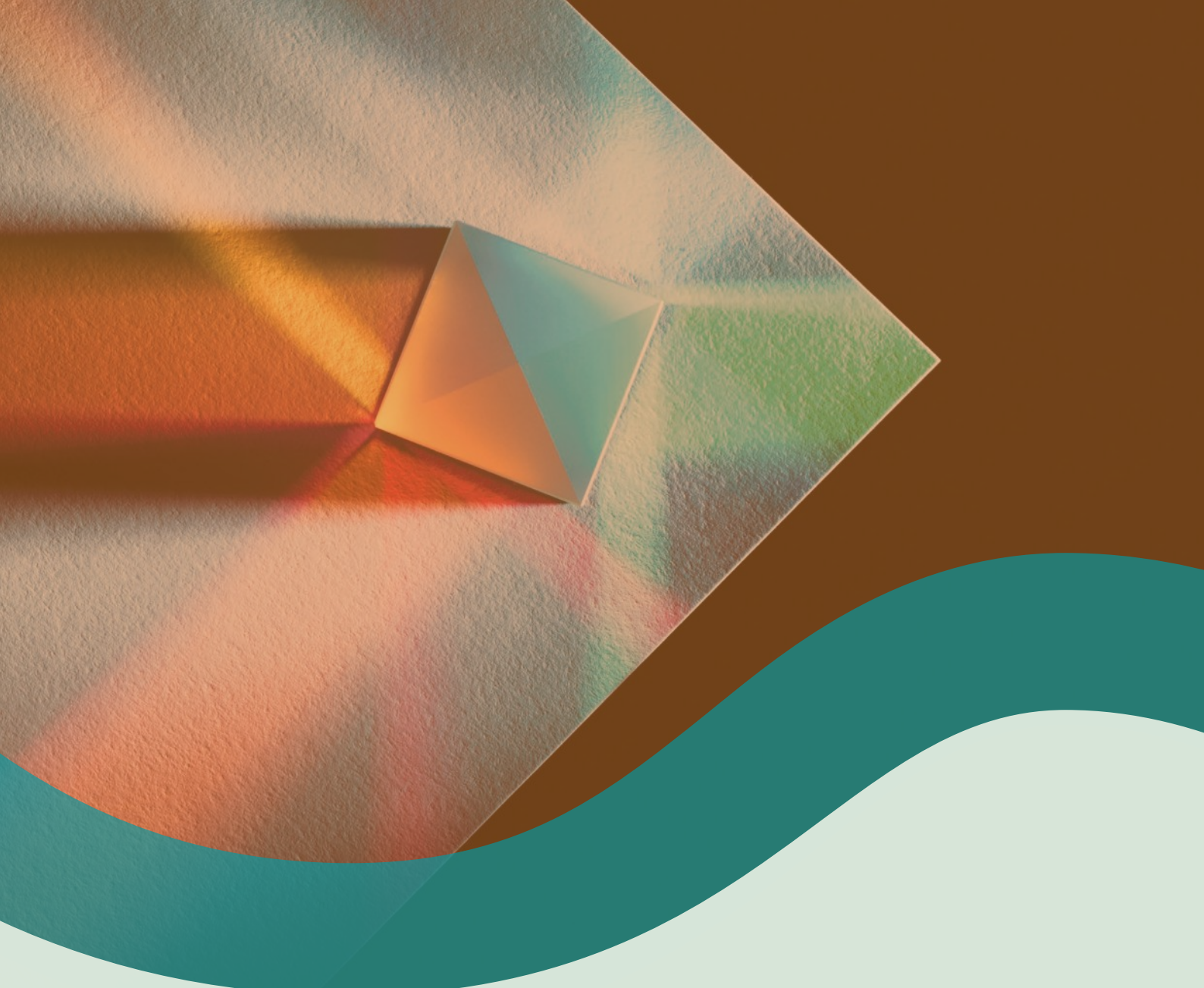
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OUTCOME 2

On completion of this unit the student should be able to discuss the importance of effective management strategies and leadership in relation to change, evaluate the effectiveness of a variety of strategies used by managers to implement change, and discuss the effect of change on the stakeholders of a business.

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

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CHAPTERS IN THIS AREA OF STUDY

13 The importance of leadership in change management and management strategies to respond to KPIs and to seek new business opportunities

14 Corporate culture and strategies to develop it, an overview of the Learning Organisation (Senge) and low- and high-risk strategies

15 The Three Step Change Model and the effect of change on stakeholders

16 Corporate social responsibility and reviewing KPIs to evaluate the effectiveness of business transformation

CHAPTER 13

The importance of leadership in change management and management strategies to respond to KPIs and to seek new business opportunities

'Change cannot be put on people. The best way to instil change is to do it with them. Create it with them.'

Lisa Bodell

About the author:

Lisa Bodell is the founder and CEO of FutureThink, a regular contributor to *Forbes* magazine, and has taught innovation and creativity at both American and Fordham Universities.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about change and discuss your response to the following questions:

- 1 Explain** what the statement 'change cannot be put on people' means.
- 2 Describe** how many people react to change. Do you think change is easy to implement?

CHAPTER OVERVIEW

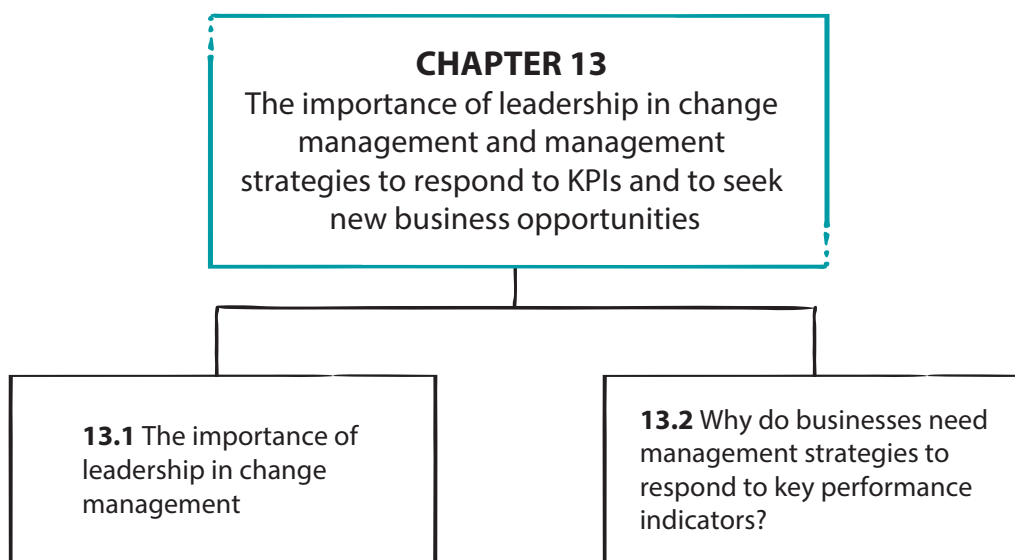
In this chapter, students will examine the role and importance of leadership in the change management process. The management strategies that can be used to respond to KPIs will be examined and evaluated.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of the chapter I will be able to:
Importance of leadership in change management	13.1 The importance of leadership in change management 13.1.1 Evaluate the importance of leadership when managing change
Management strategies to respond to KPIs and seek new business opportunities and the evaluation of management strategies	13.2 Why do businesses need management strategies to respond to key performance indicators? 13.2.1 Explain why businesses need strategies to respond to key performance indicators and to seek out new business opportunities 13.2.2 Evaluate the effectiveness of management strategies

Source: Adapted from VCE Business Management Study Design © VCAA; reproduced by permission

What's ahead



13.1 The importance of leadership in change management

Learning intentions – at the end of this chapter section I will be able to:

13.1.1 Evaluate the importance of leadership when managing change

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 and growth.

In the current period of significant change and uncertainty for businesses, the role of the leader is of the 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, 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 **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 other managers become cynical and begin to resist the change.

For change to be successfully implemented and sustained, leaders need to focus on building relationships with employees, management, shareholders and external stakeholders. By cultivating teamwork, coaching and mentoring, encouraging diversity, developing talent within the organisation and having open communication, business transformation is more likely to be successful.

Small and medium businesses might find the change process even more difficult. If change needs to occur quickly and is far-reaching, 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 that 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.



Figure 13.1 Business leaders need to communicate changes to their employees.

ACTIVITY 13.1



Part 1

Read the following quotes and reflect on them. **Explain** what they mean in relation to leadership.

Quote 1

John F. Kennedy: 'There is nothing more certain and unchanging than uncertainty and change.'

Quote 2

Barack Obama: '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.'

Part 2

Read the extracts from communications of the new CEO of DR Financial Consulting, a major financial services company, and answer the questions that follow.

Extract: staff newsletter

New to DR Financial Consulting!

CEO Lily Shepherd is pleased to announce a restructure of the workday and more opportunities to work from home. From next January, all staff will be involved in a new training program that will provide them with the skills needed to operate the new software programs from home. Employees will complete the first day of training in the office and then complete the rest of the online learning package at home. In 12 months' time, the new arrangements will be reviewed and any employees who have not met set targets for output will be retrenched.

Extract: minutes from a senior management meeting

It is noted in the minutes that Ms Shepherd has introduced a new training program for all staff. All team leaders and senior managers will be required to complete two further courses, which will assist in managing the new work arrangements.

Extract: media release

The client is our number one priority!

DR Financial Consulting is pleased to announce a new focus on quality service and a new approach to supporting clients' needs. All employees will complete a new course to enhance their financial management skills. 'All changes will reinforce the focus on clients and their financial needs. Our customers have always been our number one priority,' stated Lily Shepherd, CEO, 'we are simply making this a formal policy. It is an exciting phase in the business's move to become a world-class deliverer of financial services.'

Extract: note to the Financial Services Workers Union, from Ms Shepherd

There may be some reduction in staff numbers due to the new working from home arrangements. Any staff who do not agree to work from home and complete all of the new training courses may find that their services are no longer required.

- 1 **Describe** how the change has been introduced into the business.
- 2 **Explain** how Lily Shepherd, the CEO, has implemented the change into the business.
- 3 Predict whether the change is likely to be successful. **Justify** your response.
- 4 'Leaders play a significant role in the introduction and implementation of any change.' **Discuss** this statement.



CASE STUDY 13.1

The role of leadership in implementing change



A critical aspect of effective leaders today is the ability to lead change. A business that cannot change is likely to be unsuccessful. In order to be successful in leading change, managers need to have skills.

One survey looked at a range of skills that leaders needed to have to enable them to implement change. Generally, it was found that top management, such as general managers and chief executive officers, needed to have the ability to lead change in their business.

In a global study, five skills were highlighted as necessary if a manager was able to lead change. These are:

- 1 The ability to foster innovation – either being innovative themselves or supporting others to innovate.
- 2 Act quickly – if a leader could implement change and act quickly, it was more likely that the change would be successful. Introducing change quickly is often less painful for those involved and is likely to be more effective in the long term.
- 3 Maintain a strategic perspective – it is important that leaders consider business objectives to ensure that the changes are supporting these.
- 4 Develop an external perspective – leaders need to make sure they are clear about the trends and what is happening in the market and industry, and what the needs of customers are.
- 5 Inspire and motivate – while it is often tempting to push through the changes, it is important to ensure that this does not put too much pressure on employees. Achieving a balance between pushing the change and keeping employees motivated is essential.

CASE STUDY ANALYSIS

- 1 **Describe** the role of leadership in the change management process.
- 2 **Explain** why it is important for a leader to develop the five skills highlighted in the study.



REVIEW ACTIVITY 13.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** why leadership is important when a business implements change.
- 2 **Discuss** why leaders are considered to be important for the success of any changes introduced into a business.

13.2 Why do businesses need management strategies to respond to key performance indicators?

Learning intentions
– at the end of this
chapter section I will
be able to:

13.2.1 Explain why businesses need strategies to respond to key performance indicators and to seek out new business opportunities

13.2.2 Evaluate the effectiveness of management strategies

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 (see Chapter 10). Businesses will then implement management strategies to respond to and manage change and to seek new business opportunities.

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 use the data to determine which management strategies to implement. By understanding, responding to and even pre-empting data changes, businesses will be able to grow and improve over time.

Figure 13.2 Businesses need to continually monitor their performance.



Management strategies to respond to key performance indicators

Businesses will use and implement a range of management strategies to respond to key performance indicators and/or seek new business opportunities. These include:

- staff training and development
- change in management styles and management skills
- increased investment in technology
- improving quality in production
- how businesses can cut costs
- initiating lean production techniques
- redeployment of resources (natural, labour and capital)
- innovation
- global sourcing of inputs
- overseas manufacturing and global sourcing.

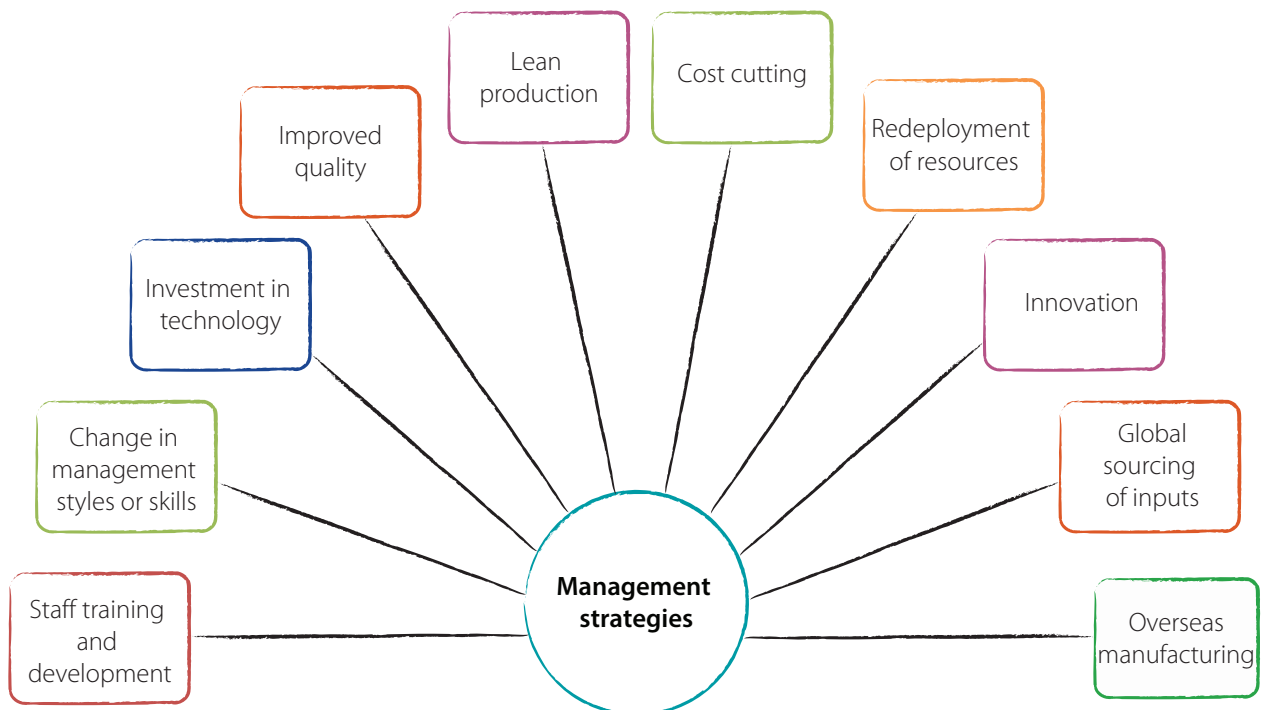


Figure 13.3 There is a range of management strategies that businesses can use to respond to change.

Staff training

Staff are extremely important for the success or otherwise of a business. If managers or owners examine employee-based KPIs – such as the level of staff turnover, the number of staff training days, the number of workplace accidents, the number of staff complaints about bullying or grievances, and the number of industrial disputes – these would all give an indication of how satisfied employees are. 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 are not enjoying work and are not committed to the success of the business.

If staff are content and satisfied with working conditions and the workplace, then they are an asset to the business. This would be reflected in positive KPIs, and an astute business will work on ensuring that 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 qualified, productive and experienced staff.

Focusing on staff (employee) training and, more importantly, development of skills and talents for the future will ensure that 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 such as staff turnover and the level of staff absenteeism will reduce and productivity will increase. If collected 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 13.4 Training programs 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 to 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 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 performance. A training program also means that employees doing similar jobs receive the same training to ensure consistency in practices and processes. Employees who have undertaken training may feel more confident, which means that they can perform their jobs more effectively.

Staff or employees who feel that they have access to training will also be more likely to be motivated and contribute positively to the business. Greater levels of efficiency will assist the business to achieve its KPIs in a range of areas, such as productivity growth and quality of service and products, and will improve staff motivation.

Officeworks, for example, sought staff feedback and then developed three leadership courses for staff. The program includes Store Business Manager In-Training, Coordinator In-Training and Emerging Leaders. The courses include a variety of training forums, including peer forums, on-the-job actions, on-the-job coaching, online learning and traditional classroom learning.

These programs have helped Officeworks identify early-in-career female leaders to develop and grow, while striving for balance in overall participation.

Since introducing the career pathways programs, 58 per cent of program graduates have been promoted to new leadership positions, of which 52 per cent were female – compared to 46 per cent for the previous year.



ACTIVITY 13.2

Management strategies to respond to KPIs: staff training in business



Figure 13.5 Training for all employees is important for Pixar.

Workplace learning and training 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 businesses that focus on training include:

- Rebel Sport – it recognises the importance of good employees to the success of the business and provides opportunities for employees. Team members are encouraged to participate in various certificate courses to enhance their skills, such as Certificate 3 in Retail and Certificate 4 in Retail Management.
- Pixar – Pixar University offers training and optional classes for different disciplines. Experts believe that the culture of innovation nurtured at the company has been a factor in its success.
- McDonald's – it has been a Registered Training Organisation for many years and trains crew, managers and corporate employees. McDonald's believes that a team of well-trained, motivated individuals will drive the success of its brand and business, and that people development is a smart investment.
- 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.
 - 1 **Explain** why a business should focus on training employees.
 - 2 **Discuss** why the businesses described above place an emphasis on training and career development.

- 3 **Analyse** why staff training could assist a business to respond to key performance indicators.
- 4 Ask members of your class or your teacher to **investigate** what type of training they have completed during part-time employment. This can be collated in class.



Figure 13.6 Rebel Sport offers programs to its employees.

Change in management styles or 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.

The management style used by leaders can have an influence on the performance of a business (refer back to Chapter 1). In most contemporary businesses, there is an expectation that employees will be involved in decision-making and that two-way communication will take place. Therefore, most businesses tend to use a participative or consultative management style most of the time. 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.

Managers also need to use a range of different management skills in response to trends in KPIs and other 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 that sales and profits are increasing, and interpersonal skills to ensure that 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.



CASE STUDY 13.2

Management strategies to respond to KPIs, trends and data: management styles and management skills



Managing from home: a COVID-19 wake-up call

The world has had to make many changes due to the impact of COVID-19. While there has been a significant and quick move to working from home, there has also been a need to 'manage from home'. This has led to a number of challenges for managers around getting the balance between 'direction and autonomy' and 'assigning tasks and delegation'.

In the past, many managers may have been reluctant to allow their employees to work from home as they cannot monitor their work as easily. A study published in the *Journal of Leadership and Organizational Studies* was conducted when COVID-19 lockdowns were at their height.

This latest research highlighted a stark contrast between employees and their immediate managers. Managers see themselves as

delegating much more during the pandemic than they did previously. Employees think differently. In their view, managers aren't delegating more at all. Rather, there is a perception that there has been a decrease in delegation by managers.

The researchers believe that this may be due to managers' 'fear of losing control', especially among lower-level managers and supervisors. Much of this may be attributed to the fact that there has not been a transition to working from home; it has occurred suddenly.

Those behind the study believe that managers ought to regularly solicit feedback from their employees on how their management style is genuinely being perceived.

Source: Adapted from James Adonis, 'Managing from home: a COVID-19 wake-up call', *The Age*, 16 July 2021

CASE STUDY ANALYSIS

- 1 **Explain** how management styles and management skills can change in response to changes in business performance and KPIs.
- 2 **Discuss** the main results and findings of the survey outlined in the article.
- 3 **Explain** why it is important for managers to seek feedback and communicate with their employees.

Increased investment in technology

Technology is a major driver of change in any business. KPIs such as the level of wastage, number of workplace accidents and rates of productivity growth can all be impacted 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 are 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 growth.

Technology may also assist in the sales area. The rapid increase in online shopping and customers researching businesses and products via websites relies on technology and is vital for a business's success, especially in the retail industry. Businesses need to allocate sufficient time and resources to develop technology to assist in the operations of the business.

KPIs such as sales, number of website hits and market share are used to monitor and look at ways to improve the business through technological development. 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, and Australia Post has developed its parcel delivery services for customers.

Businesses use technology in all aspects of their activities, including record keeping, file management, production processes, communication processes and reaching customers. If businesses do not keep up to date with technology and continually upgrade and streamline their operations, they will lose a competitive advantage. While upgrading technology continually can be a cost to a business, most do not have any other option.

Figure 13.7 Technology can allow businesses to operate efficiently.



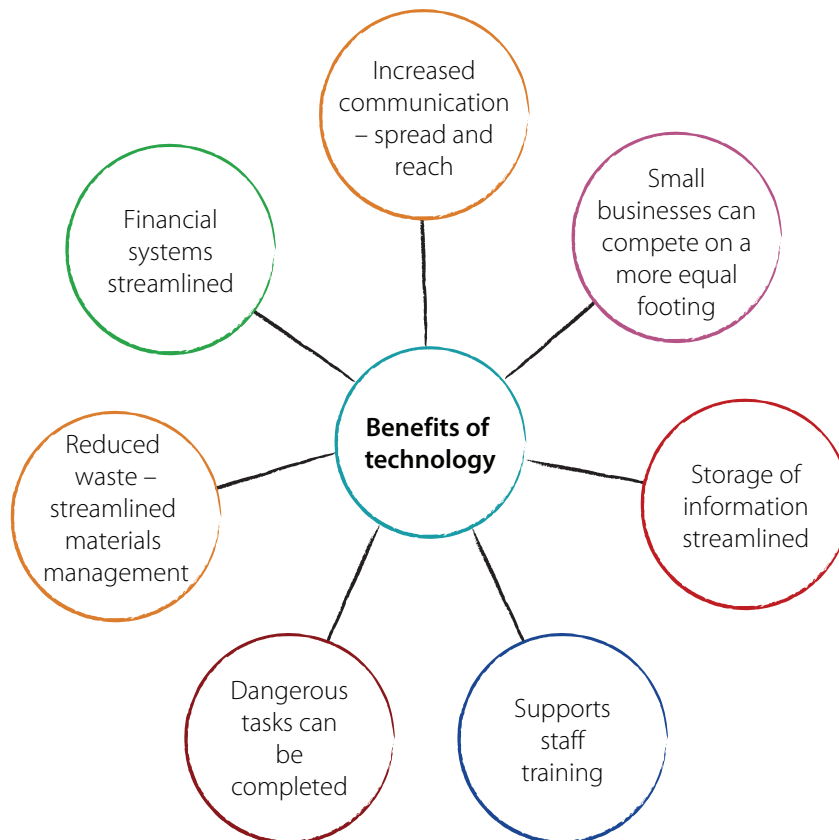
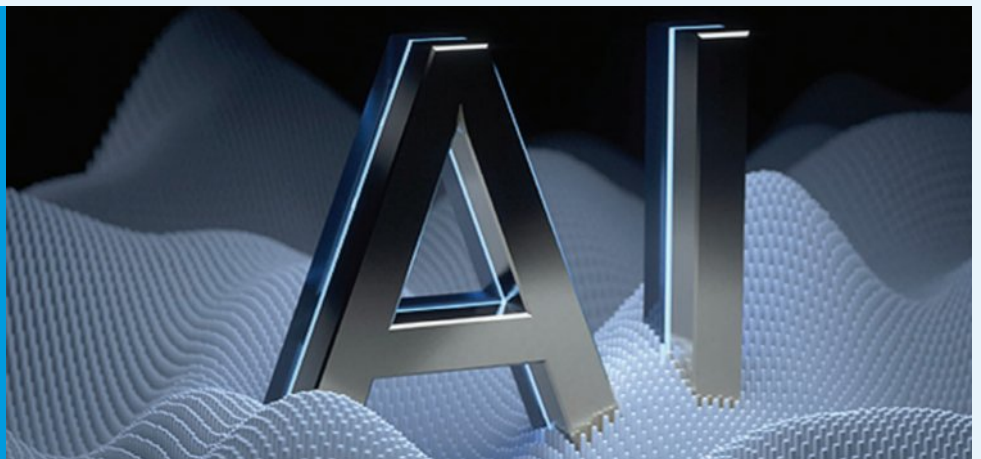


Figure 13.8 There are many benefits associated with technology, and it can impact positively on KPIs.



CASE STUDY 13.3

Management strategies to respond to KPIs: technology is transforming the workplace



Learning is taking place online and it has also transformed every aspect of work, learning and socialisation.

It has also provided many benefits for businesses. These include:

- digital learning expands the scope of resources and makes it easier to connect for education, training and work, and provides

for more opportunities for collaboration between employees

- access to learning and online courses enables employees to enhance their careers.

Businesses, regardless of their size, are also investing in technology to improve their business performance and respond to KPIs. Examples are outlined in Table 13.1.

Table 13.1 Examples of technology used to improve business performance and respond to KPIs

Technology	Description
Robotic process automation (RPA)	<ul style="list-style-type: none"> • RPA can be used in small and medium businesses • Automated bots are excellent at carrying out repetitive jobs much faster and with much more precision than human counterparts • Tasks include data entry, supply chain management and data gathering • Bots can operate these complex functions 24/7 without assistance, and make fewer mistakes than humans • Alleviated workers can then instead focus their energies on projects away from these types of repetitive tasks
Document data extraction	<ul style="list-style-type: none"> • The process of automatically transcribing data digitally can save countless hours of time for employees • Purchase orders, client documents, customer records and invoices can be quickly and easily scanned for information in an accurate manner, improving data validation • Data can also be stored and processed quickly and integrated into other systems • It also saves employees time as they do not have to input data manually, and mistakes are less likely
Workflow tools	<ul style="list-style-type: none"> • One of the chief concerns of a business undergoing a digital transformation is improving data workflow within the organisation • With the advanced technology, digitised data can be efficiently processed and stored • Workflow tools, specifically cloud-based systems, are excellent at providing platforms for organising work processes and projects within teams
AI assistants	<ul style="list-style-type: none"> • Many small to medium businesses are incorporating AI into their systems • One of the most common examples of automated tech in business is the use of chatbots, where people engage with bots for customer service • Chatbots are excellent at solving simple issues, while more complex problems can be sent on to the right people to be taken care of • This means a lighter load for staff, who far less regularly have to deal with simple customer queries • For businesses, the goal of this is to get the relevant people involved as soon as possible while streamlining engagement with the client • Businesses are able to respond quickly and handle multiple requests simultaneously using chatbots • Chatbots are also scalable, meaning that, if there's an influx of users, they can be scaled up to accommodate demand and then scaled down during less busy periods

(continued)

(continued)

Low-code applications	<ul style="list-style-type: none"> • Many small businesses are now able to access customised applications, which have reduced in price and costs for the business • New software that is common across businesses but which can be customised is assisting businesses to streamline processes and support specific and complex tasks
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Source: Adapted from '5 advanced technology examples to improve your business', Impact website, 5 August 2021

CASE STUDY ANALYSIS

- 1 **Outline** the main advantages of using technology in a business.
- 2 **Describe** how technology allows small and medium businesses to compete with larger businesses.
- 3 **Explain** how the adoption of the technology outlined in the case study can assist a business in responding to KPIs.
- 4 **Describe** two industries where technology can assist businesses.

Improving quality in production

Businesses care about quality, and it can be clearly linked to profit and achieving business objectives. 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 business objectives and increase market share.



Figure 13.9 Improving quality in production has a number of potential benefits for a business.

Quality can be managed on a number of levels (see Chapter 8), and quality management 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, market share, sales and profit, rate of productivity growth, number of defects and the number of customer complaints. Quality of product and quality of 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 management 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
- introducing Total Quality Management
- regularly reviewing the operations process
- introducing lean production techniques (see section later in this chapter and Chapter 8)
- benchmarking against world and industry best practice
- standardising components used in production, thereby reducing inventory
- using common production techniques and processes to reduce retooling time and effort and simplifying production schedules, thereby reducing possibility of errors and rejects
- using standardised processes, allowing employees to increase their familiarity and experience and enabling them to produce consistent quality
- training managers and employees in quality principles.

A business can use KPIs to monitor the level of quality in a business and should do so on a regular basis. Quality can be monitored through KPIs and other processes, including:

- using the appropriate KPIs to measure the production or delivery of a service
- scheduling regular meetings to discuss any issues that may have occurred to ensure that they are dealt with quickly
- focusing on the product or service to ensure that the quality is the best possible
- making sure that all teams involved in the processes are aware of the performance data and that their input is sought regarding suggestions and improvements.



Figure 13.10 Ensuring that there is quality control at all stages of production to prevent any defects.



CASE STUDY 13.4

Management strategies to respond to KPIs: quality assurance and certification in business



ISO 9001 certification (see Chapters 8 and 9 for further information on ISO Standards) provides a business with many advantages, including reduced costs, productivity enhancement and higher customer satisfaction.

There are a number of steps required to obtain ISO certification, including:

- 1 performing and passing the internal audit
- 2 hiring a competent team of quality assurance consultants to evaluate business processes
- 3 documenting the processes and systems of the business

- 4 defining the quality management system (QMS) appropriate for the business
- 5 implementing the QMS
- 6 verifying the QMS.

The time involved in achieving accreditation is lengthy. However, there are a lot of benefits to businesses of all sizes. ISO 9001 certification can strengthen relationships with suppliers and customers, increase business efficiency, assist in decision-making and attract customers.

Source: Adapted from 'Why your small business should get ISO 9001 certification', Compliancehelp website



Figure 13.11 ISO 9001 is an important standard.

CASE STUDY 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 a business may decide to formally implement quality assurance or another quality management strategy to respond to trends in KPIs.

Cost cutting

Businesses may 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 ensure that enough cash 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 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 and information technology 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.



Figure 13.12 Businesses sometimes need to make drastic changes to cut costs.

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.



CASE STUDY 13.5

Management strategies to respond to KPIs: cost cutting – electric vehicles



The trucking industry has begun to turn electric; cars will take longer.

Australia's trucking industry is making moves to go electric. The latest development – a system for using swappable batteries instead of time-consuming recharge stations for long-haul trucks between Sydney and Brisbane – shows how this transition is gathering momentum.

There will be clear socio-economic, environmental and health-related benefits from the switch to electric trucks – for the broader community as well as for the trucking industry and truckies themselves.

Electric trucking

There are many benefits from electrifying truck transport. Companies such as Woolworths and Ikea have already started to transition to electric delivery vans for the environmental benefits (and a possible boost for their brands).

Many leading truck manufacturers, such as Scania, Mercedes-Benz and Volvo, are proceeding with trials and plans to make their trucks electric.

Trucks make up 20 per cent of the vehicles in Australia, and Australia's transport emissions are still growing.

Australia spent some \$31 billion in 2019 to import oil, with half used for road transport. This not only affects Australia's trade position, but also poses a risk to our freight industry (including supermarket deliveries)

if geopolitical instability affects fuel imports (which mainly come from just a few countries).

The trucking company Linfox has been one of the early adopters of electric trucks, trialling them here in Australia.

Not just trucking companies

Many big companies are making commitments to cut their carbon emissions, such as Fortescue Metals' target of net zero operational emissions by 2040. Its mining fleet operations account for half of its operational emissions.

Procurement of electric trucks by government and mining fleets could not only help reduce transport emissions but also signal to the community that the transition away from more polluting vehicles can be achieved.

Innovative solutions such as the truck battery swap system mean that not only big companies but also sole operators can make the change, by converting existing trucks and leasing batteries.

For a typical articulated truck, a trip from Brisbane to Sydney could cost more than \$600 in fuel (which the consumer also pays for in the final cost of a good). Going electric would not only at least halve that cost but reduce maintenance costs and reduce emissions, even if batteries are recharged from the grid.

Swap and go?

Swapping out depleted batteries, rather than stopping to recharge, is a great solution for

trucks: they make regular trips along major routes with regulated rest stops for drivers, which means you only need battery-swapping stations at key points along the routes.

How to go electric

Ongoing research on policies to foster electric vehicle adoption has found that electric passenger cars are mostly recharged at home. This means we need solutions to help those without off-street parking get access to convenient local rechargers. This will help Australia reduce its balance of trade problems, reduce health costs, and help the environment.

We just have to hope our government comes on board with suitable regulatory action to help us all go electric. One step might be to follow the US Government's recent announcement that it will electrify its entire fleet of vehicles. This will help car manufacturers, help bring down carbon emissions, help reduce the nation's health budget and also help everyday people reduce their transport costs, which would be fairer and more sustainable.

Source: Adapted from Gail Broadbent and Graciela Metternicht, 'The trucking industry has begun to turn electric; cars will take longer', The Conversation, 30 April 2021



Video 13.1
Electric vehicles

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

- 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 the move to electric vehicles can reduce costs for:
 - a trucking companies
 - b community
 - c retail businesses.
- 4 **Describe** some of the other benefits for the environment and the car industry if these developments continue.
- 5 **Compare** and contrast the carbon footprint of electric and conventional vehicles. Consider phases of the life cycle for each vehicle type.

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 implement **lean production** techniques as a means to reduce costs, increase efficiencies and remain competitive and responsive to their customers and the market. Lean production techniques can be introduced to respond to KPIs and the business's situation.

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 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 and use resources flexibly. 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 outlined in Table 13.2.



Figure 13.13 Being efficient with resources will reduce costs for businesses.

Table 13.2 Lean production techniques and their use in a business

Technique	Explanation
The pull (e.g. Kanban)	A pull system is used to reduce the waste of any production process. Applying a pull system means new work is only started when there is customer demand for it. This allows you to reduce overhead and optimise storage costs. This may be useful when responding to changes in the business as it offers some flexibility to respond to demand for a product or good. If a business is concerned with the level of waste, then this technique may assist in addressing the KPI.
One-piece flow	One-piece flow may be used to respond to KPIs as it focuses on achieving a discrete flow of work rather than using a 'batch' approach. A business may consider this system in response to KPIs such as the level of waste and rate of productivity growth.
Takt	This refers to the maximum time it can take to produce a unit of a product or good. If there is a concern about the rate of productivity growth, then this system may assist managers to determine how much time is used and how it can be improved.
Zero defects strategy	Zero defect manufacturing focuses on trying to achieve zero defects and eliminate waste associated with defects. It focuses on improving quality to ensure that the level of waste can be reduced and support productivity growth and reduce customer complaints.
Just In Time (JIT)	The implementation of a Just In Time inventory management system aims to minimise the production time, production costs and the amount of stock or inventory held.
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 which areas they need to improve.



Figure 13.14 Businesses can benefit by focusing on efficient use of resources.

Lean production techniques are used in both 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. 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.

Different businesses will implement different lean production systems depending on the situation. The

focus of all lean production systems is to eliminate waste, identify and address defects, and improve the whole system by eliminating weaknesses in the operation system, such as by reducing lead time in production, ensuring consistent quality and tracking progress. Examples of systems include 5S (sort, set in order, shine, standardise and sustain), bottleneck analysis, continuous flow, Kaizen and PDCA (plan, do, check, act).

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 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 natural resources, materials, labour and capital can make a difference to the way outputs are produced. Gains in efficiency can be made when resources are allocated correctly.

Redeployment of resources can take a number of forms, including:

- relocation of offices and factories
- reducing or changing the make-up of the workforce
- changing or redirecting materials
- moving resources and materials from one product to another.

Redeploying resources or **redeploying staff** is often the main way businesses redeploy or change their resources allocation. This can be difficult for all involved, and a business needs to plan out how resources, particularly staff, are going to be allocated.

In response to its KPIs, a business may decide where particular stores or factories will be relocated to and will allocate 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.

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



CASE STUDY 13.6

Management strategies to respond to KPIs: Woolworths and redeployment of resources



Woolworths has announced nearly \$100 million in costs for the current financial year due to a fresh round of warehouse worker redundancies and poor performance at its inner-city Metro stores.

Around 330 jobs with the retailer will be lost due to the decision to close the Minchinbury warehouse in western Sydney in 2024 as the site has hit capacity, forcing Woolworths to begin planning a new site to service its stores in New South Wales.

The closure will mean the business will have to cover redundancy costs, and it is also looking at ways to redeploy some employees into other areas of the business. The new warehouse would see the creation of 700 new jobs.

Woolworths will spend \$400 million constructing the new site, with chief executive Brad Banducci saying it would complete the

company's transformation of its NSW supply chain network, though he acknowledged the impact of the closure on staff.

'We will explore redeployment opportunities wherever possible, and provide a wide range of support and career transition services in the lead-up to site closure,' he said.

Woolworths also revealed it had suffered a large reduction in revenue in some of its small inner-city Metro stores as a result of reduced customers in the city. Three of the 13 sites have already been shut and Woolworths will review its options for the remaining 10, though stressed there were no immediate closures planned.

Source: Adapted from Dominic Powell, 'Woolworths announces warehouse job losses, Metro store write-downs', The Age, 23 June 2021

CASE STUDY ANALYSIS

- 1 **Explain** why businesses need to redeploy resources.
- 2 **Describe** the types of issues a business would need to consider when relocating and changing some of its business functions.
- 3 **Explain** why Woolworths is closing its Minchinbury warehouse and **describe** the impact this may have on existing employees.

Innovation

Innovation is an important strategy to respond to KPIs and other business data. 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 provides a business with an opportunity to expand and move into new areas or markets.

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.

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. Innovation may be the result of KPIs such as the level of wastage, sales, number of customer complaints, rate of productivity growth, staff turnover levels and the percentage of market share.

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 employees, managers and customers.

To be innovative, businesses can implement strategies such as:

- conducting market research with customers
- 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 this
- examining what competitors are doing to see if there are ways these practices can be adopted and adapted
- investing in research and development
- learning from failures and developing systems
- testing new ideas to ensure that they are viable.



Figure 13.15 Innovation is about creating and implementing new ideas.



CASE STUDY 13.7

Management strategies to respond to KPIs: innovation examples



Example 1: YouTube entrepreneurs

YouTube is proving to be a lucrative channel for a cohort of creators, with over 200 Australian YouTube channels recording more than one million subscribers.

Cooking star Marion Grasby says she is now more well known for her YouTube channel 'Marion's Kitchen', in which she posts videos of herself cooking, than for her breakout role on *MasterChef Australia*.

Grasby stated that the company started as a food company providing kits for Coles and Woolworths in Australia. It started doing videos for YouTube in 2019 and there are now over 1.3 million subscribers. Grasby says that now Marion's Kitchen is a 'food media company which happens to produce products' and gets about 48 million views a month across platforms, which is more than some of the top-rating shows on free-to-air television.

Research published last month by Oxford Economics, on behalf of YouTube, calculates the social media platform contributed \$608 million to the Australian economy in 2020 and supported 15 750 full-time equivalent jobs. This included revenues paid directly to creators and also an estimate of the impact across supply chains and product sales and live performances.

Grasby says YouTube acts as a 'flywheel' for her supermarket products and she also has plans for an e-commerce platform selling the products she uses on the platform, including plates, bowls, pots and her lipstick.

According to Oxford Economics, there were more than 200 Australian YouTube channels with over one million subscribers as at December 2020. Many of these businesses are global, with 90 per cent of 'watch time' on content produced by Australian YouTube channels coming from outside Australia in 2020.

Shannon Jones's 'Bounce Patrol', which films from a Melbourne studio, has quietly become one of the most popular YouTube kids' channels in the world thanks to its catchy kids' tunes and performances. Bounce Patrol has 22 million subscribers and has recorded 13 billion views with an Australia-wide team of 10.

'YouTube is one of the biggest platforms out there, and from the start has had really robust revenue models in place for creators,' she says.

Source: Adapted from Cara Waters, "It just went ballistic": Rise of the YouTube entrepreneurs', The Age, 12 July 2021

Example 2: Adore Beauty

Online beauty retailer Adore Beauty is already in the 'successful business' category. But for chief executive Tennealle O'Shannessy, there's a key market segment the new ASX entrant is keen to conquer.

The retailer's small base of male customers is no surprise given the beauty industry's historical skew towards female shoppers. However, in recent years this has begun to change, Ms O'Shannessy said. Now more men are spending on products such as skincare, haircare and

fragrances, providing an opportunity for new-age beauty sellers such as Adore.

'We saw some really interesting customer trends during COVID, one, in particular, being men's increasing engagement with the skincare category,' she said. 'So we launched more products targeted at men and also thought about how we could best show them on our site.'

The executive, like many in her position, is focused on the medium to long-term prospects for her business and its industry, a view she says many of Adore's investors share.

'From the conversations that we had with investors, they can see very clearly that Australia is very early on in the [online shopping] adoption curve,' she says. 'You don't have to look too far ... to see that there is still significant growth as Australia catches up.'

Online beauty shopping currently makes up around 11 per cent of purchases in Australia's \$6 billion beauty industry, with most

customers still purchasing in retail stores, Ms O'Shannessy says. 'What digital can deliver in terms of the shopping experience, we would think that it will become the preferred way of shopping in the future,' she says. 'Our goal is to create a digital experience that exceeds the in-store experience.'

This includes providing any snacks you might buy when out at the shops, with Adore famously including a single wrapped Tim Tam with every order shipped. This has proved very popular with customers.

'Listing on the ASX has brought us a lot of opportunities that went beyond what we were considering,' she said. 'It has increased the profile of our brand and business, which has been very valuable in connecting with new brand partners, and it's helped with attracting talent.'

Source: Adapted from Dominic Powell, 'Adore Beauty boss sets sights on the other half of the market', The Age, 5 July 2021

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

- 1 **Define** the concept of innovation.
- 2 **Describe** how YouTube entrepreneurs Adore Beauty and Simone Heng of Human Connection (via the video) have successfully innovated to build their businesses.
- 3 **Outline** how innovation can support the growth of a business.
- 4 **Discuss** why it is important that businesses continually innovate to respond to KPIs and other business data.
- 5 **Describe** how the businesses mentioned in the two examples have been able to innovate and expand their existing businesses.



Video 13.2
Innovation

Global sourcing of inputs

As outlined in Chapter 9, global trading continues to expand. If a business is to remain competitive, it needs to lower costs, improve quality and meet customer demand by increasing supply. Global sourcing aims to exploit global efficiencies such as cheaper raw materials, lower labour costs, reduced tax rates available in some countries and free trade agreements.

When a business implements changes in response to KPIs such as the number of sales, the rate of profit and level of waste, it is important that it continues to look for ways to access and use high-quality and lower-cost products and components.



CASE STUDY 13.8

Global sourcing of inputs: supply chains



The COVID-19 pandemic has revealed that global supply chains are a huge house of cards.

COVID-19 has laid bare many uncomfortable truths regarding society's overall preparedness for low-probability but high-impact events, especially global ones. These range from issues pertaining exclusively to pandemic readiness (like our domestic capacity to produce personal protective equipment, ventilators, sanitiser and vaccines) to matters that are considerably less esoteric, like the ability of global supply chains to operate regardless of the various stresses put upon them.

The latter goes far beyond the toilet paper supply issue experienced early in the pandemic. It expands to include a whole range of products like lumber and other building materials, tools, foodstuffs, seeds, furniture, cleaning supplies, aluminium cans, jars, pools and pool equipment, chemicals, bicycles, camping gear, household appliances and replacement parts of all kinds.

In many cases, supply chains have been simultaneously squeezed on both ends – supply and demand.

Production and distribution disruptions

While unscheduled closures of manufacturing and distribution facilities, bottlenecks at borders and sick workers have caused choke points in supply lines, people being cooped up in their homes for months on end have driven up demand for a host of products. There has also been a simultaneous shortage of labour, particularly in the licensed trades.

Throw in other disruptors, like the massive winter storm in Texas in February, the six-day blockage of the Suez Canal due to the grounded ship *Ever Given* in March and the six-day closure of the Colonial gasoline pipeline in the United States after a cyberattack in early May.

Also include the fact that shipping containers are being lost in record amounts for various reasons, with more than 3000 going overboard in 2020 and the 2021 number already hitting 1000 by the end of April.

The pandemic has shown us that global supply chains are a huge house of cards: fragile enough on a good day, but prone to come tumbling down when there's an unexpected breeze.

This has been particularly apparent with the manufacturing of computer chips.

The demand for microchips

Prior to COVID-19, there was already great pressure on the production of microprocessors, microcontrollers, motherboards and the like due to limited global production capacity and greater calls for product. The pandemic has placed additional pressure on an already pressed segment, as production and distribution bottlenecks have been met with increased pandemic-driven demand.

Not so long ago, disruptions in the production of microchips tended to impact only the manufacture of smartphones, tablets, computers, external hard drives and, more recently, flat screen televisions.



Figure 13.16 The pandemic has demonstrated how interconnected global supply chains are for the world of business.

Today, however, such disruptions also impact the production of automobiles, as chips are increasingly being used in power steering and braking systems, car infotainment systems and other components. Indeed, both General Motors and Ford Motor Company have idled a number of plants in North America due to the global semiconductor shortage. And being relative newcomers to the microprocessor market, automakers don't have the clout that other buyers have, often leaving them out in the cold when supplies dry up.

The situation for automakers is only expected to get worse as more and more consumer goods get smart via Wi-Fi or Bluetooth connectivity.

The growing list of items that require microchips is disconcerting, as these components are almost solely manufactured in some of the riskiest places in the world from a natural disaster perspective: China, Japan, Taiwan, South Korea, Malaysia, Thailand, the Philippines and California.

This has to change. We need more manufacturing facilities for microchips, and these must be located in places with low risk of natural and other hazards.

Securing supply chains

But whether we are talking about microchips, wood chips or potato chips, corporations need to get intimately familiar with their supply chains if they aren't already: what they get, how often, in what quantities, from whom, from where, how and why. Business continuity, contingency plans and workarounds must be put in place ahead of time to deal with what-if scenarios. Risk managers – either in-house or third-party consultants – need to be in on these discussions, as do boards of directors.

Corporate insurance buyers and risk managers must understand the differences in key insurance coverages, like standard business interruption and contingent business interruption, and ensure that they have proper financial protection in place.

Finally, and from a big picture perspective, society needs to get a better idea of where choke points exist (both at the manufacturing and distribution levels and in the physical world) so these can be addressed, eased or even eradicated. Further, we need to do more research into understanding how consumers behave in the face of crises. The emerging fields of behavioural economics and decision science have much to contribute to this discussion.

It's a different world out there, a more interconnected, and a more dangerous one. And we are currently learning the hard way that global supply chains don't operate on auto pilot.

Source: Glenn McGillivray, 'The COVID-19 pandemic has revealed that global supply chains are a huge house of cards', The Conversation, 26 July 2021

CASE STUDY ANALYSIS

- 1 **Explain** why businesses source inputs globally.
- 2 **Describe** the impacts on the supply chain due to:
 - a production and distribution disruptions
 - b demand for microchips
 - c difficulties securing supply chains.

Overseas manufacturing and global sourcing

Global sourcing is a procurement strategy used by businesses whereby goods and services are sourced from the global market to ensure the highest level of value and efficiency. It allows a business to lower production costs while ensuring that the goods and services are still of a high standard. Using a supplier from overseas to manufacture products should also provide a business with lower cost and more choice.

There are some advantages and disadvantages associated with global sourcing. These are outlined in Table 13.3.

Table 13.3 Advantages and disadvantages of global sourcing

Advantages	Disadvantages
Reduction of production costs, as the comparative costs of the products are less than those produced in Australia	Quality standards and quality control may not be as good and may be more difficult to monitor
Access to expertise that may not be available in Australia	Supply chain delays, as goods have to be transported to Australia; this has been a significant concern since 2021
Reduced production costs, as other countries may have better access to raw materials	Communication between the business and suppliers may be more difficult, and work has to be completed across different time zones and language barriers



Figure 13.17 There are advantages and disadvantages to operating as part of a global supply chain.

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 13.4 sets out some of the strategies that might be suitable for each KPI a business will use and collect information on.

Table 13.4 Examples of management strategies to respond to key performance indicators

Key performance indicator	Strategies
Percentage of market share	<ul style="list-style-type: none"> • Selection and training of staff • Overall improvement in quality of production • Management skills such as decision-making and analysis • Innovation
Net profit figures	<ul style="list-style-type: none"> • 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 overseas • Overseas manufacturing • Redeployment of resources • Innovation
Rate of productivity growth	<ul style="list-style-type: none"> • Technology improvements • Quality of supplies • Global sourcing of inputs • Overseas manufacturing • Redeployment of resources • Lean production techniques • Innovation
Number of sales	<ul style="list-style-type: none"> • Employees – trained and retained • Quality of product or service • Technology developments (e.g. online presence)
Rate of absenteeism	<ul style="list-style-type: none"> • Employees – productive and motivated • Management styles and skills – more people-focused • Technology improvements to create safer workplace
Level of staff turnover	<ul style="list-style-type: none"> • Management styles and skills • Employees trained and retained • Technological development – creation or change in job roles • Innovation
Level of wastage	<ul style="list-style-type: none"> • Lean production techniques • Quality management • Change in resources (e.g. solar, recycling) • Employees – trained to avoid wastage • Innovation
Number of customer complaints	<ul style="list-style-type: none"> • Quality management – increased quality of output • Employees – skilled and knowledgeable • Management skills to support employees • Innovation
Number of workplace accidents	<ul style="list-style-type: none"> • Investment in technology (e.g. robots) • Staff training in creating safe workplace environment • Innovation • Management styles 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 outlined in Table 13.5.

Table 13.5 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 then leave the business.
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 consider 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 – due to the 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. If a business wants to implement effective quality strategies, resources must be provided and the strategies should be implemented across the whole business. This may be costly.
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.

(continued)

(continued)

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, which is stressful for staff involved, or it can lead to redundancies. Redeploying natural resources can be expensive and supplier reliability may become an issue. Capital is a significant cost, and moving capital (e.g. offshore) may mean substantial costs to the business.
Innovation	Innovation may provide opportunities to enter a new market or area and to expand the business. It may provide a business with a competitive advantage or edge over competitors. It provides customers with access to more goods and services.	There needs to be an environment and culture to encourage innovation. Risks may need to be taken to implement a new idea. Time and effort are needed to innovate.
Global sourcing of inputs	Global sourcing provides access to cheaper products and materials, which reduces the cost of finished goods. The business can take advantage of lower costs in other countries (e.g. lower labour costs). The business can take advantage of access to raw materials from other countries. Global sourcing provides access to quality products and inputs.	It may be difficult to control the quality of inputs. There may be shipping delays. Cultural and language differences may cause issues for the business. There may be a slower turnaround time to get products fixed if there is an issue.
Overseas manufacture and global sourcing	The business can procure goods and services of a high quality. The business can take advantage of lower production costs. There is greater choice for businesses and customers.	There may be delays in accessing products. The supply chain is more complicated and complex. There is limited control over prices and ranges if decisions are made in another country.



Figure 13.18 Leaders in any workplace must be aware of the advantages and disadvantages of management strategies.

REVIEW ACTIVITY 13.2



Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** why businesses need to monitor, track and review their KPIs and other data.
- 2 **Identify** and **define** three management strategies a business could implement.
- 3 **Describe** how management skills and styles can influence the response of a business to change.
- 4 **Examine** the trend towards sourcing inputs globally. What are the advantages for a business?
- 5 **Discuss** why businesses should seek out business opportunities to expand their business.
- 6 Read the following scenario and answer the questions.

Emma Jackson is the owner of VCE Virtual Tutoring. The business provides an online tutoring service and resources for VCE students in a wide range of subjects. 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)	90	80
Profit (000s)	45	51
Staff absenteeism	5	2
Number of customer complaints – per 100 sales	11	3

- a Using the information above, **summarise** the main findings or trends for the past 12 months.
- b **Propose** and **justify** three management strategies to improve the performance of VCE Virtual Tutoring.

Chapter 13 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 4 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Efficiency	Inputs	Processes
Effectiveness	Operations management	Productivity
Competitive advantage	Operations system	Outputs
Redeployment of resources	Global outsourcing of inputs	Overseas manufacturing
Global outsourcing		

Examination preparation

1 Read the scenario and answer the questions that follow.

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. Harvey has been examining ways to expand the business. He has gathered the following information and presented it to you, his business consultant.

- The number of customers has not increased over the past year, and three employees left six months ago.
- Some of the equipment is now five years old.
- The changing economic conditions have seen some customers reduce the number of times they bring their pets for grooming.
- Some staff have been taken out of the grooming area and placed in the retail store.

a Using the information above, **identify** two possible issues that the business may be facing. **(4 marks)**

b **Describe** how the strategies of a change in management styles or management skills within the business and increased investment in technology could assist Harvey to overcome some of the issues raised. **(4 marks)**

2 **Explain** why it is important for a business to continually monitor and review its performance. **(3 marks)**

3 'All businesses should ensure that they respond to KPIs and other data in a timely manner.' **Propose** and **justify** two management strategies that may assist a business to achieve its business objective to improve performance. **(6 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
13.1 The importance of leadership in change management	13.1.1 Evaluate the importance of leadership when managing change	Activity 13.1 Case study 13.1: Q1–2 Review activity 13.1: Part 1 & Part 2 Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>
13.2 Why do businesses need management strategies to respond to key performance indicators?	13.2.1 Explain why businesses need strategies to respond to key performance indicators and to seek out new business opportunities: <ul style="list-style-type: none"> • staff training • change in management styles or management skills • increased investment in technology • improving quality in production • cost cutting • initiating lean production techniques • redeployment of resources (natural, labour and capital) • innovation • global sourcing of inputs • overseas manufacture and global sourcing 	Activity 13.2: Q2–3 Case study 13.2: Q1–3 Case study 13.3: Q3 Case study 13.4: Q3 Case study 13.5: Q1–2 Case study 13.6: Q1–2 Case study 13.7: Q1–4 Case study 13.8: Q1–2 Review activity 13.2: Part 1 & Part 2 (Q2-6) Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	13.2.2 Evaluate the effectiveness of management strategies	Review activity 13.2: Part 2 (Q1) Examination preparation: Q1–3	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 14

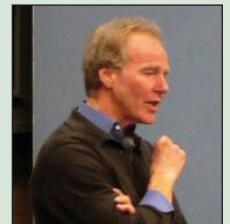
Corporate culture and strategies to develop it, an overview of the Learning Organisation (Senge) and low- and high-risk strategies

'The most effective people are those who can "hold" their vision while remaining committed to seeing current reality clearly.'

Peter M. Senge (1947–)

About the author:

Peter Senge is an American management consultant, educator and author. He is known as the author of the book *The Fifth Discipline: The Art and Practice of the Learning Organization* (1990, revised in 2006).



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about change and discuss your response to the following questions:

- 1 Explain** why it is important for people to 'hold' their vision in a business.
- 2 Explain** why vision and reality are both important when managing change.

CHAPTER OVERVIEW

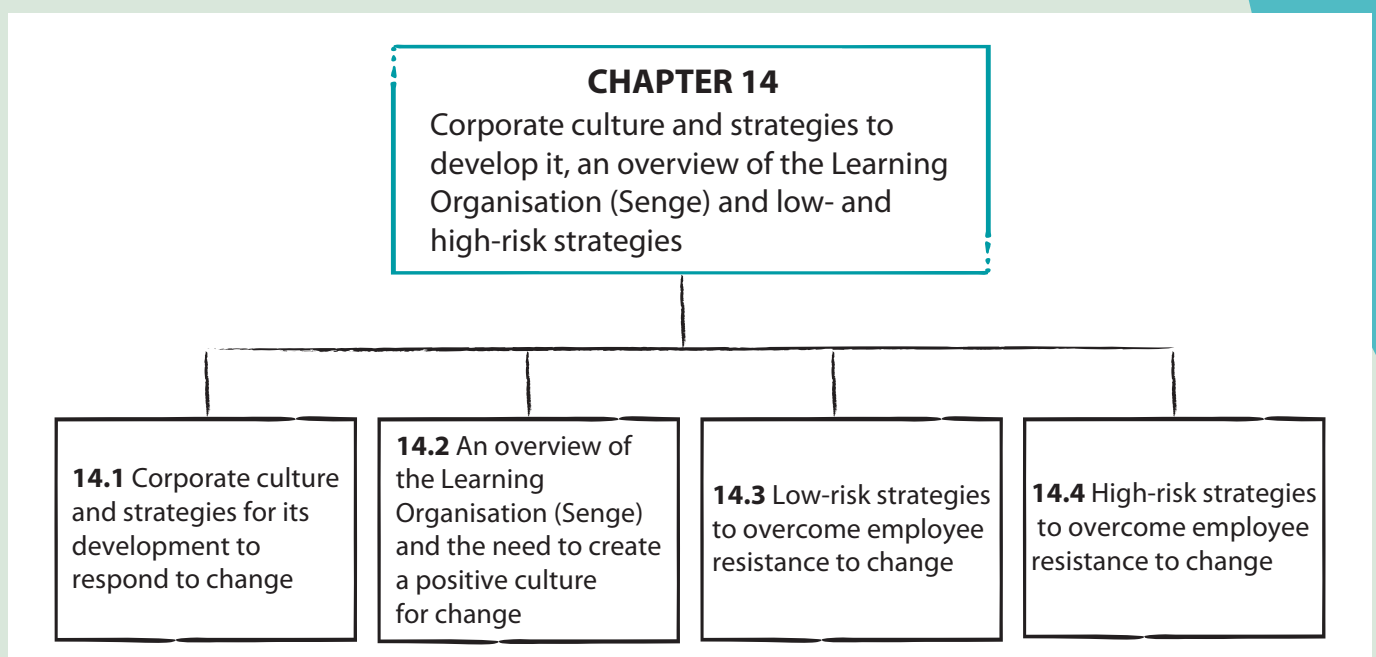
On completion of this chapter students will be able to consider corporate culture and strategies for its development to respond to change. They will also explain and provide an overview of the principles of the Learning Organisation (Senge) and the need to create a positive culture for change. In addition, students will consider low-risk strategies and high-risk strategies to overcome employee resistance to change.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of the chapter I will be able to:
Corporate culture and strategies for its development to respond to change	14.1 Corporate culture and strategies for its development to respond to change 14.1.1 Propose and apply strategies to develop corporate culture to respond to change
An overview of the Learning Organisation (Senge) and the need to create a positive corporate culture for change	14.2 An overview of the Learning Organisation (Senge) and the need to create a positive culture for change 14.2.1 Provide an overview of the Learning Organisation (Senge) 14.2.2 Explain the need to create a positive culture for change
Low-risk strategies to overcome employee resistance to change	14.3 Low-risk strategies to overcome employee resistance to change 14.3.1 Explain low-risk strategies, including communication, empowerment, support and incentives
High-risk strategies to overcome employee resistance to change	14.4 High-risk strategies to overcome employee resistance to change 14.4.1 Explain high-risk strategies, including manipulation and threat

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What's ahead



14.1 Corporate culture and strategies for its development to respond to change

Learning intentions – at the end of this chapter section I will be able to:

14.1.1 Propose and apply strategies to develop corporate culture to respond to change

The culture of a business is a crucial determinant of its efficiency, effectiveness and productivity (see Chapter 2 for further information). While change is occurring and after it has been embedded, it is important that a positive corporate culture is developed and maintained to ensure success for the business.



Figure 14.1 Corporate culture concepts

Strategies to develop corporate culture to respond to change are outlined in Table 14.1.

Table 14.1 Strategies to develop corporate culture to respond to change

Strategy	Explanation
Revising and embedding vision and values statements	A business should revisit its vision and values statements. Setting out the new vision for the business and a focus on values will also provide a framework for the business.
Changing management structures	If changes are made in a business, it is important that the structures are changed to support the new way the business is going to operate. This may impact on corporate culture as employees and managers need to work in different ways. Changes may impact on communication channels, employee empowerment, how decisions are made and the relationships between different parts of the business.

(continued)

(continued)

Changing management styles	There may also be an opportunity to revisit and reflect on the management style used. Many businesses now use a participative management style as employees expect to be involved in decision-making and have control over their work. While change is occurring, it can be a time for management styles to be reviewed and changed if applicable.
Revising business policies	Policies can assist in ensuring expected behaviours and consistency within a business. They can also support the changes as well as assisting in developing a corporate culture. Policies may include anti-bullying, equal opportunity processes, acceptable use of ICT and grievance procedures.
Developing employees	If a business has implemented changes, it may want to ensure that the culture reflects this. Strategies may focus on employee diversity, the core values of the business and employee capacity as it works through the change.
Preserving the stories, narratives and rituals	Creating stories and narratives about significant events and/or people is important as changes are made. Ensuring that these events are known and celebrated helps to bridge the gap between the 'old' and 'new' culture.

ACTIVITY 14.1

Best Ever Hampers is an established business that has developed its online hamper business. It delivers hampers across Victoria and donates some of its profits to charities that support young people in education.



During the past six months, the owners, Talia and Lucas, had been negotiating with another business, In Style Food Hampers, to merge the two businesses to increase market share and, in the long term, sales as the two businesses offer different products. In April this year, Talia and Lucas signed an agreement with the owner of In Style Food Hampers, Aya, to merge the two businesses.

A meeting was held with employees from both businesses. While many employees are excited about the future, the two businesses have different policies and corporate cultures.

- 1 **Explain** why it is important for a business to focus on corporate culture.
- 2 **Explain** why it is important for the two businesses to consider corporate culture as part of the merger between the two businesses.
- 3 **Propose** and **justify** two strategies that the businesses can use to develop a suitable corporate culture.

REVIEW ACTIVITY 14.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** why it is important for a business to ensure that the corporate culture is updated and refreshed to reflect the changes being implemented.
- 2 **Explain** why a business would focus on creating a positive culture for change.
- 3 Choose two of the strategies identified in Table 14.1 and **explain** how they would support the implementation of change in a business.

14.2 An overview of the Learning Organisation (Senge) and the need to create a positive culture for change

Learning intentions – at the end of this chapter section I will be able to:

14.2.1 Provide an overview of the Learning Organisation (Senge)

14.2.2 Explain the need to create a positive culture for change

Peter Senge was named a 'Strategist of the Century' by the *Journal of Business Strategy* (1999). 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'. According to Senge's Learning Organisation framework, in situations of rapid change businesses must be flexible if they are to be successful.

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.



Figure 14.2 A business must have structures in place if it wants to encourage reflection and engagement through 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.

To support people during times of change, a business should have structures and processes in place to allow for reflection on current practices. If a business can focus on expanding the capacity and expertise of its people, this will positively impact the business. The opportunity to connect and work with others as part of a team 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 that a business is able to innovate and learn.

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 argues that instead of a short-term approach, 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 studied, mastered and integrated into people's 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 M.K. Smith, 'Peter Senge and the Learning Organization', the encyclopedia of informal education, infed.org

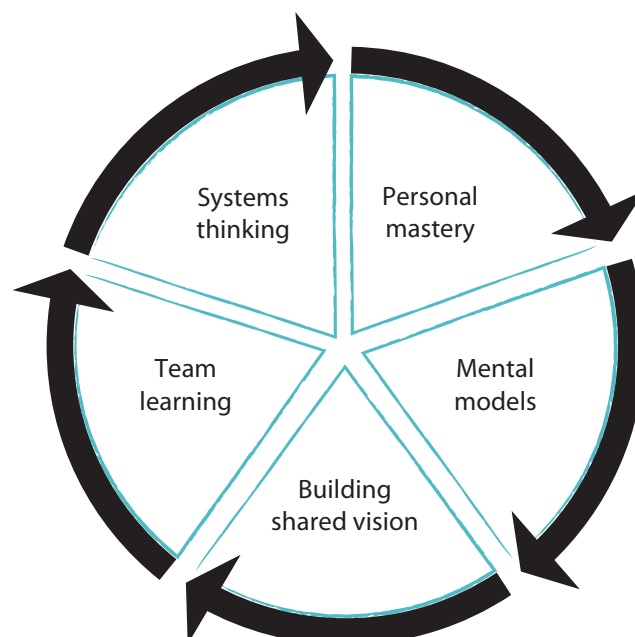


Figure 14.3 Peter Senge's five disciplines

The core disciplines

Personal mastery

Businesses learn through individuals who learn. 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, what they 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. 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. 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. A shared vision can encourage and inspire others to experiment and innovate in the business.

A vision can be created, but it needs to come from a range of people, not just the leader, to ensure commitment to the vision. Visions spread because they are reinforced as people talk and share ideas.

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 M.K. Smith, 'Peter Senge and the Learning Organization', the encyclopedia of informal education, infed.org

Figure 14.4 A shared vision can encourage experimentation and innovation.



Leading the Learning Organisation

Senge argues that Learning Organisations require a new view of leadership. He sees leaders as designers, stewards (curators) and teachers. These people are responsible for building an organisation where people are able to expand their capacity and capabilities. Leaders are responsible for learning within the business.

Senge's ideas are aimed at inspiring managers and leaders. 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 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 Publix, which is the world's largest employee-owned company. It has spent over 20 years on *Fortune's* 100 Best Companies to Work For list. All employees, and former employees are the controlling shareholders. Any employee who works more than 20 hours a week and has been at the company for more than one year receives shares in the business (they receive more shares for every year they work). All employees have a vested interest in ensuring that the business is successful.

Collaboration and communication are among the company's core values, and employees are supported in pursuing career goals and reaching out to others for assistance. They are also encouraged to work in the company's various divisions to learn new skills, information and aspects of the business.

The company further demonstrates its commitment to its employees by promoting internally in most cases. The business has very low levels of staff turnover as employees feel valued, are able to continually learn and develop their skills and are involved in all aspects of the company.

Source: Adapted from 'Top Learning Organizations – 4 Businesses That Do It Right', Knowledge Force Consulting website, 7 February 2019

Figure 14.5 A Learning Organisation requires a focus on developing employees strategically.





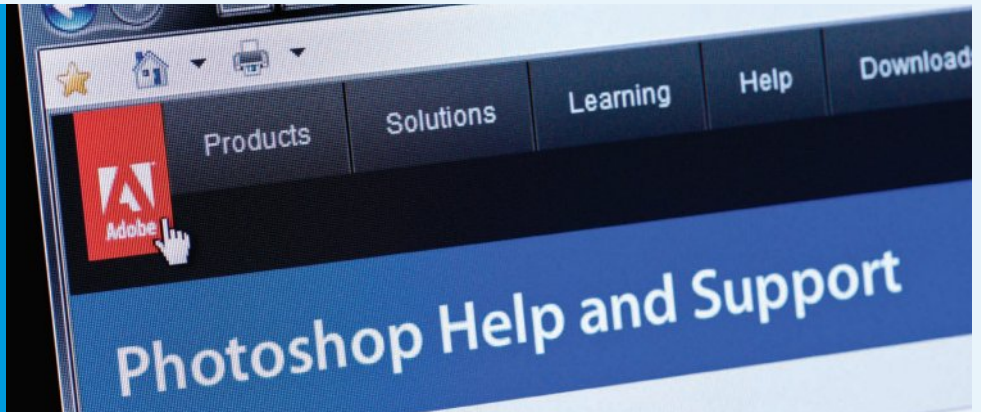
ACTIVITY 14.2

Discuss how the Learning Organisation principles could be used in a business to ensure that it is successful during a period of change.



CASE STUDY 14.1

Examples of Learning Organisations



Adobe

The software company has a stated commitment to the wellbeing of its staff, and the leadership insists on integrity, transparency and open lines of communication with staff. The company also works to recruit a diverse workforce who bring with them different ideas, experiences and skills. The Adobe Life blog shares stories about staff achievements, so everyone in the company is aware of individual and group successes.

Adobe provides many learning opportunities for employees through on-demand online courses, mentorship and leadership development programs, and subsidies for employees who undertake educational courses. It has also created an award-winning program, Kickbox, that encourages innovation and risk-taking, no matter what the outcome. Any staff members who request it are given a red cardboard box containing stationery, snacks and a \$1000-prepaid credit card to explore an idea – no questions asked. The program has resulted in additional investment in 23 programs.

Google

Google focuses on a corporate learning culture. Its employees are given the flexibility to set

their schedules to work when it suits them, in a way that maximises their productivity and creativity. The staff is made up of talent across all different fields of technology, so everyone can work with and learn from each other.

This growth mindset and opportunities for collaboration result in a staff that works to constantly improve themselves and the company. Google values employee contributions and risk-taking, even if the idea is unsuccessful.

Google also values great managers. It spent time researching what makes a great manager. Research started with the proposition that managers were not important, that a manager had no impact on the team's work. However, they found that employees believed that managers mattered. Teams with effective managers were more productive and happier. A number of behaviours were attributed to great managers, which include: a good coach empowers the team, creates an inclusive team environment, is productive and results-oriented, communicates effectively, supports the learning of their team, and has a clear vision.

Source: Adapted from 'Top Learning Organizations – 4 Businesses That Do It Right', Knowledge Force Consulting website, 7 February 2019

CASE STUDY ANALYSIS

- 1 **Identify** and **explain** the principles of Senge's Learning Organisation.
- 2 **Explain** why Adobe would be considered a Learning Organisation.
- 3 **Describe** the benefits of Adobe's approach in relation to the business's performance.
- 4 Google is a successful company. **Explain** why it values employees taking risks.
- 5 Google completed a survey and came up with some ideas about what makes an effective manager. Choose three of these and **discuss** how they would benefit the business and how this links to the principles of the Learning Organisation.

The need to create a positive culture for change

Senge's Learning Organisation principles, including the focus on employees sharing a vision and self-reflecting on their roles, and on developing the capacity of employees, are important in the pursuit of a positive culture in a business. Change can be difficult for all involved. If a business can focus on building capacity and encouraging staff to develop and share a vision for the future, the likelihood is that change will be more successful and benefit all in the organisation.

A corporate culture of learning empowers all employees in the organisation to continue to learn to build their knowledge base and skill sets, and to innovate, create and problem-solve for the benefit of themselves, the company and their clients. While developing and sustaining a strong learning culture can seem overwhelming, it is important for a business if it wishes to be successful in the long term.

A positive and proactive approach to change, where employees are confident and skilled, and the change is approached in a positive way, will benefit the business. Implementing the change when the organisation determines it should be, rather than in reaction to an event, will also benefit the business.

REVIEW ACTIVITY 14.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Outline** Senge's key principles of the Learning Organisation.
- 2 **Describe** the five factors or disciplines that ensure that 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 **Describe** why a business might consider changing its corporate culture to successfully introduce change.

14.3 Low-risk strategies to overcome employee resistance to change

Learning intentions – at the end of this chapter section I will be able to:

14.3.1 Explain low-risk strategies, including communication, empowerment, support and incentives

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 prefer to stay in their comfort zones. The uncertainty of change, and of the future, means that change becomes a stressful experience for many.

Before acting, 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.

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 are outlined in Table 14.2.



Figure 14.6 Low-risk strategies allow employees to feel valued throughout the change process.

low-risk strategies
participative approaches to implementation of change, using communication, empowerment, work groups and support for those who are impacted upon

Table 14.2 Low-risk strategies to overcome employee resistance to change

Strategy	Explanation
Communication	Two-way communication between management and employees. This means that managers and employees engage in open and honest communication, and the information is two-way so that everyone is kept in the loop.
Empowerment	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, their health and wellbeing. 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.



CASE STUDY 14.2

Low-risk strategies to overcome resistance: Netflix



Netflix has developed a corporate culture where employees are given the opportunity to make decisions and feel empowered.

The company has a number of values and principles that sit behind the business. These are:

- 1 Encourage independent decision-making by employees.
- 2 Share information openly, broadly and deliberately.
- 3 Be extraordinarily candid with each other.

- 4 Keep only our highly effective people.
- 5 Avoid rules.

Feedback is seen as important and is part of the normal workday at Netflix. It helps to support modelling the behaviours desired at the company. It also makes it easier for employees to communicate and understand what is happening in the business and that they have the freedom to come up with ideas and make decisions.

Source: Adapted from 'Netflix culture', Netflix website

CASE STUDY ANALYSIS

- 1 **Describe** how employee empowerment can support the implementation of change in a business.
- 2 **Explain** why Netflix believes it is important to empower its employees and focus on culture.
- 3 Why would a company such as Netflix encourage independent decision-making by employees?

REVIEW ACTIVITY 14.3

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Describe** each of the low-risk strategies outlined in Table 14.2.
- 2 **Explain** why it is important for a business and leaders to focus on low-risk strategies when implementing change.

14.4 High-risk strategies to overcome employee resistance to change

Learning intentions – at the end of this chapter section I will be able to:

14.4.1 Explain high-risk strategies, including manipulation and threat

high-risk strategies

autocratic approaches to implementing change, involving use of force, threats and manipulation of situations

Some businesses may decide to use **high-risk strategies**. These are outlined in Table 14.3.

Table 14.3 High-risk strategies to overcome employee resistance to change

Threats	If there is resistance to change, managers may decide to threaten employees with the loss of their job or demotion or may practise bullying or exclusion.
Manipulation	Some managers and leaders may manipulate a 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 unfavourable or difficult information means that employees are making decisions without being fully informed.

A high-risk strategy may work in the short term and allow the change to be introduced as employees may be too frightened to object or not do what they have been asked. It will also allow a business to introduce changes fairly quickly as there is no need for discussions or communication other than to tell people what is happening.

Figure 14.7 High-risk strategies are not beneficial for workplace success in the long term.



In the long term, and for change to be sustained, low-risk strategies are more likely to be successful than high-risk strategies. They allow for all stakeholders within the business to feel valued as their ideas and feelings are considered. 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.

ACTIVITY 14.3

Sonny Rodgers is the operations manager at Outstanding Constructions and Designs. The business has found that its sales and profit have declined and there are a number of major competitors who have undercut it. Sonny decided that employees need to work longer hours without an increase in pay or overtime if the business is to stay profitable.

He called a staff meeting and told them that they would have their hours changed (he did not mention that the hours would increase) and that if this did not suit the employees they would need to leave and find another job. He let them know that decisions about whether they wanted to stay working with the business had to be made by the following morning.

- 1 **Describe** two high-risk strategies a business might use to overcome employee resistance to change.
- 2 **Describe** the approach to change that Sonny has pursued.
- 3 **Explain** how Sonny has communicated the change to employees.
- 4 **Evaluate** the possible impact that Sonny's approach might have on employees and the business in general.



Figure 14.8
Businesses need to consider the strategies they use to overcome resistance to change.

REVIEW ACTIVITY 14.4

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer question

Answer this question on paper or in the Interactive Textbook.

Explain the two high-risk strategies that a business could use when implementing change in a business.



Chapter 14 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 4 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Team learning	Corporate culture	Learning Organisation (Senge)
Core disciplines	Systems thinking	Personal mastery
Mental models	Building a shared vision	Low-risk strategies
High-risk strategies		

Examination preparation

- 1 A general manager of a top Australian business recently stated that 'if corporate culture is not embedded and reviewed during a period of change, it will have a detrimental impact on the business in the future'. **Discuss** why corporate culture can impact on a business and why it needs to be reviewed when change is being implemented. **(8 marks)**
- 2 **Propose** and **justify** two strategies that could assist in developing corporate culture through business change. **(6 marks)**
- 3 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)**
- 4 **Explain** 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)**
- 5 **Discuss** the effectiveness of low-risk strategies to overcome employee resistance to change. **(5 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
14.1 Corporate culture and strategies for its development to respond to change	14.1.1 Propose and apply strategies to develop corporate culture to respond to change	Activity 14.1: Q1–2 Review activity 14.1: Part 1 & Part 2 Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
14.2 An overview of the Learning Organisation (Senge) and the need to create a positive culture for change	14.2.1 Provide an overview of the Learning Organisation (Senge)	Activity 14.2 Case study 14.1: Q1–2, 5 Review activity 14.2: Part 1 & Part 2 (Q1-3) Examination preparation: Q3	Yes No <input type="checkbox"/> <input type="checkbox"/>
	14.2.2 Explain the need to create a positive culture for change	Review activity 14.2: Part 2 (Q4) Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>
14.3 Low-risk strategies to overcome employee resistance to change	14.3.1 Explain low-risk strategies, including communication, empowerment, support and incentives	Case study 14.2: Q1–3 Review activity 14.3: Part 1 & Part 2 Examination preparation: Q4–5	Yes No <input type="checkbox"/> <input type="checkbox"/>
14.4 High-risk strategies to overcome employee resistance to change	14.4.1 Explain high-risk strategies, including manipulation and threat	Activity 14.3: Q1–4 Review activity 14.4: Part 1 & Part 2	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 15

The Three Step Change Model and the effect of change on stakeholders

'I think it's very important to have a feedback loop, where you're constantly thinking about what you've done and how you could be doing it better. I think that's the single best piece of advice – constantly think about how you could be doing things better and questioning yourself.'

Elon Musk (1971–)

About the author:

Elon Musk became a multimillionaire by the age of 30 due to his creating a company that was to become PayPal, the money transfer service for e-commerce. He is the owner of SpaceX and Tesla.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about change and discuss your response to the following questions:

- 1 Suggest why it is important for successful businesses to seek feedback, revise and change.
- 2 **Discuss** the relationship between leadership, change and managing stakeholders.
- 3 **Explain** why customers are important stakeholders who can be affected by change and business transformation.

CHAPTER OVERVIEW

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 that changes are implemented successfully. Failure to implement change successfully can put the future of a business at risk.

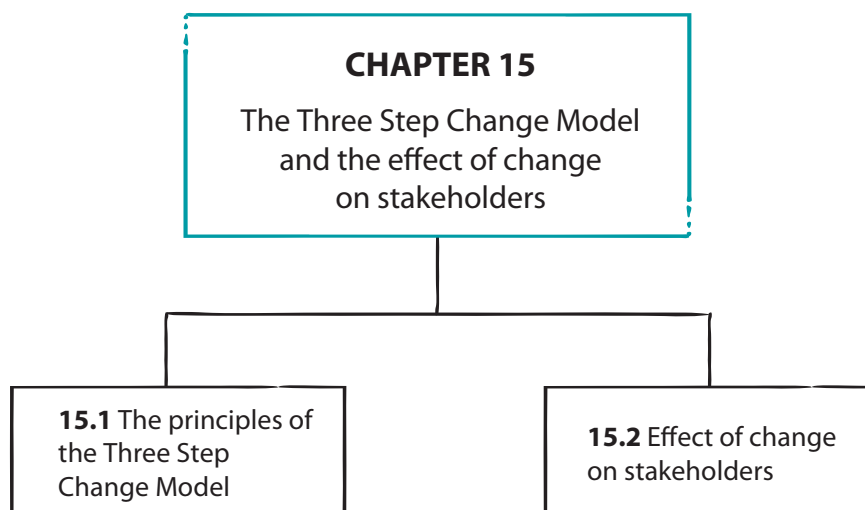
To assist businesses with the complex and often stressful change process, theories and principles have been developed, such as Lewin's Three Step Change Model. This chapter will examine the core ideas that underpin each stage for a business to successfully implement change that may transform its organisation. Businesses have become increasingly aware of the importance of considering stakeholders in the change process, and you will learn about the potential impact of change on key stakeholders.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Key principles of the Three Step Change Model (Lewin)	15.1 The principles of the Three Step Change Model 15.1.1 Describe the key principles of the Three Step Change Model
The effect of change on stakeholders: employees, customers, suppliers and the general community	15.2 Effect of change on stakeholders 15.2.1 Identify and describe the effect of change on stakeholders

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What's ahead



15.1 The principles of the Three Step Change Model

Learning intentions – at the end of this chapter section I will be able to:

15.1.1 Describe the key principles of the Three Step Change Model

Levin's Three Step Change Model a change management model with three steps: 1 Unfreeze the status quo; 2 Move from the current to the new situation; 3 Refreeze and embed the change

Kurt Lewin was a social scientist who was born in Germany. He contributed to research and developed ideas about leading and implementing change. Presented in 1947, **Levin's Three Step Change Model** continues to be widely used by organisations in understanding and managing organisational change. The model is based on the analogy of melting a block of ice and refreezing it into a new shape.

Lewin saw this 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:

- 1 **Unfreeze the status quo** – there is a need for the business to assist people to 'unlearn' their current behaviour.
- 2 **Move** – or change from the current to the new situation by assisting employees to change their behaviour.
- 3 **Refreeze** – put strategies in place to ensure that the new behaviour and change are stabilised and reinforced.



Figure 15.1 Lewin's Three Step Change Model



Figure 15.2 Current behaviour must 'unfreeze' or be destabilised before change can occur.

Step 1: Unfreeze the status quo

The first stage is about preparing the business for change by identifying what needs to be changed and why. Lewin argued that the only way to change was to break or destabilise the equilibrium (unfreeze) before the old behaviour could be 'unlearned' and the new behaviour successfully adopted. Existing practices are to be challenged and new approaches explored. A strategy and plan to communicate to stakeholders the need to change should be developed.

It is also essential to motivate and prepare key stakeholders. Lewin developed the concept of

Force Field Analysis, which examines the way the behaviour of individuals and groups impacts on change (see Chapter 11 for more detail). He believed that human behaviour was based on the equilibrium (balance) between driving and restraining forces for change. Conducting a Force Field Analysis will ensure that forces driving for change will outweigh the restraining forces, providing motivation to embark on successful change implementation.

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.

Time and communication are the two keys for success in a smooth transition to change. During this stage, it is important for managers to role-model the desired behaviours and to communicate consistently. Training, support or even counselling could be offered to employees, who should feel empowered to raise possible solutions that address new issues.



Figure 15.3 Implementing or reaching for change may involve some trial and error.

Step 3: Refreezing

The final step in the model is refreezing, which requires the change and group behaviours to be stabilised or 'frozen' and embedded in the business. Lewin found this step to be crucial to ensure that teams would not revert to their old ways. Implementing the refreeze stage instils a new sense of stability for employees, who are now confident and comfortable.

Achieving successful implementation of this stage requires planning to sustain the change, with the introduction of new policies reinforcing what has become standard procedure. Continued training, depending on the change, may be appropriate.



Figure 15.4 'Refreezing' or reinforcing new behaviours ensures that the change has been embedded in the business.

Finally, it is important for a business to acknowledge achievement and celebrate success, which will support a positive mindset to change in the workplace.

ACTIVITY 15.1

In groups of two or three, investigate a recent change in your school or place of employment. Summarise and present your findings to the class.

- 1 **Identify** why the change was introduced.
- 2 **Investigate** how key stakeholders were informed of the change.
- 3 **Justify** whether the change was successful.
- 4 Link the change process back to the Three Step Change Model and assess whether the model was followed.





CASE STUDY 15.1

Lewin's Three Step Change Model: Australia Post



Delivering for Australia

Globally, the COVID-19 crisis has caused the greatest economic disruption since the Great Depression of the 1930s. Five years of e-commerce growth was seen in just a matter of months as retail stores closed, forcing consumers to shift to online purchasing. E-commerce grew by 31.8 per cent in 2020/21 with four-in-five Australian households shopping online.

Australia Post continued to operate each day during the pandemic. Through unprecedented lockdowns and Christmas periods, posties, drivers, facilities and network played a critical role, delivering essential items for the millions of people forced to stay home. In 2021, Australia Post recorded revenue of \$8.3 billion, a new record for the organisation, and maintained its position as a market leader in parcel and services with revenue growth of 17.7 per cent.

Health, safety and wellbeing

With a workforce of approximately 37 000 plus over 27 000 in the extended workforce, with the majority employed in delivery, post office and operational networks, the care and wellbeing of employees is a core value at Australia Post. Protecting the safety and wellbeing of employees continued to be a high priority throughout the pandemic. Time and resources were invested to develop new processes and organisational capability. Key actions included:

- gave over 33 000 employees a \$600 bonus in recognition of their resilient and hardworking efforts
- invested \$20 million in PPE
- implemented zoning and staggered shifts. Temperature testing was introduced at major facilities to protect employees. Protective screens were installed and social markers positioned in post offices to protect employees and customers. During Victoria's



Figure 15.5 The new Victorian parcel distribution centre at Sunshine West integrates the latest in automated sorting technology and remained fully operational 24 hours a day to cope with demand during the COVID-19 pandemic.

Stage 4 lockdown a dedicated contact tracing team was established to oversee risk management and record keeping.

- delivered focused training to address key safety risks
- introduced an Employees Assistance Program, offering free counselling services to support mental health and wellbeing
- invested in automation, infrastructure and technology to reduce the risk of manual handling injuries, particularly with increased parcel volumes, contributing to a reduction of 93 million manual handling touchpoints.

Optimising delivery services

Despite the continued decline in letter volume, Australia Post must adapt and aim to deliver a sustainable and efficient service. The parcel service industry has proved to be highly competitive and fast paced as competitors have the potential to impact market share, growth and profitability. To combat this, Australia Post:

- scaled up to meet demand with 60 new and repurposed facilities to further increase processing and delivery capabilities
- recruited over 5000 new team members during the pandemic
- improved first-time delivery success with reduced signature on delivery requirements
- introduced delivery tracking information from checkout to delivery to build customer confidence
- retrained 2700 motorbike postal workers to deliver parcels, making better use of the workforce and relieving the pressure on van delivery drivers
- introduced route optimisation software so that as parcels are scanned for delivery, the optimiser creates an effective and safe delivery route, which is used by 3700 drivers nationally, helping them deliver more than 500 000 parcels every day.

Source: Adapted from 'Australia Post Annual Report 2021: Delivering for Australia', Australia Post website, 2021

CASE STUDY ANALYSIS

- 1 **Explain** how Lewin's Three Step Change Model could be applied by Australia Post to implement changes introduced to support efficient parcel delivery during the pandemic.
- 2 **Discuss** why it is important for a business to identify the issues that need to be addressed before starting the process of change.
- 3 **Propose** two strategies that Australia Post should introduce to secure the refreeze stage.

REVIEW ACTIVITY 15.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Describe** how Kurt Lewin's Three Step Change model can be used in a business wishing to introduce change.
- 2 **Explain** Lewin's Three Step Change model.
- 3 **Outline** why the refreeze step is essential in change implementation.

15.2 Effect of change on stakeholders

Learning intentions – at the end of this chapter section I will be able to:

15.2.1 Identify and describe the effect of change on stakeholders

Change has an impact on stakeholders and on many facets of the business. All changes will impact in some way on people or groups connected to the business. Stakeholders who may be affected by 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 and responsibilities while managing the implementation of the change with the employees. Some managers may find themselves in a difficult position and 'stuck' between the need for implementation, coping with the change themselves and supporting employees at the same time.

Managers may need to re-evaluate the management styles used with employees (e.g. increase their use of a participative or consultative style) and the management skills they need. Managers may need to improve or learn different skills when implementing change, 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 are successful. Feelings of uncertainty and changes in roles, authority and reporting lines might make it just as difficult for managers to accept changes as it is for employees.



ACTIVITY 15.2

Ahmed and Sarah are both sales managers who oversee a team each and 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 have started to work in the office two days a week and remotely for the rest of the week. Ahmed likes to know exactly what the team is doing. He checks in with employees twice a day and sends a list of tasks and deadlines every Monday. Sarah is happy to have a meeting with her team when they come into the office and keeps in touch with employees individually through regular virtual meetings.

- 1 Predict the possible impact of the change to flexible working conditions on the managers in the sales department.
- 2 **Identify** the management styles being used by Ahmed and Sarah. Provide reasons for your response.
- 3 **Describe** the types of skills the managers would need to develop as more employees work from home.

Employees

Employees are always affected by change within a business. The changes can be at the individual level, the team 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 as a result of business decisions.

Some employees may be happy with the changes, but others will not be. For many, change is daunting, and it is important that employees understand why the changes have taken place, as well as the benefits. Management needs to ensure that employees are supported through the change process.

One cause of employee resistance may be a lack of awareness about the change. Employees want to know why the change is happening and 'what's in it for me?' Providing information, empowering them to make decisions and having open two-way communication should mean employees are more comfortable and accepting of change.



Figure 15.6 Managers are realising that employees need to be part of the change process.



CASE STUDY 15.2

Effect of change on employees: listening to employees



All businesses need to develop and make changes to be successful. However, employees are not always involved in these decisions that may have an impact on the work they do every day.

An early study by Professors Robert Kaplan and David Norton found that only 5 per cent of employees understood the strategies of their company. This means it can be more difficult for employees to engage in changes.

There are a number of ways to assist employees in change and to ensure that

change is a more positive experience. These include:

- listening to employees and their concerns
- gathering employee feedback before the change is implemented
- gathering employee feedback during the implementation
- gathering feedback on 'experiments', successes and failures
- remembering that the employee experience supports (or destroys) the strategy
- looking to employees for feedback to make sure they understand the changes.

CASE STUDY ANALYSIS

- 1 **Explain** why it is important for a business to make sure employees understand any changes that are happening.
- 2 **Describe** how feedback from employees can support and improve change in a business.
- 3 Employees are often affected by change. **Explain** why employees often resist or are afraid of changes.

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 any proposed or introduced changes. Businesses need to ensure that customers and potential customers are clear about the changes and the associated benefits.

If a business has not considered the wishes and preferences of customers, it may risk losing loyal customers. Changes are often implemented in a business with a focus on shareholders, and employees and customers may not be as high a priority.



Figure 15.7 Businesses need to consider customer preferences before introducing changes to products and services.

If a business has not considered the impact of changes on customers, this may adversely affect its sales and reputation. A number of businesses have made changes to products or services and have had to contend with negative feedback and reactions from customers. Toblerone, for example, changed the shape of its chocolate bar by widening the gaps between the triangles, and decreased the size at the same time. There was an outcry from customers and it reverted to the original shape in a bigger, more expensive bar.



CASE STUDY 15.3

Effect of change on stakeholders: customers



Coles ditches plastic collectible toys in bid to reduce waste

Coles has decided to stop giving away plastic collectible toys such as the Little Shop Collection amid concerns that the items are ending up in waterways and landfill.

Chief marketing officer, Lisa Ronson, said customer attitudes had changed and plastic toy promotions were no longer aligned with the company's environmental mission. Environmental groups welcomed the move as many products ended up as rubbish and in landfill with a long-lasting environmental impact.

Woolworths has also responded to pressure from customers and groups and swapped its Ooshies plastic figurines for vegetable and flower seeds.

While previous campaigns have been successful, the impact on the environment has become more important for the businesses and customers.

Source: Adapted from Henrietta Cook, 'Coles ditches plastic collectible toys in bid to reduce waste', The Age, 23 July 2021

CASE STUDY ANALYSIS

- 1 **Explain** why it is important for businesses to be aware of the needs of its customers.
- 2 **Explain** why Coles and Woolworths moved away from the promotions, even though previous promotions were popular.

Suppliers

Suppliers can be affected significantly by a change in a business. That 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 that could adversely impact on the suppliers. It can be difficult for a supplier if it is a relatively small business that has little control or influence over the relationship and the contract terms of the business buying its products.



CASE STUDY 15.4

Effect of change on suppliers: Australia Post



Supplier Code of Conduct

Australia Post has a code of conduct for suppliers. It expects all selected suppliers of goods and services to operate in compliance with the relevant laws, regulations and standards. This is considered important as the practices and actions of suppliers can impact on the reputation of Australia Post.

The standards of conduct include:

- complying with laws and regulations on bribery, corruption and prohibited business practices
- conducting business in an ethical, fair and courteous manner
- reporting on each element listed in this Supplier Code of Conduct and allowing Australia Post or a Group Member to undertake at least one independent and unannounced audit per annum of all factories that manufacture goods for supply to Australia Post or a Group Member
- timely disclosure to Australia Post or a Group Member of material legal, ethical, social and environmental matters

concerning any goods or services provided that may adversely affect supply of the goods or services provided to Australia Post

- demonstrating a commitment to human rights and fair employment practices
- ensuring that any labour provided by employees or other workers is freely chosen, there is freedom of association and collective bargaining practices are respected
- safe and hygienic working conditions for all employees with a focus on health and safety
- workers receive a fair wage with working hours and conditions that comply with laws and regulations
- no discrimination when hiring, training, promoting or terminating employees
- environment protection is considered in the operations of the business

New suppliers to Australia Post must undertake an assessment of their practices and join the Supplier Ethical Data Exchange (SEDEX).

Source: Adapted from 'Supplier Code of Conduct', Australia Post website, 13 September 2021

CASE STUDY ANALYSIS

- 1 **Explain** how a supplier can be affected by change in a business it provides products or services to.
- 2 **Explain** why businesses need to consider their relationship with their suppliers.
- 3 Australia Post is one of a number of businesses that has a code of conduct for suppliers. **Explain** how such a code can affect the practices of the supplier and their business.

General community

The community can be impacted 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, or it may lead to increased employment opportunities.

The general community can also be impacted 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.

Since 2020 there have been many changes across Australia in the way businesses operate. Due to the COVID-19 pandemic, many businesses have pivoted and altered. Businesses have moved to online sale and distribution of their products and many employees are now working from home or in a hybrid model of working at home and in the office a few days a week. This has had an impact on Melbourne's CBD, as fewer people commute each day, and has led to changes in neighbourhood shopping centres. It has also seen an increase in the number of people moving to outer suburbs or regional towns. All of these changes impact on communities.



Figure 15.8 Country towns may be affected when businesses relocate some or all of their business.

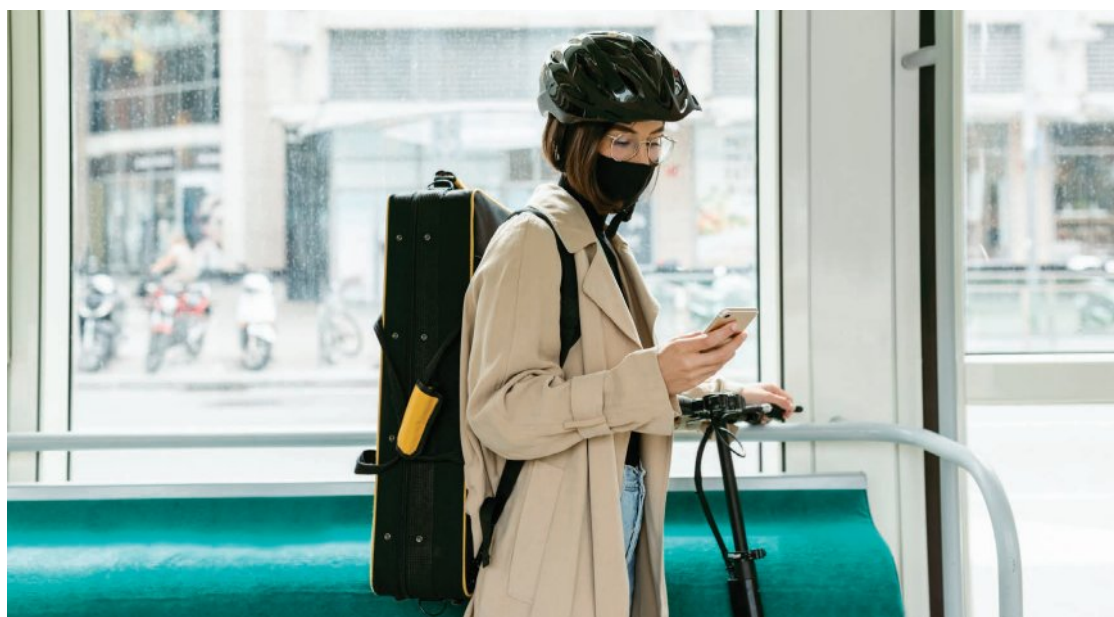


Figure 15.9 Fewer people are commuting into the city as many businesses are working from home due to the COVID-19 pandemic.



CASE STUDY 15.5

Impact of change and small business closures on the community



What happens to Australian communities when their small businesses close?

When a small business closes, it has ramifications for not only the individual and families involved in the business itself, but also for the communities it operates in. This can have a serious impact on country and rural communities in particular.

Local businesses contribute to their community in a number of ways, including:

- provision of essential goods and services
- investment in sporting and community groups through sponsorship
- providing employment
- adding to the vibrancy and character of a town.

The pandemic has severely impacted on small businesses, which in turn has impacted on their community.

If local businesses close, there are a number of impacts on the community, including:

- loss of retail outlets and diverse and distinctive businesses and services

- loss of local employment opportunities
- loss of speciality independent businesses
- loss of essential services
- decline of local capability and capacity, employment and training opportunities
- deterioration of local supply chains.

A number of policies and ideas have been put forward to support local small businesses, particularly in rural areas. Recommendations include:

- strategies to build community awareness and a positive reputation for local businesses
- government support of campaigns that support local businesses
- government support for small businesses that want to grow and expand
- helping businesses move to a more significant online presence
- development of industry clusters and networks.

Source: Adapted from John Grace, 'What happens to Australian communities when their small businesses close?', SmartCompany website, 18 August 2021



Video 15.1 Business closures

CASE STUDY ANALYSIS

Read the case study and watch the video to answer the following questions:

- 1 **Summarise** the main points in the article.
- 2 Watch the video of Victorian Chamber of Commerce and Industry Chief Executive Paul Guerra, speaking in May 2021 at the announcement of Victoria's fourth lockdown of the pandemic. **List** the main concerns Guerra mentions for businesses and workers.
- 3 **Evaluate** the following statement: 'Small businesses are vital to local communities.'

Table 15.1 Possible impacts of the implementation of change on stakeholders

Stakeholders	Possible impacts
Managers	<ul style="list-style-type: none"> • 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 the implementation process • Appointment of new senior managers, new management styles and new corporate culture
Employees	<ul style="list-style-type: none"> • Emphasis on work groups or teams • Recruitment of staff with the right skills, providing career paths, training and retaining talented and skilled employees • New training and development of employees if jobs change • 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
Customers	<ul style="list-style-type: none"> • May find that their choice is limited or has grown • May find that some products and services are no longer available • Prices of some products may increase or decrease
Suppliers	<ul style="list-style-type: none"> • 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
General community	<ul style="list-style-type: none"> • Businesses may provide employment opportunities for the community • Services and products provided • Support and infrastructure for the local community

REVIEW ACTIVITY 15.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** why it is important for a business to consider the possible impact of change on stakeholders.
- 2 **Identify** the positive and negative impact on stakeholders in a business if the following changes occurred. **Outline** a brief response for each.
 - a Some of the IT functions of a business have been outsourced to the Philippines.
 - b A merger with a competitor has been initiated.
 - c A business has decided to close down a factory in a regional town.
 - d A critical skills shortage has led to issues meeting demand in a building company.
 - e A new marketing manager has been appointed.
 - f A new collective agreement has been ratified by the Fair Work Commission.
 - g A popular product range has been reduced.
 - h A small business has decided to offer student academic scholarships to the local secondary college.

SAC AND EXAM TIPS – LINKED TO KEY SKILLS

Analyse the key principles of Lewin's Three Step Change Model – requires you to examine each of the three steps and the relationship between each step to successfully implement change.

Chapter 15 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 4 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Three Step Change Model	Unfreeze	Move or change
Refreeze	Stakeholder	

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, introduction of regular staff training and new customer loyalty programs. Many employees were able to work from home, and job sharing was introduced.

The business's market share increased by 5 per cent in 2019 and 2020. A strong client base was established, resulting in the opening of new offices across regional Victoria and a significant increase in staff recruitment. In 2021, there was a drop in market share, which was attributed to the pandemic; however, market share has continued to decline.

In responding to the change in KPIs, the owners have decided to move to online consultations, which will allow 50 per cent of their employees to work from home and enable the business to close 60 per cent of its offices.

- Describe** how Lewin's Three Step Change Model can be applied by A&M Finance in the closure of its offices and move to provision of online consultations. **(6 marks)**
- Analyse** how A&M Finance's decisions could impact on two stakeholders. **(4 marks)**

Checklist

The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

Success criteria – I am now able to:		Linked questions	Completed (Y/N)
15.1 The principles of the Three Step Change Model	15.1.1 Describe the key principles of the Three Step Change Model	Activity 15.1: Q1–4 Case study 15.1: Q1 Review activity 15.1: Part 1 & Part 2 Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
15.2 Effect of change on stakeholders	15.2.1 Identify and describe the effect of change on stakeholders	Activity 15.2: Q1–3 Case study 15.2: Q1–3 Case study 15.3: Q1 Case study 15.4: Q1–2 Case study 15.5: Q1–2 Review activity 15.2: Part 1 & Part 2 Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>

Digital activities

- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

CHAPTER 16

Corporate social responsibility and reviewing KPIs to evaluate the effectiveness of business transformation

'In terms of power and influence you can forget about the church, forget politics. There is no more powerful institution in society than business ... The business of business should not be about money, it should be about responsibility. It should be about public good, not private greed.'

Anita Roddick (1942–2007)

About the author:

Dame Anita Lucia Roddick was a British businesswoman, human rights activist and environmental campaigner, best known as the founder of The Body Shop.



KICKSTARTER ACTIVITY

Work with a partner. Read the quotation about corporate social responsibility and discuss your response to the following questions:

- 1 Explain** why it is important for all businesses to consider corporate social responsibility when implementing change.
- 2 Explain** how a business may make more money when it takes into account social responsibility considerations.

CHAPTER OVERVIEW

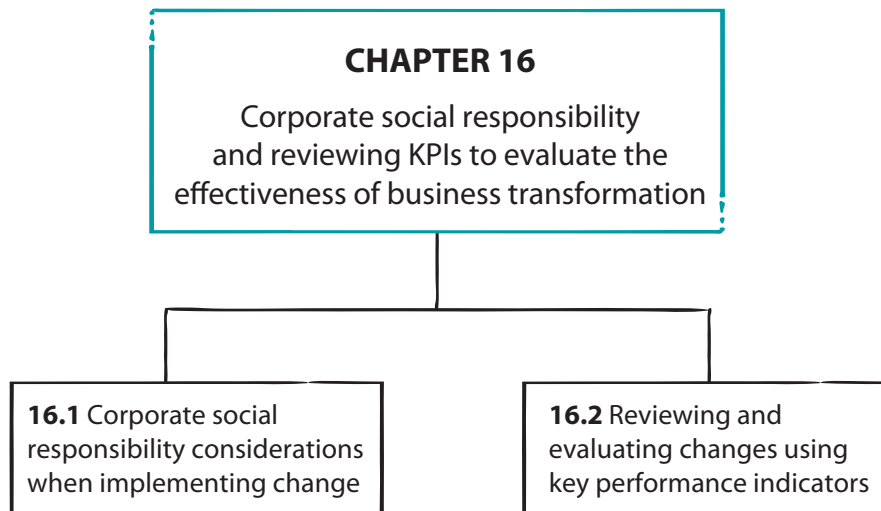
In this chapter, students will examine corporate social responsibility considerations when implementing change and the importance of reviewing key performance indicators to evaluate the effectiveness of business transformation.

Key knowledge and learning intentions

Key knowledge	Learning intentions – at the end of this chapter I will be able to:
Corporate social responsibility considerations when implementing change	16.1 Corporate social responsibility considerations when implementing change 16.1.1 Examine and analyse how CSR is considered when change is implemented
The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation	16.2 Reviewing and evaluating changes using key performance indicators 16.2.1 Analyse and evaluate KPIs in business change and transformation 16.2.2 Analyse and apply knowledge to case studies and contemporary examples 16.2.3 Apply business management knowledge to business situations

Source: Adapted from VCE Business Management Study Design © VCAA; reproduced by permission

What's ahead



16.1 Corporate social responsibility considerations when implementing change

Learning intentions
– at the end of this
chapter section I will
be able to:

16.1.1 Examine and analyse how CSR is considered when change is implemented

Whatever the size and type of the business, the principles of corporate social responsibility (CSR) should be considered in all aspects of the business. CSR has become an increasingly important issue for businesses, and there is an expectation that businesses will go beyond providing products and services.

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.'

Corporate social responsibility is an 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 address or exceed the ethical, legal, commercial and public expectations that society has of business. CSR also includes the moral and ethical decisions made by businesses. If a business is socially responsible, it adopts behaviours that will help achieve broad societal values.

To be considered effective, CSR must be integrated within day-to-day activities and business practices. All stakeholders should be engaged, and the business needs to include strategies that support and encourage everyone to make socially responsible decisions.

Figure 16.1 The concept of corporate social responsibility (CSR) involves businesses considering society when they make their decisions.



All stakeholders have an interest in corporate social responsibility. These are outlined in Table 16.1.

Table 16.1 Corporate social responsibility considerations of stakeholders

Stakeholder	Explanation
Employees	Most employees want to work in a business that practises CSR. This may include the opportunity for employees to contribute to their community through volunteer work.
Managers	Many managers want to work in a business that is contributing beyond profit and allows them to make an impact on others.
Customers	Customers want to buy goods and receive services from a business that is contributing to society beyond the provision of goods and services. Customers make decisions about purchasing with this in mind.
Community	There is an expectation that businesses will contribute to and improve the wellbeing of society. Businesses need to consider the interests and opinions of the public.
Suppliers	Suppliers will often align with businesses they see as being socially responsible; it helps enhance their own reputation and contribution as well.

When a business is implementing change, it is important that CSR is considered as changes can have an impact on these areas of the business, and implementing change also provides the business with an opportunity to introduce or further expand its CSR practices.

When implementing change, it is important for a business to go beyond the minimum requirements such as legislative requirements. For many years, 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 need to be based on more than economic factors.

Research shows that Australians feel strongly about the concept of CSR. Polls suggest that consumers are willing to switch brands to support businesses they believe benefit community and world causes. Corporate social responsibility is 'good ethics' and also 'good business'.

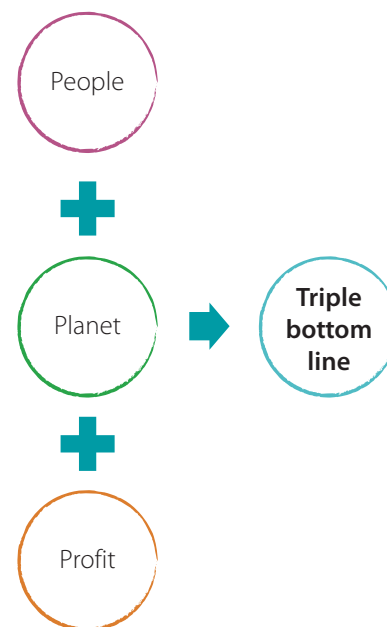


Figure 16.2 Businesses are looking at factors besides profit when making decisions.

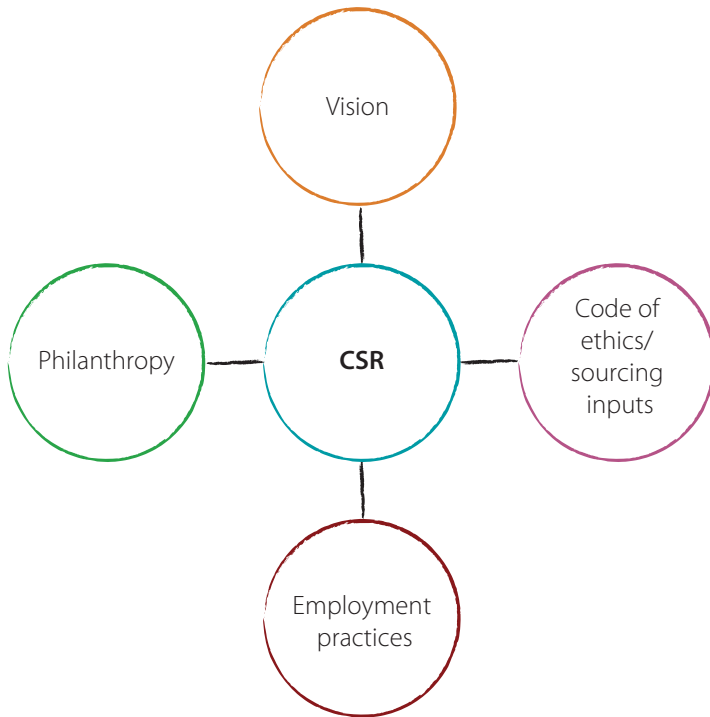


Figure 16.3 CSR considerations when implementing change

Implementing change in a business provides an opportunity to ensure that corporate social responsibility considerations are a focus. There are a number of ways a business can adopt corporate social responsibility, as outlined in Figure 16.3.

Key stakeholders are an essential part of the success of a business. This includes employees, managers, community, suppliers and customers. The business needs to ensure that the interests of these stakeholders are considered when implementing change. Businesses also need to recognise that they must take an active role in developing practices that meet best-practice benchmarks and act responsibly to minimise the impact of their business on the environment.

When implementing change, there are a range of CSR considerations, as discussed below.

Vision and mission statements

If a business wishes to increase or enhance its social responsibility when implementing change, this should be embedded in its vision and mission statements as these drive policies and practices in the business and allow others to understand which values are important.

Ikea, for example, has a vision to 'create better everyday lives for as many people as possible'. Unilever wants to make sustainable living commonplace. Google's vision is to organise the world's information and make it universally accessible and useful. The Commonwealth Bank has a commitment to build the capability of customers, businesses and communities through education, financial and digital literacy programs. These vision statements flag to customers and the community the CSR commitments of the businesses.



ACTIVITY 16.1

Visit the websites of three different Australian businesses. Look at the vision or mission statement of each business.

- 1 Does the vision or mission statement relate to CSR? If so, **describe** how.
- 2 **Explain** why CSR is important to a business.

Code of ethics and/or conduct

Many businesses implement a code of ethics for the business and stakeholders such as suppliers. As change is being implemented, this is something that can be reviewed and implemented. A code of ethics is a set of principles to help those within the business to conduct themselves honestly and with integrity. Westpac Group, for example, has a code of conduct that sets out the standard expected of employees and contractors in the course of their job.



CASE STUDY 16.1

Code of ethics: Cotton On



Cotton On has a zero-tolerance approach to unethical behaviour. The company is committed to try to stop forced labour and child labour and is committed to paying a living wage for workers. It has also put controls over its supply chain and has developed lasting partnerships with suppliers.

Cotton On has instituted an Ethical Sourcing Program and formal Rules to Trade. The supplier code governs the sourcing, manufacturing and supply of products. It is also in place to protect human rights and the environment and strengthen relationships with suppliers.

The company has also had its work recognised and has been awarded:

- 2021 – received 'B' grading in the Baptist World Aid (BWA) Fashion Report and an 'A' for environmental sustainability
- 2020 – received 100 per cent grading in the BWA COVID Fashion Report
- 2019 – received 'A' in the BWA Ethical Fashion Report.

Cotton On has instituted a number of changes and procedures to support its suppliers through regular factory audits, interviews with workers, benchmark audits against international standards, and training and education programs.

Source: Adapted from 'Ethical sourcing: It's the only way to do business', Cotton On Group website

CASE STUDY ANALYSIS

- 1 **Define** a code of ethics.
- 2 **Describe** how a code of ethics could assist in implementing change.
- 3 **Explain** why Cotton On has developed a code of ethics for the business and suppliers.
- 4 **Explain** why a business such as Cotton On would publicise its awards from the Ethical Fashion Awards.
- 5 Visit the Baptist World Aid Australia 'Ethical Fashion Guide' web page. Look at a fashion business and the grade it received. **Explain** the grading and how the business has contributed to CSR and ethical trading.

Employment/human resource policies

When a business implements change, it is important that it ensures that there are policies in place to support employees and to allow the business to operate in a socially responsible manner. Anti-discrimination, anti-bullying and whistleblower policies also ensure that employees are supported in a business.



CASE STUDY 16.2

Employment practices: recruitment of employees



No resumé, no reference: The Body Shop's radical approach to hiring

If someone wants a Christmas casual job at The Body Shop, they will not need a resumé, a reference, a background check or even an education.

Instead, potential employees will be asked three simple questions: are they legally authorised to work in Australia, can they lift up to 11 kilograms and work an eight-hour shift, and are they happy to work with customers.

The Body Shop is one of the first major retailers in Australia to adopt this method of recruitment – known as open hiring – which is targeted at people who have traditionally faced barriers to employment.

This is the third year The Body Shop has implemented open hiring in its US stores

and distribution centres, and the company is also rolling it out in Canada and the United Kingdom.

For the first time, it will use open hiring to recruit up to 380 Christmas casuals across Australia. It is estimated that about 15 per cent of these people will be those who have experienced homelessness, are young carers, First Nations Australians and/or single parents.

The company is working with homelessness organisation Launch Housing, Little Dreamers, a charity for young carers, women's crisis service provider Good Shepherd and global human services organisation APM to target potential candidates.

Source: Adapted from Jewel Topsfield, 'No resume, no reference: The Body Shop's radical approach to hiring', The Age, 1 November 2021

CASE STUDY ANALYSIS

- 1 **Describe** the new program The Body Shop has implemented when selecting employees.
- 2 **Explain** how this change will support people wanting to return to the workforce.

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 philanthropy

Corporate philanthropy is an act by a business to promote the wellbeing of others through charitable donations of money and/or time. Many businesses will consider this as part of their CSR measures and can implement this when bringing in change. In 2020, businesses in Australia broke philanthropic records while working in a changing environment. Strive Philanthropy's 'GivingLarge' report showed that \$1.1 billion was given away, which was 17 per cent more than the previous year. The companies that gave the most were BHP, Coles and the Commonwealth Bank. Much of the money was focused on education, health, social welfare, and emergency and disaster relief.



CASE STUDY 16.3

Corporate philanthropy: Canva



The graphics software company Canva has shown corporate Australia what the future might look like for corporate social licence and what the next generation of investors expects. It is not profit at any cost that is important – it's that business must subscribe to corporate citizenship.

The married couple behind Canva, Melanie Perkins and Cliff Obrecht, now have a net wealth of \$16.5 billion and they plan to give most of it away.

Canva has a two-step plan – to become one of the most valuable companies in the world and to do the most good it can do. The founders of the business were inspired after meeting an impoverished man in India who was working hard to earn the equivalent of \$1 per day.

'We have this wildly optimistic belief that there is enough money, goodwill and good intentions in the world to solve most of the

world's problems, and we want to spend our lifetime working towards that, Perkins said.

There were a number of investors who were interested in the company; however, the owners filtered the list of investors based on who they considered were 'good humans and people whose company we enjoy'.

While some earlier billionaires such as Andrew Forrest or Bill Gates have given huge amounts to charity and engaged in impact investing, it has taken them decades to amass fortunes. Thanks to the pace of the technology revolution, the new breed of wealthy have become multi-billionaires almost overnight. Those that plan to give back can choose a more give-as-you-go style of philanthropy.

Source: Adapted from Elizabeth Knight, 'Australia's \$55 billion new tech giant teaches old corporates a lesson', The Age, 15 September 2021

CASE STUDY ANALYSIS

- 1 **Explain** what Canva has done to the way businesses practise corporate philanthropy.
- 2 **Evaluate** the following statement: 'We have this wildly optimistic belief that there is enough money, goodwill and good intentions in the world to solve most of the world's problems, and we want to spend our lifetime working towards that.'



CASE STUDY 16.4

CSR: Rio Tinto



This case study is available in the Interactive Textbook.

Some CSR considerations that impact on a business when a business is implementing change are outlined in Table 16.2.

Table 16.2 Impact of CSR on businesses

Impact of CSR	Impact on businesses
Employees may find that their tasks and jobs are modified due to CSR considerations. They may need to be retrained and learn new skills.	Many candidates for jobs will consider the reputation and CSR commitment of a company when applying for a position there. The business may need to change employment practices.
Relationships with suppliers are likely to change and codes of conduct and other procedures may be implemented	Businesses will need to implement codes of conduct or ethics
Businesses need to consider the impact of their processes and operations on the community and the whole country	Businesses need to examine ways to reduce their waste and emissions so as to support new 'greener' technology



REVIEW ACTIVITY 16.1

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.

Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 Define** corporate social responsibility.
- 2 Explain** why businesses have become more concerned with CSR as they implement change.
- 3** Many businesses are now introducing a code of conduct or code of ethics for suppliers. **Explain** why this is becoming increasingly important.
- 4 Evaluate** the importance of corporate philanthropy and why businesses are focusing on it.

16.2 Reviewing and evaluating changes using key performance indicators

Learning intentions
– at the end of this
chapter section I will
be able to:

16.2.1 Analyse and evaluate KPIs in business change and transformation

16.2.2 Analyse and apply knowledge to case studies and contemporary examples

16.2.3 Apply business management knowledge to business situations

All businesses need to ensure that any changes that have been implemented are monitored and reviewed. Evaluating changes will allow a business to determine whether further changes are required and if the transformation has been successful.

When a business needs to review and evaluate, key performance indicators (KPIs) provide the means to do so. The KPIs can be used at different levels – for the whole business, for a department or for an individual. 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, benchmarked against other businesses and industry standards. This will allow the business to evaluate any change.

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 modified if required.



Figure 16.4 KPIs can be used to measure many aspects of the business.



Figure 16.5 It is important for businesses to track their performance.

If, for example, a business wants to focus on superior customer service, then KPIs such as the number of customer complaints or the level of wastage can be used. An individual, for example, can use KPIs to monitor their job, and 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 and may indicate the need to access training and coaching to support this.

All aspects and functions of a business can be evaluated. These are illustrated in Figure 16.4 on the previous page.

Operations management

Operations management is the core function of any business, and it should be monitored and improved. A business can evaluate operations management by reviewing KPIs such as the rate of productivity growth, the number of customer complaints (indicates quality), 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 the rate of 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 an 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.



Figure 16.6 KPIs can also be used to evaluate operations management.



CASE STUDY 16.5

Reviewing and evaluating changes using KPIs: Woolworths



During the period of the COVID-19 pandemic, many retailers, including Woolworths, embarked on an era of significant change.

Woolworths has developed a focus on online services and a 'food and everyday needs ecosystem'.

The chief executive officer, Brad Banducci, has overseen Woolworths at a time when it has been growing and has gained back market share from Coles. It demerged from a subsidiary, Endeavour, and has invested in

food services company PFD and increased its interest in data analytics business Quantum.

The business has also moved towards a more sustainable approach and it is trying to become the most sustainable supermarket in Australia. A challenge in some years has been the lockdowns affecting many states in Australia and the impact on the supply chain.

Source: Adapted from Dominic Powell, 'After "chopping off all our limbs," Brad Banducci is ready for a new Woolworths', The Age, 18 September 2021

CASE STUDY ANALYSIS

- 1 **Explain** how Woolworths plans to change its business and services.
- 2 **Discuss** why it is important for a business to continually review and evaluate its KPIs.

Human resources

A number of different KPIs can be used to judge performance of and effectiveness of changes with respect to employees and human resources. 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. Examining effectiveness of management styles, staff motivation and feedback, complaints or concerns of employees can also be determined by an employee survey, and this can provide information to guide future policies and processes.



Figure 16.7 KPIs are also beneficial to use when examining employee commitment to their job.



ACTIVITY 16.2

Retail environment in Australia

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. Most of the changes focused on how employees were paid commissions and bonuses for meeting sales targets. Previously, the teams worked together in groups on projects and any commissions were shared. In order to increase motivation, the manager, Fraser White, decided to make changes to have individuals rather than teams work on projects. As part of a review, Susie has collated the information shown in Table 16.3.

Table 16.3 Unique Marketing Agency: key performance indicators

KPI	Before the changes	After the changes
Number of projects completed	6 per month	3 per month
Project revenue	\$100 000	\$60 000
Commission paid	\$55 000	\$25 000
Staff absenteeism	9 days per year	15 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 Table 16.3, **explain** the impact of the changes on the employees at Unique Marketing Agency.
- 3 Recommend** two strategies the agency could implement to respond to the KPIs.



Figure 16.8 Information about financial performance is critical to business success.

Financial performance

It is important for a business to monitor and review financial performance as it is crucial to a business's success. 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 failure to monitor financial performance is a major cause of business failure. It is important to break down the information so it can be analysed and interpreted. If a small business owner does not have the ability to understand the financial reports, it is important that they establish an ongoing relationship with an accountant or financial adviser.



CASE STUDY 16.6

Reviewing and evaluating changes using KPIs: Telstra



The 2021 financial year was significant for Telstra in that it was a turning point in its financial performance.

Telstra faced many challenges as it transferred part of the business to the NBN, which had a negative impact on revenue. At the same time, increased competition saw reducing revenue and profit from the fixed and mobile businesses. In addition, structural changes reshaped the telecommunications industry.

This led Telstra to launch its T22 strategy, which was designed to radically transform the business.

Telstra now believes that there is a path for growth. The business has invested in innovation and technology, digitisation and networks, improving customer experience and in capital investment and management. The board of directors has also decided to continue to service rural customers and extend leadership in 5G.

*Source: Adapted from 'Telstra Annual Report 2021',
Telstra website, 2021*

CASE STUDY ANALYSIS

- 1 **Define** the KPIs described in the article.
- 2 **Discuss** why Telstra has restructured the business.
- 3 **Explain** why it is important for Telstra to monitor its financial performance.

When evaluating success or failure of a business, a number of KPIs can be used. 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. An analysis of sales figures can provide information on what is selling and how this has increased or decreased over time.

Analyse and apply knowledge to case studies and contemporary examples

All businesses, regardless of their size, need to evaluate and analyse KPIs and data to evaluate performance and possible future changes. Case study 16.7 outlines change and transformation in a business and how KPIs can be analysed and evaluated.



CASE STUDY 16.7

The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation and performance: Temple & Webster



Temple & Webster is an Australian online homewares and furniture retailer, founded in 2011. In 2015, it was listed on the Australian Stock Exchange (ASX), and as a publicly listed company, each year an annual report is released to shareholders, detailing the performance of the business in each financial year.

Research the online article 'H1 FY21 Investor Presentation' from Temple & Webster, and read the information closely. Next, read our analysis of driving and restraining forces at Temple & Webster in Table 16.4. Finally, using the information in the online presentation and in the table, answer the analysis questions that follow.



Figure 16.9 Temple & Webster is an Australian online homewares and furniture retailer.

Driving and restraining forces for change

Table 16.4 Driving and restraining forces for change at Temple & Webster

Driving forces	Restraining forces
Managers – push to take advantage of the move to online shopping	Managers – change was quick and large-scale; some managers may have found the changes difficult to adapt to
Competitors – many retailers in this market also sell online; the business needed to focus on gaining a competitive advantage	Time – a short time frame was difficult at times for the business to pivot and change
Profit – opportunities to expand the brand and market allowed Temple & Webster to increase its sales and profit	Financial considerations – having to adapt and make changes in product lines and marketing is a cost to the business that had to be planned for and managed
Decreasing costs – restructuring some of the business and consolidating under one brand allowed the business to gain efficiencies in its operations	Legislation – changes in health and other conditions in Australia due to COVID-19 meant that Temple & Webster had to continue to adjust and adapt to changes that were introduced in a short time frame
Technology – the use of online platforms and social media to market and reach customers was important	Technology – it continues to change quickly; it is a cost to continually update and improve the technology

CASE STUDY ANALYSIS

- 1 **Define** the key performance indicator percentage of market share.
- 2 Temple & Webster has determined its target market – the 35 to 65-year age group.
Explain why it is important for Temple & Webster to focus on a target market.
- 3 Temple & Webster has faced a number of driving and restraining forces for change.
Describe one driving force and one restraining force for change on the business.
- 4 **Analyse** why Temple & Webster's sales increased markedly in 2020 and 2021.
- 5 **Evaluate** the performance of Temple & Webster using the KPIs and other data presented.
- 6 **Describe** the strategic direction and plans for the future as outlined by Temple & Webster.
- 7 **Discuss** the impact of the business decisions on the stakeholders of Temple & Webster.
- 8 Temple & Webster has a focus on CSR. **Outline** two goals it has and how these goals will influence the decisions of the business.

Apply business management knowledge to business situations

It is important to use knowledge of KPIs to analyse and evaluate how a business has been performing and what strategies the business might need to implement in the future. The following activity sets out KPIs and information about a change in the business and provides an opportunity to apply business management knowledge.



ACTIVITY 16.3

Reviewing and evaluating changes using KPIs: Fabulous Fitness



Figure 16.10 Home fitness is a booming business.

Fabulous Fitness was established 10 years ago and provides at-home personal training and equipment for clients who want to improve their fitness but do not want to attend a gym. The business has built up an excellent reputation and a loyal client base. Like many businesses in the fitness industry, it has faced significant challenges during the past three years.

Last year Gemma Ayres, the newly appointed CEO, introduced a number of changes. These were outlined and announced in a media release and at a meeting. She stated that: 'All personal trainers and sales teams will need to move to providing their services virtually. Fabulous Fitness will close six outlets and will move to online sales only and personal training sessions with clients will need to be held outdoors or online'.

She has also arranged for a new supplier of home gym equipment that uses the latest technology and

is also more expensive. Gemma gave managers and employees three months to implement the changes. Some training was provided about the new product range. Trainers wishing to run sessions outdoors were expected to make their own arrangements.

Gemma presented information about KPIs to the board of directors at a meeting. The trends are expected to continue.

Table 16.5 provides a summary of some of the main KPIs. Managers and employees are concerned that the changes have been implemented too quickly and without consultation with employees or clients. Gemma also stated that if there was no improvement in sales and profit then further changes would be introduced during the next 12 months.

Table 16.5 Fabulous Fitness: key performance indicators

KPI	Year 1	Year 2	Year 3
Sales (\$000)	2600	2700	2400
Market share (%)	34	35	30
Profit (\$000)	110	135	128
Level of staff turnover (%)	4	10	12
Rate of staff absenteeism (days per year)	6	13	18
Number of customer complaints (per month)	3	6	14



- 1 **Identify** two stakeholders who would be affected by the changes.
- 2 **Evaluate** the way the CEO, Gemma Ayres, introduced the changes.
- 3 **Explain** why some stakeholders find transformation of a business difficult.
- 4 Using the information in Table 16.5, **summarise** three trends at Fabulous Fitness.
- 5 **Evaluate** the overall performance of Fabulous Fitness.
- 6 **Propose** and **justify** two management strategies the business could implement to respond to the KPIs outlined in Table 16.5.

REVIEW ACTIVITY 16.2

Part 1: Digital quiz

Please see the Interactive Textbook to access a digital activity.



Part 2: Short-answer questions

Answer these questions on paper or in the Interactive Textbook.

- 1 **Explain** why businesses need to review and evaluate performance and change using key performance indicators.
- 2 **Explain** why it is important to examine KPIs when evaluating operations management.
- 3 Human resources is a core function of a business. **Explain** why a business should monitor staff absenteeism and staff turnover.
- 4 'If financial performance is not evaluated and reviewed, a business is unlikely to succeed.' **Evaluate** this statement.
- 5 **Explain** why it is important to apply KPIs and data to monitor business performance.
- 6 'All businesses need to evaluate their performance on a regular basis'. **Discuss** this statement.
- 7 Review the following information. AIM Technology has provided you, as a business consultant, with the following KPIs and data.

KPI	Year 1	Year 2	Year 3
Rate of staff absenteeism	8%	10%	11%
Percentage of market share	23%	24%	24%
Number of customer complaints per month	11	19	18

Evaluate the performance of the business during the past three years.

Chapter 16 review

Summary

Create your own summary notes for this chapter on paper or in a digital document. A model summary is provided in the Area of Study review chapter for Unit 4 Area of Study 2, which can be used to compare with yours.

Developing clear definitions

By writing a brief explanation of each of the following terms, you will gradually build up a glossary of comprehensive terms for revision. Define these terms in your exercise book.

Corporate social responsibility (CSR)	Vision statement	Corporate philanthropy
---------------------------------------	------------------	------------------------

Examination preparation

A&M Finance, a Victorian-based financial service, developed a strategic plan two years ago. The key business objectives focused on improving client relationships and increasing market share. Strategies included targeted recruitment of expert employees, new customer loyalty programs, and flexible working conditions and job sharing for employees.

During the past two years, the business's market share has increased by 5 per cent each year and a strong client base has been established. The business believes that it needs to be more involved in the local community, and has joined a range of programs and developed resources to support school students with financial literacy. The business won an award for innovation in 2023.

The next stage for the business focuses on expanding into three other states. The business needs to employ another 120 employees and 15 new managers. The owners have had some difficulties trying to find suitable managers and have employed a recruitment agency to assist with the process.

- 1 A&M Finance has a strong focus on corporate social responsibility (CSR). **Describe** the concept of CSR and **explain** why it is important for a business to be socially responsible. **(5 marks)**
- 2 **Propose** and **justify** one management strategy that A&M Finance might implement to attract and retain employees. **(3 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. **(8 marks)**

Checklist

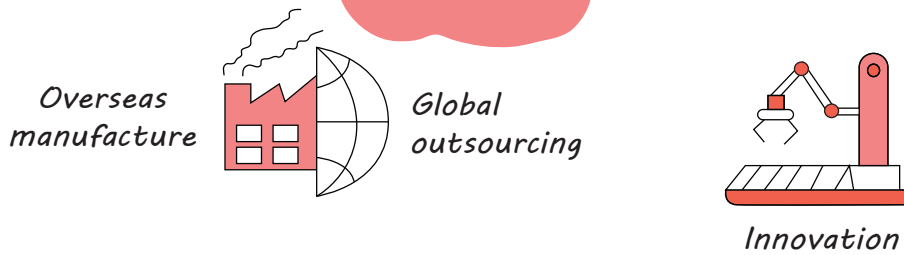
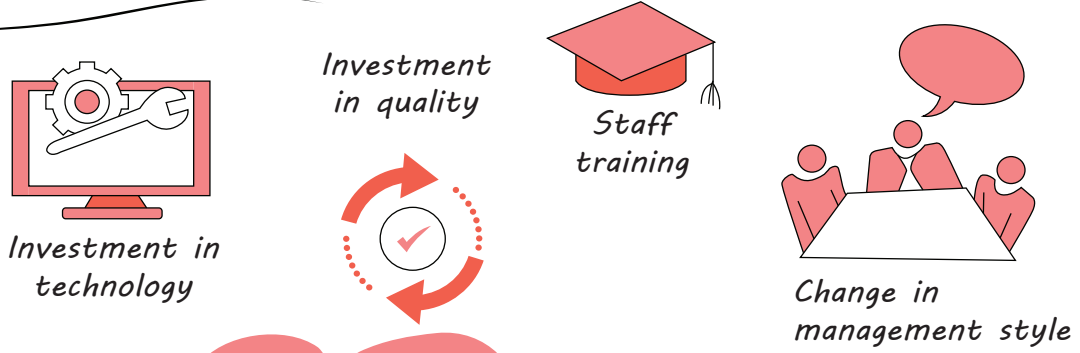
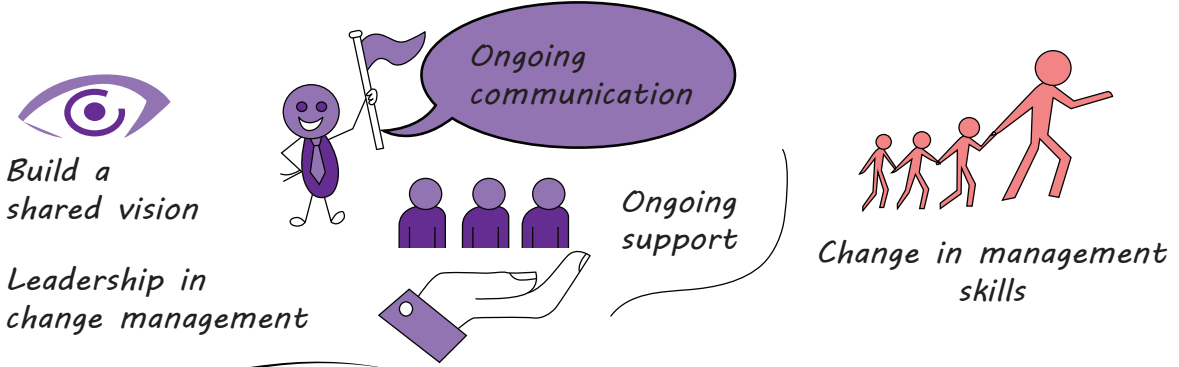
The success criteria are linked to the learning intentions from each section of this chapter, and have been written based on the key knowledge and skills of the VCE Business Management study design. Completing the linked questions per success criteria will thoroughly prepare you for success in this subject. Fill in, print or photocopy this checklist and tick the boxes when you have answered the corresponding questions correctly.

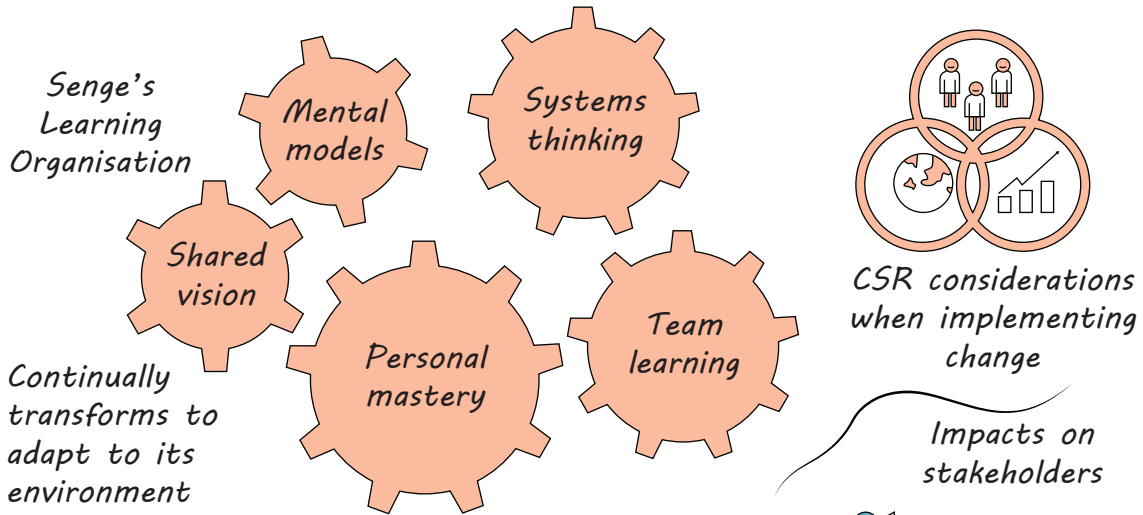
Success criteria – I am now able to:		Linked questions	Completed (Y/N)
16.1 Corporate social responsibility considerations when implementing change	16.1.1 Examine and analyse how CSR is considered when change is implemented	Activity 16.1: Q2 Case study 16.1: Q1–3 Case study 16.2: Q1–2 Case study 16.3: Q1–2 Case study 16.4: Q2 Review activity 16.1: Part 1 & Part 2 Examination preparation: Q1	Yes No <input type="checkbox"/> <input type="checkbox"/>
	16.2.1 Analyse and evaluate KPIs in business change and transformation	Activity 16.2: Q1–3 Case study 16.5: Q1–2 Case study 16.6: Q1–3 Review activity 16.2: Part 1 & Part 2 (Q1–4)	Yes No <input type="checkbox"/> <input type="checkbox"/>
	16.2.2 Analyse and apply knowledge to case studies and contemporary examples	Case study 16.7: Q1–8 Review activity 16.2: Part 2 (Q5) Examination preparation: Q3	Yes No <input type="checkbox"/> <input type="checkbox"/>
16.2.3 Apply business management knowledge to business situations	Activity 16.3: Q1–6 Review activity 16.2: Part 2 (Q6–7) Examination preparation: Q2	Yes No <input type="checkbox"/> <input type="checkbox"/>	

Digital activities

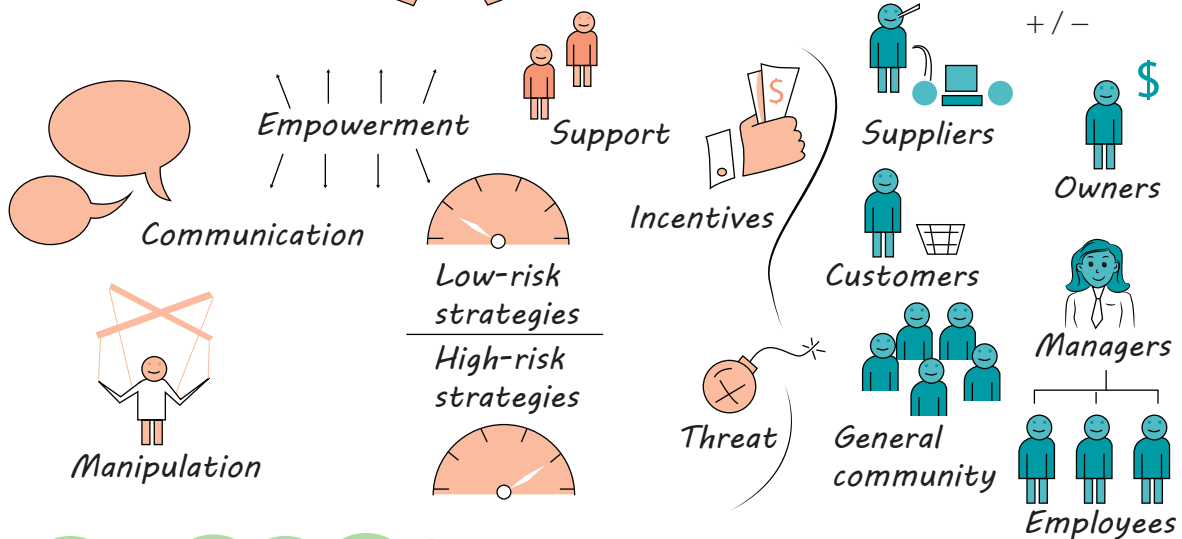
- Access the Interactive Textbook via Cambridge GO to complete a Scorchers timed competitive quiz for this chapter.
- From their Cambridge GO account, your teacher can also assign practice exams, including previous VCAA questions with model responses.

Unit 4 Area of Study 2 review Conceptual summary

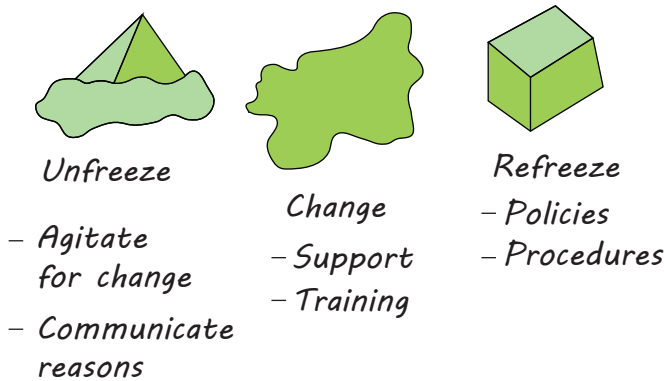




CSR considerations when implementing change



LEWIN'S THREE STEP CHANGE MODEL



Key knowledge summary: Unit 4 Area of Study 2

Key knowledge	Summary
<ul style="list-style-type: none"> The importance of leadership in change management 	<ul style="list-style-type: none"> Managers and leaders play an important role in implementing change in a business. Their leadership may be the difference between success and failure when change is introduced.
<ul style="list-style-type: none"> Management strategies to respond to key performance indicators and/or seek new business opportunities, including staff training, change in management styles or management skills, increased investment in technology, improving quality in production, initiating lean production techniques, redeployment of resources (natural, labour and capital), innovation, global sourcing of inputs, overseas manufacture and global outsourcing 	<ul style="list-style-type: none"> 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 that: <ul style="list-style-type: none"> 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. Redeployment of resources can be used as a means to increase productivity and efficiency. Innovation can provide a business with access to increased market share and better quality of products. Global sourcing allows a business to expand the range of products and services it can offer. It allows a business to take advantage of high-quality materials and products from around the world. Overseas manufacturing allows a business to take advantage of the expertise and products from different countries.
<ul style="list-style-type: none"> Corporate culture and strategies for its development 	<ul style="list-style-type: none"> A positive corporate culture is vital in a business. A business must ensure that it develops its corporate culture to reflect changes being made. There are a number of strategies a business can implement to support a change in corporate culture during change.



Key knowledge	Summary
<ul style="list-style-type: none"> An overview of the principles of the Learning Organisation (Senge) and the need to create a positive culture for change 	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> — systems thinking — personal mastery — mental models — building shared vision — team learning. All businesses need to develop a positive culture for change for change to be successfully implemented.
<ul style="list-style-type: none"> Low-risk strategies to overcome employee resistance, including communication, empowerment, support and incentives 	<ul style="list-style-type: none"> Low-risk strategies to overcome resistance to change include communication, empowerment, support and incentives.
<ul style="list-style-type: none"> High-risk strategies to overcome employee resistance, including manipulation and threat 	<ul style="list-style-type: none"> High-risk strategies to overcome resistance to change include manipulation and threat. In the long term, low-risk strategies are more likely to successfully bring about change than high-risk strategies.
<ul style="list-style-type: none"> Key principles of the Three Step Change Model (Lewin) 	<ul style="list-style-type: none"> All businesses have to manage change in their environment. Lewin's Three Step Change Model is an approach to understanding and managing change in an organisation. First presented in 1947, Kurt Lewin's approach continues to be widely used. Lewin's Three Step Change Model is based on the analogy of melting a block of ice and refreezing it into a new shape. <ol style="list-style-type: none"> Unfreeze the current situation or status quo: <ul style="list-style-type: none"> — identify what needs to be changed and why — conduct a Force Field Analysis — motivate and prepare key stakeholders — develop the strategy and plan to communicate to stakeholders. Move (or change) to the next phase or situation: <ul style="list-style-type: none"> — time and communication are essential for a smooth transition — management should role-model the desired behaviours — offer training, support or counselling — empower employees to come up with solutions for issues that may arise.
	<ol style="list-style-type: none"> Refreeze the new situation by reinforcing or anchoring the change: <ul style="list-style-type: none"> — embed the change by introducing new policies — plan ways to sustain the change — continue to provide change where appropriate — celebrate success.



Key knowledge	Summary
<ul style="list-style-type: none"> • The effect of change on stakeholder groups, including owners, managers, employees, customers, suppliers and the general community 	<ul style="list-style-type: none"> • Change is essential in positioning a business for the future. Successful implementation of change requires an understanding of how change can impact on all stakeholders: <ul style="list-style-type: none"> — 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 — 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.
<ul style="list-style-type: none"> • Corporate social responsibility considerations when implementing change 	<ul style="list-style-type: none"> • CSR is an important consideration when change is being implemented in a business. • CSR can have an impact on the vision and mission statement of a business, the relationship with suppliers, and policies that are implemented in the business. • Corporate philanthropy considerations can also be introduced when change is occurring.
<ul style="list-style-type: none"> • The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation 	<ul style="list-style-type: none"> • All businesses, regardless of their size, have to regularly review and monitor KPIs and other data to ensure that business objectives are being met. • KPIs provide a business with a way to evaluate the performance of the business over time.

Source: Adapted from VCE Business Management Study Design © VCAA; reproduced by permission

Sample examination questions and advice

Unit 4 Area of Study 2: Implementing change

In this section, we will model some exam-style questions on the importance of reviewing key performance indicators to evaluate the effectiveness of business transformation. Chapter 13 explains the management strategies a business could use to respond to KPIs, and Chapter 16 focuses on the importance of reviewing key performance indicators to evaluate the effectiveness of business transformation.

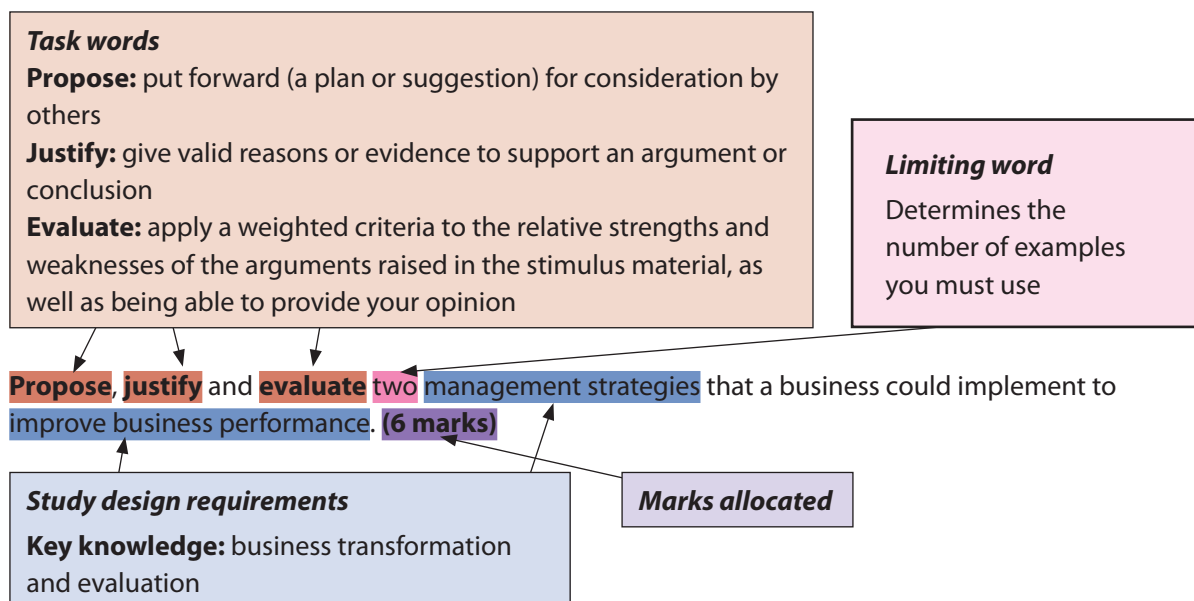
All businesses need to have a range of management strategies they can implement to respond to KPIs and other data and also ensure that business transformation is evaluated.

The questions provide an opportunity for students to draw together the skills and knowledge they have developed and apply them.

Question 1

- **Propose, justify** and **evaluate** two management strategies that a business could implement to improve business performance. **(6 marks)**

Extended response question – let's unpack it



Hints:

- To complete this question, you would first need to propose *two* management strategies.
- This could include two of the following management strategies to respond to key performance indicators and/or seek new business opportunities: staff training, change in management styles or management skills, increased investment in technology, improving quality in production, initiating lean production techniques, redeployment of resources (natural, labour and capital), innovation, global sourcing of inputs, overseas manufacture and global outsourcing.
- Next, you would need to justify how the strategies could assist a business and then evaluate each strategy.

A possible answer to the question might be:

Sample response:

All businesses need to monitor the business, particularly when change has been implemented. There are a number of different management strategies that a business can implement.

One management strategy is staff training. If a business wishes to implement changes, it is likely that employees will be the ones who will need to make sure the changes take place. If the changes needed impact or change an employee's role, it is important that the training takes place before the change. If this occurs, employees are more likely to be able to cope with the change and feel more confident.

A second strategy that a business could implement to respond to KPIs and other data is increased investment in technology. Technology needs to be updated continually, and it allows production and other processes to be completed efficiently and accurately. Ensuring that a business is investing in technology and looking at ways to improve it will help the business to meet its objectives and remain competitive.

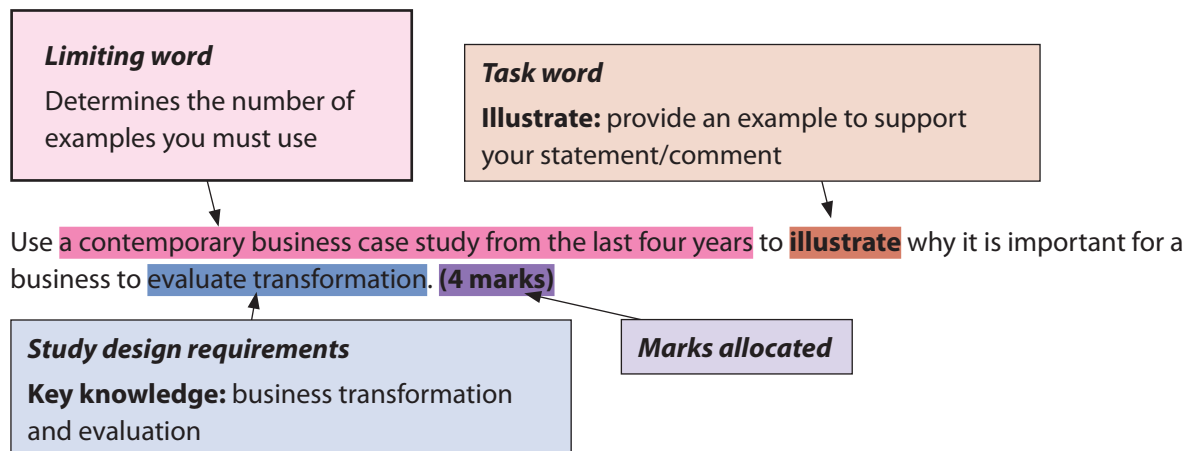
Marking guide:

- 1 mark for each strategy explained (2 marks)
- 1 mark for a justification of each strategy (2 marks)
- 1 mark for an evaluation of each strategy (2 marks).

Question 2

Use a contemporary business case study from the last four years to illustrate why it is important for a business to evaluate transformation. **(4 marks)**

Extended response question – let's unpack it



Hints:

- This is one example of a contemporary case study. You will have studied one or more in class and can use this as a case study.
- Make sure you can explain the transformation and make a judgement or evaluation about the progress and success of the business.

A possible answer to the question might be:

Sample response

It is important for all businesses to evaluate business transformation. One business that has made a number of changes is Telstra.

Telstra has a strategy to improve customer experience, simplify structure and cut costs. The strategic goals include creating a new infrastructure business unit called 'InfraCo', transforming customer plans and pricing, increasing productivity, reducing the number of employees and decreasing some of the management layers.

The goal is to ensure that Telstra remains the premium telecommunications company in Australia.

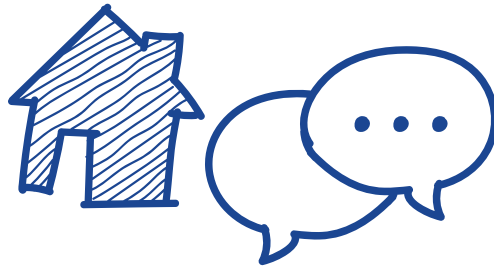
The strategy will result in the transformation of a number of areas of Telstra, including reducing and simplifying the number of products offered to customers, establishing a department to focus on improving and driving business performance, empowering employees to allow them to focus on customers and the quality of their experience, and reducing costs across the business.

As Telstra is implementing this transformation, it will continue to monitor KPIs and other data. Ensuring that employees remain focused amid a reduction in staff, making sure that market share does not decrease, keeping profits at required levels, and increasing productivity and the rate of productivity growth are all essential and will allow the business to make sure it keeps on track during the transformation process.

Marking guide:

- 1 mark for referring to a contemporary business case study (during the past four years)
- 3 marks for explaining why it is important for a business to evaluate business transformation.

Glossary



360-degree multisource feedback feedback provided to employees from each group of people they work with, including other managers, colleagues, subordinates and often customers

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

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 in the dispute, then makes a decision based on these arguments that is legally binding on both parties

artificial intelligence (AI) deals with the development of computer programs that imitate human intelligence

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 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 comprises a series of sequential workstations linked by a transfer system and an electrical control system

automation the replacement of human activity with technology

award outlines the minimum pay rates and conditions of work for an entire Australian industry

benchmark a level of quality or achievement used as a standard of comparison for others; it is a point of comparison used to evaluate success levels

better off overall test (BOOT) a test used by the Fair Work Commission to assess registered agreements and see if employees are better off compared to the relevant award

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

centralised decision-making management makes decisions and passes on directions to those below it 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

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

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

computer-aided design (CAD) a software tool that facilitates the creation and development of design and creates a database for manufacturing

computer-aided manufacturing (CAM) the use of software applications that create detailed instructions that drive computer-controlled manufacturing

computer-integrated manufacturing (CIM) a computer program that controls and directs production from start to finish, CIM is a combination of both CAD and CAM

conciliation where 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 to conduct business in an ethical manner, to take responsibility for the economic, social and environmental consequences of their activities

cost leadership strategy a strategy that allows a business to achieve a competitive edge by reducing production or delivery costs

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

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 resolution procedure a formal process that enables employees to complain about matters that affect them and their work

diversity human characteristics that make people different from one another

driving forces those forces affecting a situation that are pushing in a particular direction and are supporting the goal or proposed change

e-commerce websites enable the buying and selling of goods and services directly with a business

effectiveness the degree to which a process or system is successful in achievement of business objectives

efficiency the best use of resources in the production of goods and/or services

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

employer association a body of employers that promotes the economic and social interests of its members by providing advice to employers and representing their interests in employee relations issues

enterprise agreement results from negotiations between an employer and union (employees) and is registered (ratified) by the Fair Work Commission, setting out the terms and conditions of employment at a workplace

environmental management system (EMS) a series of policies and practices that focus on an organisation's approach to environmental issues

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

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

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

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)

forecasting analyses past data to make informed future predictions

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 (e.g. 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

gig workers include independent contractors, online platform workers, on-call workers and temporary workers who enter into formal agreements to provide services to the business's clients

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 outsourcing process of contracting a third party to conduct a specific business operation that is undertaken overseas

global sourcing involves a business procuring inputs from overseas suppliers

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

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

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

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 approaches 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 that will be converted into outputs

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 storage of raw materials, component parts, work in progress and finished goods

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 where 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, with supplies arriving just as needed for production, and finished products being immediately dispatched

key performance indicators (KPIs) measures or a set of data that allows a business to determine whether it is meeting its business objectives

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 aims to deliver customer value by systematically eliminating waste and focusing on continuous improvement

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 a change management model with 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

low-risk strategies participative approaches to implementation of change, using 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 set of actual or potential buyers of a product or service

market share proportion or percentage of the market (and total sales) controlled by the business

master production schedule (MPS) a statement of what a business intends to produce, in what quantities and when they are to be produced

materials requirement planning (MRP) a computerised inventory management system used to schedule and place materials orders

mediation where an independent third party is required to support discussions

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

mission statement a statement that defines what the business wants to achieve now

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

nearshoring similar to offshoring; although in these cases overseas operations are moved to another country closer to the base of operations (i.e. Australia for an Australian business)

negotiation where the matter is settled within the business

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

objective quantitative data objective data produced through a systematic process that is verifiable, replicable and is not subject to interpretation

objectives statements of desired achievement that provide direction for the business

official corporate culture desired culture that a business wishes to establish

one-piece flow is a lean manufacturing principle that allows a business to move a single product through every step of the process instead of grouping work items into batches. The method is called this way because it allows goods to be sent to the market continuously. This provides the business opportunity to deliver value more often to its customers.

online services provide information or services over the internet

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 involves overseeing the process required in the production of goods and services

operations system consists of the three stages of production: inputs, process, outputs

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 final product or service

overseas manufacture/processing when the process stage of the operations system is conducted in an overseas location

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 with a view of making a profit

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

policy a written statement of processes, 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 process acting in anticipation to prevent defects from occurring

process steps/procedures that convert inputs into outputs

procurement the process of sourcing and purchasing of goods or services from an external source

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

profit the difference between revenue and expenses. If a business makes a profit, it may be considered successful.

promotion where 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

pull a pull system is a lean manufacturing principle created to reduce waste in the production process. This kind of system offers many advantages, such as optimising resources, increasing flow efficiency, and more.

purchasing policy determines the standard requirements for the purchase of goods or services by a business

quality the degree of excellence in a product or service and its ability to satisfy the customer

quality assurance a system established to ensure that predetermined quality standards are achieved

quality control process of checking the quality standards of work done or quality of raw materials or component parts

rate of productivity growth productivity measures the business's ability to transform inputs into outputs. The ability of a business to increase output or production from a given amount of inputs measures the rate of productivity growth.

rate of staff absenteeism a percentage indicating the number of workdays lost due to unscheduled staff absence from work, especially without a good reason

reactive identifies defects after they occur

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

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, and 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 where 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 integrates computer science and engineering in the design and construction of robots to perform manual tasks

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

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

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

shareholder owner of a company

shop steward an employee at a workplace elected by local union members to represent members

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 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

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

supply chain the network 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 considers the long-term impact of social, economic and environmental factors, as well as price and quality in the procurement process

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)

takt is a lean manufacturing principle where takt time is the rate at which you need to complete a product to meet customer demand. The term 'takt' originates from a German word meaning a beat or a pulse.

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

technology the practical application of science to achieve commercial or industrial objectives

Total Quality Management (TQM) a proactive approach where each staff member is committed to maintaining high standards in every aspect of an organisation's operations

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

triple bottom line reporting where a business organisation reports on economic performance, social outcomes and environmental impact (profit, people, planet)

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

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

values statement a statement that outlines what the organisation sees as its corporate values and centres on 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

waste includes any action in the production process that does not add value for the customer

website a collection of web pages that promote products and services over the internet

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

workplace relations the relationship between employers and employees in determining wages, conditions and methods of resolving disputes should they arise

zero defects is a lean manufacturing principle aimed at eliminating rework, scrap, or defective products. Examples from the project management world would be incorrect data collection, communication errors, and unclear acceptance criteria.

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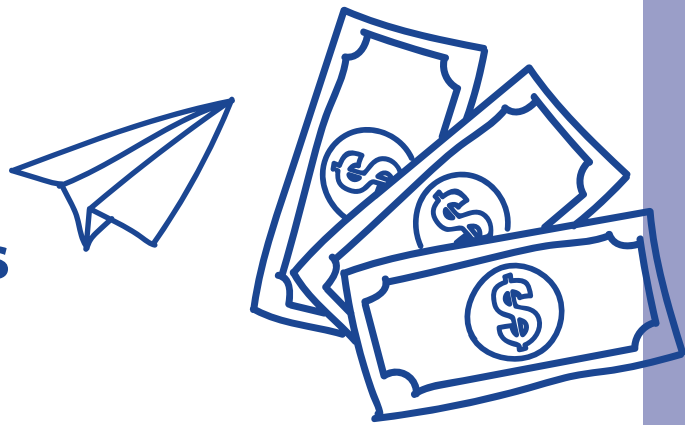
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CASE STUDY 2.4

Cotton On Group: its culture and product are important keys to its success



In 1991, Cotton On opened its first retail store in Geelong. Since then it has grown to become the Cotton On Group, which employs 20000 people and has over 1300 stores across eight brands in 20 countries.

Regarded as one of Australia's leading global fashion brands, Cotton On aims to provide customers with trends they want, when they want it and at the right price. Cotton On considers its product to be 'effortless, on-trend and affordable' – made responsibly, to be loved and lived in every day. The business recognises that its responsibility goes far beyond just selling a great product. It ensures that when building its global teams, and sourcing and developing its product ranges, it is 'doing good' every step of the way.

The Cotton On website explains: 'Our culture is about how we behave. We love big ideas and rolling up our sleeves to get the job done. We work hard – and together, we do great stuff.'

We've created an environment that thrives on creativity and self-expression, an environment we love showing up to. Every day.

'From the get-go, our team have been like great mates to us – and you look after your mates, always. So, we care for our people at work and at home, 24/7. We're all about supporting and empowering them to be the healthiest versions of themselves.'

'Our people are at the heart of the Group. And we really do believe we've got the best team in the world.'

The Cotton On Group also states: 'we work hard and pride ourselves on creating an environment free from hierarchy and ego. One that promotes creativity and self-expression, allowing our team to do what they do best'.

Source: Adapted from the Cotton On website

CASE STUDY ANALYSIS

Visit the Cotton On Group website. **Analyse** how its culture relates to the way the business operates. Provide examples to support your explanation.



CASE STUDY 5.1

Mars: learning and growth



Mars has been recognised with 'The Worldwide Great Workplace Award' for eight years. Its commitment to learning and growth forms part of this award recognition.

Associates (employees) are given the opportunity to grow in their roles through a wide range of training programs through its digital learning offerings, functional colleges and leadership programs. Mars implements a competency-based model that spans across the functional areas.

Working closely with their line manager, associates build the skills and competencies they need to advance in their career.

Associates learn using a model based on 10 per cent learning from courses and trainings, 20 per cent from mentoring and learning from peers, with the remaining 70 per cent from having the opportunity to learn through on-the-job experience.

*Source: Adapted from 'Learning & Growth',
Mars website*

CASE STUDY ANALYSIS

Evaluate whether you believe the commitment of Mars to learning and growth for its associates would contribute to a continued improvement in the performance of the business and the personal growth of its employees.



CASE STUDY 11.6

Driving forces for change: innovation



Kids shouldn't be forced to play away their future.

Many toys have a large amount of waste associated with the production and the packaging. Both can generate waste and single-use plastic, which can have an adverse effect on the environment.

Lego announced that it was working towards reducing waste and that it had found a method to make bricks out of recycled PET bottles.

According to Tim Brooks, vice-president of environmental responsibility at Lego Group, it is possible to make 10 Lego bricks out of a single 1-litre bottle. The company hopes the bricks will be ready to start being rolled out by 2023 after it has worked out how to make the colours more vibrant.

This marks the first time the company has publicly shown off a prototype brick, and Lego is hoping to open a discussion in the toy industry about sustainable materials.

Children are very aware of the climate disaster and what's coming, and Lego receives thousands of letters from children asking them to reduce their waste and carbon footprint.

While recycling is good, reusing is a better alternative. Most Lego bricks from the 1960s are still usable, and every new brick is compatible with all the old ones.

Source: Adapted from Alice Clarke, 'Kids shouldn't be forced to play away their future', The Age, 23 June 2021

CASE STUDY ANALYSIS

- 1 **Explain** why Lego has started to innovate with Lego bricks.
 - 2 **Propose** why such innovations are an important driving force for change, as well as the possible impacts on other toy manufacturers.
-



CASE STUDY 16.4



CSR: Rio Tinto

The Australasian Centre for Corporate Responsibility (ACCR) commented on Rio Tinto's announced emissions reduction targets and strategy.

Rio Tinto committed to:

- Reducing Scope 1 & 2 emissions by 15 per cent by 2025 (on 2018 levels), previously its 2030 target
- Reducing Scope 1 & 2 emissions by 50 per cent by 2030 (on 2018 levels)
- Allocating approximately US\$7.5 billion in direct capital expenditure to decarbonise its assets between 2022 and 2030
- Rapid deployment of solar and wind power generation in the Pilbara to replace gas-fired power generation

- Progress options to decarbonise its Boyne Island and Tomago aluminium smelters.

A spokesperson for ACCR stated that 'Rio Tinto has finally joined the party with some very ambitious emissions reduction targets, showing BHP and its shareholders what climate action for a diversified miner should look like.'

Rio Tinto Limited is an Australian multinational company and one of the world's largest metals and mining corporations.

Source: Adapted from 'Rio Tinto shows BHP how it's done', Media release, Australasian Centre for Corporate Responsibility website, 20 October 2021

CASE STUDY ANALYSIS

- 1 **Outline** the measures that Rio Tinto is implementing.
- 2 **Explain** why mining and resources companies are looking at ways to minimise the environmental impact of their operations.