

KEY CONCEPTS in VCE  
**BUSINESS  
MANAGEMENT**

UNITS 3 & 4 | FOURTH EDITION





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MANAGEMENT**

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# HOW TO USE THIS RESOURCE SUITE

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

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

- the full text online in HTML format, including PDFs of all topics
- eLessons featuring video interviews with industry professionals that help students apply key concepts to real-world business scenarios
- a glossary, crossword and missing word glossary quiz for each chapter
- school-assessed coursework designed in Microsoft Word for easy customisation
- weblinks to key business bodies and up-to-date data and statistics
- links to studyON.

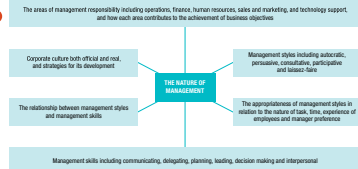
Each chapter begins with an **introduction** that grabs students' attention, providing a snapshot of what the chapter is about.

The **key knowledge and key skills** from the VCAA VCE Business Management study design are included, together with a real world case study that helps students understand Business Management theory.

## CHAPTER 2 The nature of management

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

**WHAT YOU WILL LEARN**  
**Key knowledge**  
Use each of the points below from the Business Management study design as a heading in your summary notes.



**Key skills**  
These are the skills you need to demonstrate. Can you demonstrate these skills?  
• **analyse, describe and apply relevant business management concepts and terms**  
• **analyse case studies and contemporary examples of business management in context, discuss and evaluate business information and ideas**  
• **apply business management knowledge in practical and/or simulated business situations**  
• **analyse and discuss management decisions necessary for successful business management**  
• **evaluate management styles and management skills and their appropriateness for a range of business situations**  
• **propose and justify management strategies for developing corporate culture.**



### Management at Morgan Stanley

Morgan Stanley is a global company that provides financial services to other corporations, governments, financial institutions and individual customers. The financial services that the company provides are numerous, but to give just one example, Morgan Stanley provides a financial advisory service regarding corporate lending. The company has its headquarters in New York City, but it started operations in Australia more than 50 years ago. It currently has more than 200 employees located in its offices in Sydney, Melbourne, Adelaide, Brisbane and Perth. Morgan Stanley operates in 40 countries around the world, with over 1000 offices and more than 50 000 employees globally. It has relatively low levels of management with a strong focus on teamwork, making use of employee-focused management styles and management skills.

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

## 1.2 Types of businesses — sole traders and partnerships

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

**DID YOU KNOW?**  
The outcome Area of Study 1 in Unit 3 states that you need to 'be able to discuss the key characteristics of businesses'. This suggests that you should know the advantages and disadvantages of each type of business.

There are a number of different types of businesses. Three common legal structures used by businesses in Australia are sole traders, whereby an individual runs a business on their own; partnerships, whereby a group of people will run a business together; and companies, which are owned by shareholders. We will explore both private limited companies and public limited companies in the next section. Each of these structures has certain advantages and disadvantages. Two other types of businesses are social enterprises and government business enterprises. These are explored in section 1.4.

### Sole trader

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

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



The advantages and disadvantages of being a sole trader

### Partnership

A partnership is a business owned by two or more people. Most partnerships require a maximum of 20 partners. There are exceptions to this number, including medical practitioners and accountants (allowed up to 20 partners), veterinarians, architects and chemists (allowed up to 100 partners), and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that it is not a separate

legal entity from the partners — that is, the owners and the business are regarded as the same. Like sole traders, partners in a business are also subject to unlimited liability, and so may be personally responsible for the debts of the business.

A partnership can be made orally or in writing, or by implication (that is, if two people set up a business together without a legally binding partnership agreement). A written partnership agreement is not compulsory, but it is certainly worthwhile if disputes arise. A partnership agreement usually has a standard set of conditions (see below).

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



The advantages and disadvantages of a partnership

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

### TEST your understanding

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

### APPLY your understanding

- 6 Using the internet, find:
  - (a) the names of sole traders or partnerships that would not have to register their business name.
  - (b) the examples of businesses that would have to register their name.
- 7 Adam operates a pizza and pasta shop as a sole trader and the employees here cook, one full time and one part time. He decides to offer the full time cook a 40 per cent partnership in the business.
  - (a) What advantages will the owner gain from this arrangement that does not have as a sole trader?
  - (b) What disadvantages could the owner experience from the partnership arrangement?
  - (c) Explain the advantages and disadvantages to the cook of entering into the partnership.
  - (d) Prepare a list of questions the cook should ask the owner before entering into the partnership.

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

Link to **studyON**, an interactive and highly visible study, revision and exam practice tool for instant feedback and on-demand progress reports.

Two levels of questions, **Test your Understanding** and **Apply your Understanding**, encourage students to practise and apply the concepts they are studying.

**eBookPLUS** references link out to targeted digital resources including weblinks and eLessons.

**APPLY YOUR SKILLS** Managing materials, quality and waste minimisation

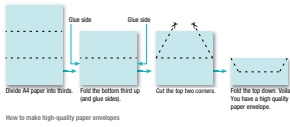
**High-quality paper envelopes business**

Ask your teacher if you can complete this activity during class. The aim of this activity is to put your theoretical understanding of business management into practical use, as you solve problems and make operations management decisions.

**Instructions**

- 1 Arrange your class into groups of three or four. Each of these teams will become a business.
- 2 Your business has 10 minutes to produce as many high-quality paper envelopes as possible. The following diagram shows you how to construct a simple envelope from A4 paper. You are welcome to develop your own design, add colour or individual flair, but remember... time is crucial.
- 3 Before you begin, allocate responsibilities to the members in your team/business. It might be good if someone becomes the CEO, you might also need a quality manager and a materials manager. Make sure each team member's role is clear.
- 4 Start producing the envelopes. Hurry, you have only 10 minutes.
- 5 The winner is the business with the most envelopes. Alternatively, the winner could be the team with the highest quality envelopes. After finishing the activity, complete the questions.

**Materials required**  
A4 paper  
scissors  
glue



**TEST your understanding**

- 1 List the elements of your operations system.
- 2 Was your business offering a service or manufacturing a product?
- 3 What responsibility did each team member have in your group?
- 4 How did your group manage the materials required?
- 5 How did your group make sure that quality was maintained in each envelope produced?
- 6 (a) What were the objectives for your business?  
(b) Did you achieve those objectives? How can you tell?

**APPLY your understanding**

- 7 Your business probably produced a lot of waste. Identify some waste minimisation strategies that you could implement in order to reduce production costs and operate in a sustainable manner.
- 8 To improve the efficiency and effectiveness of your operations, one strategy you could introduce would be the use of technology. What types of technology could you use in your business?  
(a) Can you think of any other ways to improve the operations of your business? How can you make improvements to productivity?

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

Dedicated **Apply your Skills** sections give students practice in acquiring the key skills from the study design. Real-life Australian case studies allow students to contextualise their understanding.

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

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

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

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

**Senco — workplace participation in action**

**A leader who falls more than twice to meet the standards expected of them by employees will be sacked.**

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



Rosalee Somke announced staff at Senco and three out of the engagement desk.

This provided greater freedom as well as more responsibility for managers and staff. Senco is now completely based on the concept of employee ownership. Full employee participation, flexibility and a focus on meeting customer needs. Employees design their own schedules, set their own hours and share information. At Senco, there are no managers. There are team leaders, but business decisions on the floor require approval that subsidiaries conduct every six months. A week with Senco that leads to meet the standards expected of them by employees will be sacked.

There is an emphasis on ownership and flexibility — all wages are paid to the performer of the business, and each primary wage is paid to a team leader who is chosen not to be carrying out any other duties. Staff are given information about how much they could make if they worked for another business using their skills. Each employee has been trained in accounting so they can understand the business's earnings and how their work affects the business.

An illustration of Senco's commitment to flexibility is the way in which it is structured, which has a low 'vertical' flow in the diagram. This arrangement arose when Rosalee and her partner wanted to avoid making people, even though the business could not afford to keep them. The business staff of parts of Senco, employees who would otherwise have been dismissed. Senco then purchased its supplies from these former employees who, now in their own businesses, were able to sell not only to Senco but also to Senco's competitors.



**TEST your understanding**

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

**EXTEND your understanding**

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

Issue	The Senco idea
Decision making	Staff participate in decision making
Communication	
Leadership	
Values	

**CHAPTER 6 REVIEW**

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Download a glossary of key terms from this chapter.  
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**SUMMARY**

**The concept of business change**  
All businesses need to undergo change to remain competitive.  
Managers and management can be proactive in managing change or reactive.  
All management skills need to be utilised to effectively manage change.

**Key performance indicators as sources of data to evaluate the performance of a business**  
All businesses measure their performance.  
Businesses seek to improve their efficiency and effectiveness.  
Performance is assessed using key performance indicators:  
- net profit figures  
- rates of productivity growth  
- number of sales  
- rates of staff absenteeism  
- level of staff turnover  
- level of wastage  
- number of customer complaints  
- number of workplace accidents.  
A business may benchmark its performance against the performance of a business recognised as a market leader.

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

**Driving forces for change in business**  
Driving forces are those forces that initiate, encourage and support the change.  
The main driving forces for change include:  
- managers (lead the business to remain profitable and competitive)  
- employees (working in a supportive and innovative environment are free to suggest ideas)  
- competitors (fear of loss as a result of the changes are encouraged)  
- legislation (changes to the law that impact operational practices)  
- survival of profit (the greater the profit the greater the rewards for business owners)  
- reduction of costs (financial cost of operating a business can affect profit)  
- globalisation (the need to compete with overseas businesses)  
- technology (stay up-to-date or risk falling behind)  
- innovation (the drive and desire to be a market leader)  
- societal attitudes (the need to reflect what society values).

**Restraining forces in business**  
Restraining forces work against the change.  
The main reasons for resistance to change include:  
- managers (due to either poor decision making or fear of loss of control or power)  
- employees (fearful of changes that threaten job security or require new work practices)  
- time (either poor timing, or lack of time)  
- organisational inertia (preference to stay with the safe and predictable status quo)  
- legislation (restrictions placed on certain operational practices)  
- financial considerations (financial cost of implementing major changes can be substantial).

**The key principles of the Generic Strategies approach to strategic management**

- Michael Porter developed a Generic Strategies approach to strategic management.
- Porter identified five competitive forces:  
- the entry of new competitors  
- the threat of substitutes  
- the bargaining power of buyers  
- the bargaining power of suppliers  
- the rivalry among existing competitors.
- Change can be managed utilising generic strategies:  
- cost leadership strategies  
- differentiation strategies.

**REVIEW QUESTIONS**

- TEST your understanding**
- 1 What is meant by the term 'transforming a business'?
  - 2 Distinguish between a proactive and a reactive manager when dealing with change.
  - 3 Outline how a manager should utilise when managing change.
  - 4 Define the term 'key performance indicators'.
  - 5 List and briefly outline three of each of the following:  
(a) driving forces for change  
(b) restraining forces for change.
  - 6 Distinguish, using an example, the difference between driving and restraining forces.
  - 7 Outline why resistance to change in management and employees is common.
  - 8 Distinguish between efficiency and effectiveness.
  - 9 List the key performance indicators that may lead to change.
  - 10 Outline why resistance to change in management and employees is common.
  - 11 Explain why setting achievable goals can help managers implement change more successfully.
  - 12 Explain what is meant by a Force Field Analysis.
  - 13 Outline the benefits of preparing an action plan as part of a Force Field Analysis.
  - 14 List the 5 steps in a Force Field Analysis.
  - 15 Outline innovation as a force for change.
  - 16 Outline three of the five competitive forces.
  - 17 Explain a niche market and how a focus strategy will assist a business achieve a competitive advantage.

**APPLY your understanding**

- 18 Successful businesses are those that empower their employees to adapt readily to changes within the business environment, whereas those businesses that attempt to resist change and disempower their staff will ultimately fail.  
(a) Identify the main reasons for employee resistance to change.  
(b) Demonstrate why it is important for managers to communicate effectively when introducing changes in the workplace.
- 19 In response to data collected through key performance indicators businesses are constantly changing.  
(a) Describe the key performance indicators that cause businesses to change.  
(b) Using a current example, describe and explain the responses of that businesses management to these KPIs.

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
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**Graeme Smithies** has over 40 years' experience in secondary education in Victoria. During that time he has taught Legal Studies, Business Management, Economics, English, History and a variety of other Humanities and Commerce subjects. He spent over 19 years in assistant principal and principal positions in government secondary schools. He has created a range of educational resources for VCE Commerce subjects, as well as the Years 7–10 National Curriculum learning areas of Civics and Citizenship, Economics and Business, and History.



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# UNIT 3

# MANAGING A BUSINESS

## Introducing a corporate manager

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

Milgrom is an experienced manager and business woman. In 1999, she bought the then ailing retail chain Sportsgirl — which had been losing money for five years — and transformed it into a profitable business by the year 2000, and then to the lucrative business it is today. Milgrom believes the secret to running a successful business is the people within the business — the employees. She has been quoted as saying, 'talented people in the right culture, with the right coaching and development, can provide a competitive edge that an organisation is looking for'. She also believes that an autocratic

management style is no longer appropriate and managers who are focused on, and exclusively concerned with, cost and profit (the bottom line) are ineffective. Employees are important to Milgrom's business, as is adapting to changes in the economy and consumer trends to keep the business flourishing.



AREA OF STUDY	OUTCOME
<b>1 Business foundations</b>	Discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills
<b>2 Managing employees</b>	Explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees
<b>3 Operations management</b>	Analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations

# CHAPTER 1

## The nature of business

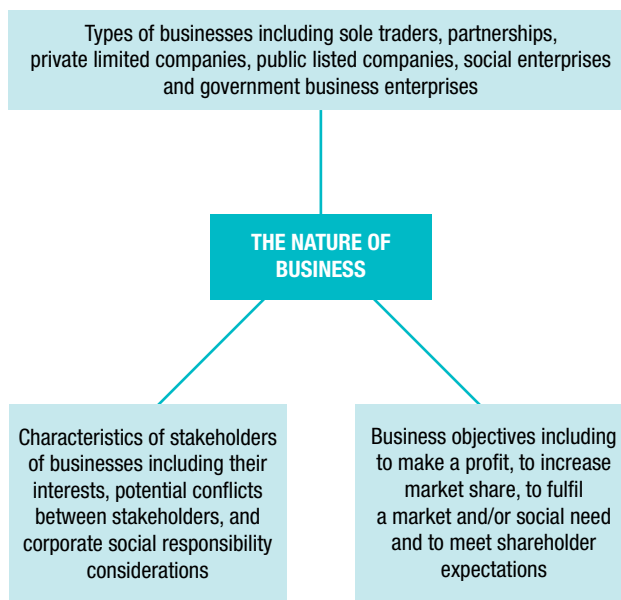
### WHY IT IS IMPORTANT

There are approximately 2.1 million businesses in Australia. Of these, the vast majority are sole traders and partnerships. If you look around your local area you will see plenty of examples of businesses. Some are considered small because they have fewer than 20 employees. They might be sole traders and partnerships. There are also companies, social enterprises and government business enterprises. Have you ever heard of Wesfarmers? It is one of Australia's largest companies and any one of its 210 000 employees might work for Coles, Bunnings, Officeworks, Target, Kmart or one of Wesfarmers' coal, energy, fertiliser or insurance interests. All of these different types of businesses have some things in common. They have objectives and all have stakeholders with vested interests in the business. In this chapter, you will be studying the types of businesses as well as the various objectives and stakeholders they have.

### WHAT YOU WILL LEARN

#### Key knowledge

Use each of the points below from the Business Management study design as a heading in your summary notes.

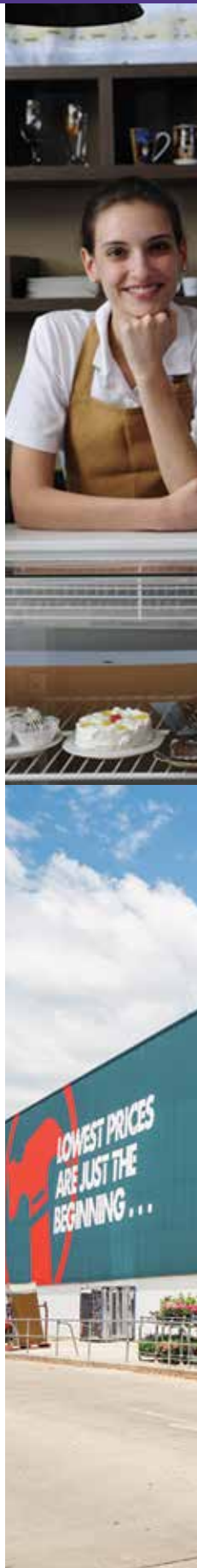


#### Key skills

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

- define, describe and apply relevant business management concepts and terms
- analyse case studies and contemporary examples of business management
- interpret, discuss and evaluate business information and ideas
- apply business management knowledge to practical and/or simulated business situations.

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## NBN Co Limited — a government business enterprise

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

NBN Co is a government business enterprise (GBE). This means that it is owned by the Federal Government. Currently, NBN Co employs over 3000 people and has estimated that thousands of local jobs will be created as they continue to build the \$38 billion network.

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



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

# 1.1 Types of businesses — small, medium-sized and large businesses



**KEY CONCEPT** Businesses come in many different sizes — small, medium, large or somewhere in between.



Just like soft drinks, businesses come in three different sizes: small, medium and large. They also come in different flavours; that is, they can be classified according to the different parts of the economy that they operate in as well as to the particular good or service that they produce.



What size shoe do you wear? Businesses, like shoe sizes, often cannot be categorised simply as small, medium or large.

**Shareholders** (or members) are the owners of a company.

**Revenue** is the income that a business earns from the sale of goods and services to customers.

**Assets** are items of value owned by a business.

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

## Small, medium or large?

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

- the number of employees (those who are hired to do work for the business) — a large number of employees, for example, will suggest that a business is large. Many small businesses in Australia have no employees, as the owner or owners operate the business on their own. The Australian Bureau of Statistics (ABS) refers to these businesses as ‘non-employing’. A small business is defined by the ABS as one that employs fewer than 20 people. A medium business is considered to be one that employs 20 or more people, but fewer than 200 people; a large business is considered to be one that employs 200 or more people.
- the number of owners (of the business) — for example, if a business is a sole trader (a type of business that has one owner), it is likely to be small. Medium and large businesses tend to be companies with many owners (or **shareholders**).
- the legal structure — for example, is the business set up as a sole trader, partnership or company?
- the amount of **revenue** earned — for example, a large business will earn revenue of several million dollars annually. The Australian Taxation Office (ATO) defines a small business as one that has less than \$2 million in annual turnover (the money received from sales).
- the amount of **assets** owned — for example, the Australian Bureau of Statistics (ABS) has historically defined a large business as one that has assets worth more than \$200 million
- **market share** (the proportion of total sales in a given market or industry that is controlled or held by a business) — a small market share, for example, may suggest that a business is small.



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

- who makes most management decisions, such as who to hire, what to produce, how to advertise a product? — if it is the owner, then the business is most likely small. By comparison, managers working on behalf of the owners typically make the decisions in medium-sized and large businesses.
- who provides most of the capital (finance)? — the owner of a small business is likely to provide most of the capital. Medium-sized and large businesses are able to raise large amounts of capital, perhaps by taking on more debt, such as through a bank loan, or by issuing more shares.
- how much of the market does the market control? — a small business will most likely have little control within the market. Smaller businesses do not usually have a large share of the total market sales and therefore have less control over such things as price. If, for example, a business has a monopoly it means they are the only seller of that product and will be able to dictate price because there are no cheaper alternatives. It is more likely that larger businesses will find themselves in this situation.
- is the business independently owned and operated? — small businesses tend to be owned and operated by the same person, with the owner able to make independent decisions. For example, the owner of your local hamburger shop will run the business, and will not answer to a larger business such as McDonald's.
- how many locations does the business have? — a business that is locally based is likely to be small. Note that this does not mean that the business will only trade locally, as many small businesses are able to export products to overseas markets. Small businesses will be based in the one location whereas a large multinational corporation (or company) may have offices around the world.

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

Distinctions between small, medium-sized and large businesses

Characteristics	Small	Medium-sized	Large
Business type	Corner store Local mechanic Hairdressing salon	Services club Motel/hotel Engineering factory	Woolworths Qantas National Australia Bank
Number of employees according to the ABS business register definition	Fewer than 20 employees	20–199 employees	200 or more employees
Type of ownership	Independently owned and operated by usually one or two people	Owned and operated by a few people and/or private shareholders	Owned usually by thousands of public shareholders
Most common legal structure	Sole trader Partnership	Partnership Private company	Public company (numerous)
Decision making	Owner responsible for majority of decisions; simple and quick implementation of decisions	Owner basically responsible for majority of decisions; more complicated decision making with slower implementation, due to influence of directors	Complex decision making, due to division of responsibilities among directors, senior and middle management; possibly slow implementation of decisions, due to the layers of management

(continued)

### DID YOU KNOW?

In June 2015 there were more than 2.0 million small businesses in Australia, which represented 97 per cent of all businesses. Most small businesses employ fewer than five people, including the owner, and are often referred to as a micro business. Further to this, 1.3 million of these businesses are non-employing — they have no employees.

# 1.1 Types of businesses — small, medium-sized and large businesses

Distinctions between small, medium-sized and large businesses (continued)

Characteristics	Small	Medium-sized	Large
Sources of finance	Owner (usually from own savings or a loan); difficulty in accessing loans	Owners'/partners' own savings or a loan and/or private shareholders; easier accessibility to larger loans	Many sources, including cash reserves, retained profit, sale of shares, and loans from domestic and overseas institutions
Market share	Small, usually local area; not dominant in the industry	Medium-sized, due to dominance within a geographic region; some market dominance	Large, especially for multinational corporations that dominate the markets of many countries



Australia Post is a large business because it employs more than 36 000 employees and earned revenue of \$6.4 billion in 2014–15. As of June 2015, the business owned assets of more than \$5 billion. Australia Post is also a government business enterprise as the Commonwealth Government of Australia is its sole shareholder. As a GBE it operates in the public sector, but it also operates in the transport, postal and warehousing industries.

**Industry** is the classification of groups of businesses related to the particular good or service they produce.

## Public or private sector

According to the ABS, just over 2 million businesses were operating in the private sector in June 2015. The private sector is the part of Australia's economy that is operated by private individuals and companies usually for the purpose of making profit. Businesses such as sole traders, partnerships and companies make up the private sector. The public sector is the part of Australia's economy that is operated by government. Businesses operating in the public sector are the least common type of business, according to the ABS. In 2015 it estimated that there were only 500 public sector businesses actively trading goods and services. Businesses operating in the public sector are referred to as government business enterprises (GBEs); these are businesses that are owned and operated by the government.

## Business activity

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

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



Number of businesses by industry in Australia, 2014–15

Industry division	Number of businesses operating June 2015	Industry division	Number of businesses operating June 2015
Agriculture, forestry and fishing	179 549	Financial and insurance services	184 183
Mining	8 067	Rental, hiring and real estate services	234 228
Manufacturing	83 489	Professional, scientific and technical services	255 064
Electricity, gas, water and waste services	6 063	Administrative and support services	79 751
Construction	345 479	Public administration and safety	7 274
Wholesale trade	76 659	Education and training	27 275
Retail trade	132 382	Health care and social assistance	117 915
Accommodation and food services	87 555	Arts and recreation services	26 127
Transport, postal and warehousing	127 069	Other services	89 341
Information media and telecommunications	19 481	Currently unknown <sup>(a)</sup>	34 284
		<b>All industries</b>	<b>2 121 235</b>

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

**Source:** Table 1, businesses by industry division from ABS 81 650, counts of Australian businesses, including entries and exits, June 2011 to June 2015.



### TEST your understanding

- Distinguish between revenue and assets.
- State whether the following businesses are small, medium or large, and the reason for your decision.
  - Qantas employs approximately 33 000 people.
  - National Australia Bank is an international financial services company that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.
  - Brookfarm is owned by Carolyn and Martin Brook; it produces gourmet macadamia nuts for domestic and export markets and employs more than 20 staff.
  - Ripe Maternity Wear was started by two friends in 1996 to manufacture contemporary maternity clothes. It supplies clothes worldwide, employing no more than 20 staff.
- Are the following statements true or false?
  - Large businesses employ a small number of people.
  - Small businesses do not usually have a large share of a particular market.
  - In small businesses, decisions are usually made by the owners of the business.
  - A partnership is a business owned by a husband and wife.
- Explain the difference between the private sector and public sector.

- Outline the key characteristics of the primary, secondary and tertiary industries.

### APPLY your understanding

- Prepare a database of 10–15 businesses that you have dealt with over the past few months — you may have bought something from them or worked in one. Copy and complete the table below and then answer the questions. One example has been entered for you.
  - What percentage of the businesses in your database are small? What percentages are medium-sized and large?
  - How do the percentages compare with the figures for Australia?
  - Provide two reasons for the differences/similarities between the figures.
- Look for articles about small, medium-sized and large businesses that interest you on the Internet or in newspapers. Start a file of news clippings or printouts and write an information page to attach to each article. Include on the information page the following:
  - what the article is about
  - background information about the business
  - the section of the VCE Business Management course to which the article relates, e.g. Area of study 1, Outcome 1.

Business name	Business activity	No. of employees	Small business	Medium-sized business	Large business	Industry sector	Industry division
1 Redbank Café	Food and drink	4	✓			Tertiary	Retail trade

# 1.2 Types of businesses — sole traders and partnerships



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

## DID YOU KNOW?

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

A **sole trader** business is a business owned and operated by one person.

### study on

Unit 3 **Sole traders**

AOS 1 Summary screen and practice questions

Topic 1

Concept 1

**Unlimited liability** means the business owner is personally responsible for all the debts of his or her business.

### eBook plus

#### eLesson

#### A family business — Fleming's Nurseries

Watch this video featuring Fleming's Nurseries and complete the attached worksheet.

**Searchlight ID: eles-1063**

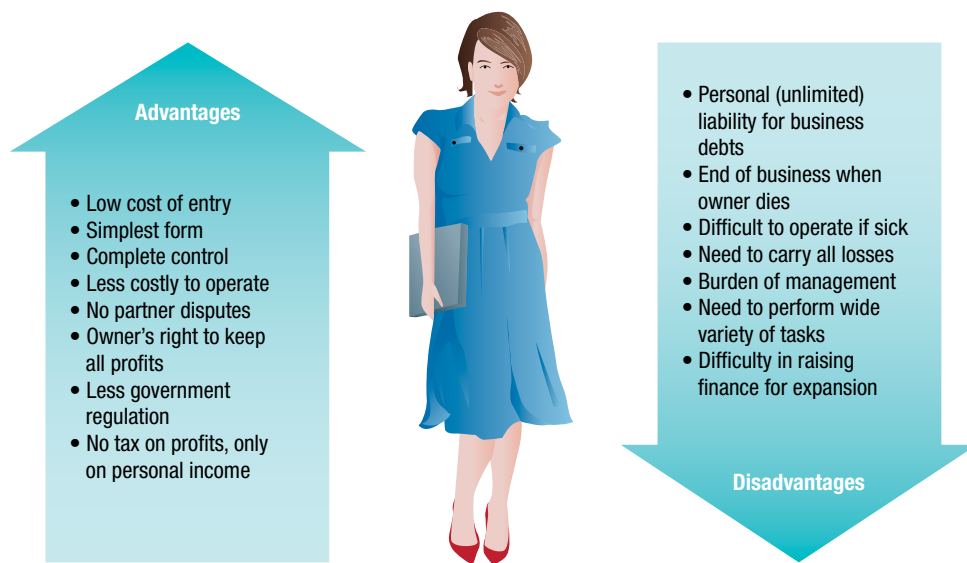
A **partnership** is a business owned by a minimum of two and a maximum of 20 people.

There are a number of different types of businesses. Three common legal structures used by businesses in Australia are sole traders, whereby an individual runs a business on their own; partnerships, whereby a group of people will run a business together; and companies, which are owned by shareholders. We will explore both private limited companies and public listed companies in the next section. Each of these structures has certain advantages and disadvantages. Two other types of businesses are social enterprises and government business enterprises. These are explored in section 1.4.

## Sole trader

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

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



The advantages and disadvantages of being a sole trader

## Partnership

A **partnership** is a business owned by two or more people. Most partnerships require a maximum of 20 partners. There are exceptions to this number, including medical practitioners and stockbrokers (allowed up to 50 partners); veterinarians, architects and chemists (allowed up to 100 partners); and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that it is not a separate

legal entity from the partners — that is, the owners and the business are regarded as the same. Like sole traders, the partners in a business are also subject to unlimited liability, and so may be personally responsible for the debts of the business.

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

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

## study on

**Unit 3** Partnerships

**AOS 1** Summary screen and practice questions

**Topic 1**

**Concept 2**

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



The advantages and disadvantages of a partnership

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

### 🗨️ DID YOU KNOW?

A partnership agreement contains many points including:

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



### TEST your understanding

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

### APPLY your understanding

- 6 Using the internet, find:
  - (a) five examples of sole traders or partnerships that would not have to register their business name
  - (b) five examples of businesses that would have to register their name.
- 7 Adam operates a pizza and pasta shop as a sole trader and he employs two cooks, one full time and one part time. He decides to offer the full-time cook a 40 per cent partnership in the business.
  - (a) What advantages will the owner gain from this arrangement that he does not have as a sole trader?
  - (b) What disadvantages could the owner experience from the partnership arrangement?
  - (c) Explain the advantages and disadvantages to the cook of entering into the partnership.
  - (d) Prepare a list of questions the cook should ask the owner before entering into the partnership.

# 1.3 Types of businesses — private limited companies and public listed companies



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

**Incorporation** is the process that businesses go through to become a registered company and a separate legal entity.

**Limited liability** means that the shareholders in a company cannot be held personally responsible for the debts of that business.

### **DID YOU KNOW?**

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

A **private limited company** is an incorporated business with a minimum of two, and a maximum of 50 private shareholders, and whose shares are offered only to those people whom the business wishes to have as part owners.

### **study on**

Unit 3

AOS 1

Topic 1

Concept 3



**See more**

Private limited companies

A **public listed company** is an incorporated business with a minimum of five shareholders, and whose shares are freely traded on the Australian Securities Exchange.

## Incorporation

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

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

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

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

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

## Private limited companies

A **private limited** (or proprietary) **company** is the most common type of company structure in Australia, and usually has between two and 50 private shareholders. Private companies tend to be small to medium-sized, family-owned businesses. In many cases, one family owns most of the shares in a private company.

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

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

## Public listed companies

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

A public company has:

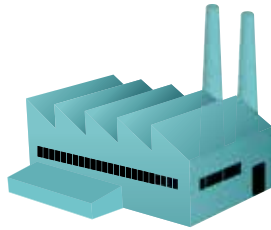
- a minimum of five shareholders, with no maximum number
- no restrictions on the transfer of shares or raising of money from the public via share offers
- a requirement to issue a prospectus when selling its shares for the first time
- a minimum requirement of three directors (of whom two must live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

### study on

- Unit 3** Public listed companies
- AOS 1** Summary screen and practice questions
- Topic 1**
- Concept 4**

#### Advantages

- Easier to attract public finance
- Limited liability — separate legal entity
- Easy transfer of ownership
- A long life — perpetual succession
- Experienced management — board of directors
- Greater spread of risk
- Company tax rate lower than personal income tax rate
- Growth potential
- As per recent legislation, ability to have only one shareholder and one director



- Cost of formation
- Double taxation — company and personal
- Personal liability for business debts if directors knew at the time that the business could not pay loans
- Requirement to publish an annual report of audited accounts
- Public disclosure — reporting of certain information
- Too much growth, resulting in inefficiencies

#### Disadvantages



There are more than 2000 public companies listed on the Australian Securities Exchange. The share price for each company changes according to demand and supply. If a company is considered a 'good buy', its share price is likely to rise (green indicates the stock or share price is rising, and red indicates the share price is falling).

The advantages and disadvantages of the company form of business ownership



### TEST your understanding

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

### APPLY your understanding

- 6 Identify the types of business that are most appropriate for each of the following businesses. In each case, explain why you selected that type of business.
  - (a) a bicycle shop offering professional and personal advice
  - (b) a cattle stud specialising in a large-scale breeding program
  - (c) a travel agency that wishes to expand to five outlets within two years
  - (d) a national retailer that would require \$467 million to establish
  - (e) a solicitor's practice offering a range of legal services.



# 1.4 Types of businesses — social enterprises and government business enterprises



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

A **social enterprise** is a business with the objective of fulfilling a social need.

## study on

Unit 3

AOS 1

Topic 1

Concept 5



**See more**  
Social enterprises

## Social enterprises

A **social enterprise** is a business that produces goods and services for the market, but operates with the primary objective of fulfilling a social need. The business may make a profit, or surplus, but will concentrate on some sort of community or environmental need. Any surplus that the social enterprise makes will be reinvested back into the business so that it can continue to fulfil the social need. There are an estimated 20 000 social enterprises in Australia.

In Australia, despite the lack of a legal structure called social enterprise, these businesses can operate in many ways — they can take the form of a charity, a cooperative (a business that is owned and operated by the group of members), or a privately owned business. They will often run just like a commercial business and, unlike charities, they do not rely on donations as their main source of income. Some social enterprises will obtain funding from the government to support their social goal. Fundamentally, however, they exist to benefit society, rather than owners. Some examples of typical social needs include:

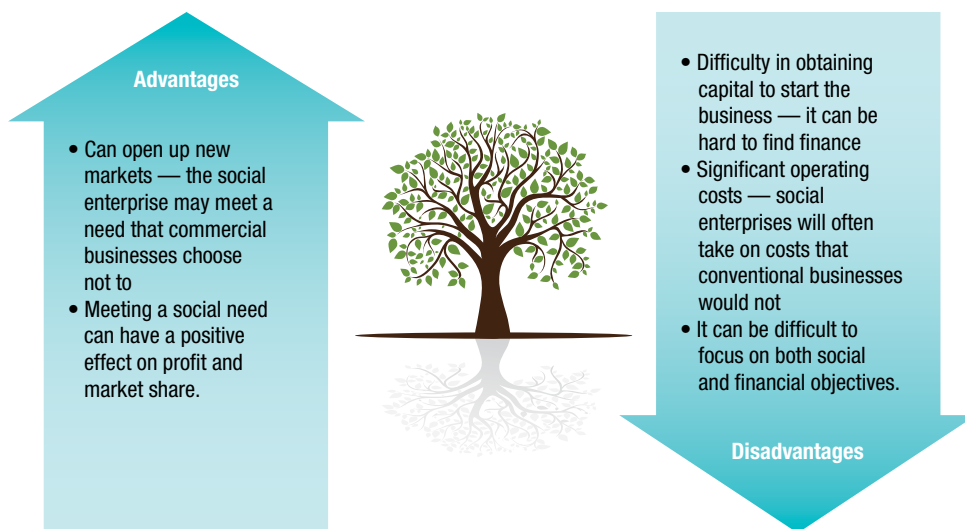
- providing opportunities for local unemployed people
- developing skills, providing vocational training or lifelong learning opportunities for disadvantaged people in the community
- creating accessibility to a better quality of life for disadvantaged members of the community
- focusing on waste minimisation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

### ! DID YOU KNOW?

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



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



The advantages and disadvantages of social enterprises

## Government business enterprises

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

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

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

A **government business enterprise** is a type of business that is government owned and operated.

### study on

Unit 3

AOS 1

Topic 1

Concept 6



**See more**

Government business enterprises



NBN Co. was established as a business on 9 April 2009 with the task of designing, building and operating Australia's National Broadband Network. In February 2016, CFO Stephen Rue announced revenue of \$164 million for the second half of 2015.

# 1.4 Types of businesses — social enterprises and government business enterprises

## DID YOU KNOW?

Over the past 20 years, there has been a worldwide trend to privatise GBEs. This means they are sold to the private sector, and then run as profit-making businesses. This process is known as privatisation. During the 1990s, the Australian Government privatised a number of public sector businesses, including Telstra, Qantas and the Commonwealth Bank.

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

### Advantages

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



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

### Disadvantages

The advantages and disadvantages of government business enterprises



## TEST your understanding

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

## APPLY your understanding

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

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

Fairfax Limited	Tip Top Bakeries Pty Ltd
M&M Communications	Paul Banwell Motors

Bigga Community Group  
Ozemail Limited  
David Tyler and Sons  
Rural Services Co-op  
Perpetual Water

Tynan Motors Pty Ltd  
Jacinta's Newsagency  
Newcrest Mining Ltd  
Sue King Plumbing  
R&R Antiques Pty Ltd

- 7 Use the **KereKere** weblink in your eBookPLUS to find out what this social enterprise does. Answer the following questions.

- (a) Who owns KereKere?
- (b) Who manages this business?
- (c) What is the objective of KereKere?

### eBookplus

Weblink  
**KereKere**

- 8 Use the **Defence Housing Australia** weblink in your eBookPLUS to find out what this government business enterprise does. Answer the following questions.

- (a) Who owns Defence Housing Australia?
- (b) Who manages this business?
- (c) What is the objective of Defence Housing Australia?
- (d) How many staff does Defence Housing Australia employ?

### eBookplus

Weblink  
**Defence Housing Australia**

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



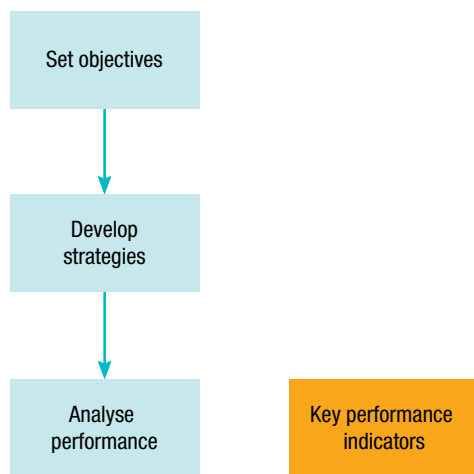
# 1.5 Business objectives



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

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

An **objective** is a desired goal, outcome or specific result that a business intends to achieve.



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

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



## Communicating objectives

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

The **vision statement** states what the business aspires to become.

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

## To make a profit

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

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

### study on

**Unit 3** **Financial objectives**

**AOS 1** Summary screen and practice questions

**Topic 2**

**Concept 1**

## To increase market share

As mentioned on page 4, market share is a business's proportion of total sales in a market or an industry. This is easy to visualise using a pie chart that shows the percentage of sales the business has in relation to all its competitors. In most industries, market share is usually an objective only for large businesses. Such businesses often develop an extensive product range, using many different brand names, to gain an extra few percentage points of market share. Small market share gains often translate into large profits for these businesses.

## To fulfil a market need

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

## To fulfil a social need

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

## To meet shareholder expectations

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

## Business objectives

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

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

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

### study on

Unit 3

**Social objectives**

AOS 1

Summary screen and practice questions

Topic 2

Concept 2

### study on

Unit 3

**Shareholder expectations**

AOS 1

Summary screen and practice questions

Topic 2

Concept 3

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

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

## Business strategies

Once a business has established a set of specific objectives, the next step is to determine what needs to be done to achieve the objectives.

**Strategies** outline how the business will attempt to achieve its objectives — they are a series of actions undertaken to achieve an end result. For example, a strategy to achieve the objective of increased profit may be the introduction of a new product range.

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

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

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

## Analysing performance

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

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

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

A business can analyse its performance by assessing whether it has been effective as well as efficient. **Effectiveness** indicates to what degree a business has accomplished the objectives it set out to achieve. In other words, the business is 'doing the right things'. If a business's objective was to make profit, then improving profit from one year to the next would be seen as effective. **Efficiency** refers to how well a business uses the resources needed to achieve an objective. The most efficient use of resources

**Bakers Delight**  
(private limited company)

*Objective*  
'To be the world's best fresh bread retailer.'

**VicRoads**  
(government business enterprise)

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

**The Social Studio**  
(social enterprise)

*Objective*  
'To create awareness and change public perceptions for people who have experienced being a refugee.'

**Commonwealth Bank**  
(public listed company)

*Objective*  
'To excel at securing and enhancing the financial wellbeing of people, businesses and communities.'

Objectives from a range of businesses

**Strategies** are the actions that a business takes to achieve specific objectives.

**Effectiveness** is the degree to which a business has achieved its stated objectives.

**Efficiency** refers to how well a business uses resources to achieve objectives.

# 1.5 Business objectives

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

occurs when benefits are greater than the costs of resources employed. If a business reduced the amount of waste it produced while achieving its objective of profit, for example, then this may be considered to be efficient.

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

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



## TEST your understanding

- Outline the difference between an objective and a strategy.
- Explain the importance of business objectives.
- Examine the figure on page 17 and then answer the following questions:
  - Are there common features of these objectives? What are they?
  - What are the differences between these objectives?
  - Would it be important for employees, managers and customers to be familiar with a business's objectives? Why?
- Complete the following sentences by filling in the blanks.
  - Making a \_\_\_\_\_ is a central objective for many businesses.
  - Fulfilling a \_\_\_\_\_ involves producing and/or selling goods and services for the purpose of making the world a \_\_\_\_\_ place.
  - Fulfilling a \_\_\_\_\_ involves meeting customer expectations or providing a good or service that is not available to a market.
  - Shareholders expect to receive a proportion of the profits (called \_\_\_\_\_) as well as make a capital \_\_\_\_\_ if the value of a company's shares increases.
  - Market share is a business's \_\_\_\_\_ of total industry \_\_\_\_\_.

- Why should businesses analyse their performance?
- Differentiate between effectiveness and efficiency.
- What is a key performance indicator and what is it used for?

## APPLY your understanding

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

**eBookplus**

**Weblink  
NAB**

**eBookplus**

**Weblink  
Australia Post**

Personal objective	Strategy to achieve it	Business objective	Strategy to achieve it
Get an 'A' in VCE Business Management	<ol style="list-style-type: none"> <li>Read textbook</li> <li>Complete homework</li> <li></li> <li></li> </ol>	Increase profit	<ol style="list-style-type: none"> <li>Launch new advertising campaign</li> <li>Improve customer service training</li> <li></li> <li></li> </ol>



### PRACTISE YOUR SKILLS

- define, describe and apply relevant business management concepts and terms
- analyse case studies and contemporary examples of business management
- interpret, discuss and evaluate business information and ideas
- apply business management knowledge to practical and/or simulated business situations.

#### Objective: give away one million meals a year

FareShare is a small social enterprise that gives away healthy, nutritious meals to hungry and homeless people in Victoria using food donated by businesses. Its vision is 'a society where food is not wasted and hunger is minimised'. FareShare 'rescues' food that would otherwise have ended up as waste in landfill.

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

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

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

FareShare does have other objectives. Part of its mission relates to raising awareness about food insecurity and the value of food rescue. FareShare also helps the environment, as reducing waste that ends up in landfill reduces methane pollution and the demand for new food products.



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

#### **DID YOU KNOW?**

FareShare cooked 1 131 231 meals in 2015, redistributed the equivalent of 602 660 meals (food it does not cook but passes straight on to other charities) and rescued 562 tonnes of food.





## TEST your understanding

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

## APPLY your understanding

- 6 Use the **FareShare** weblink in your eBookPLUS to watch the video about FareShare.
  - (a) What objectives are businesses such as Woolworths achieving by donating food to FareShare?
  - (b) Approximately how many tonnes of food a year are wasted each year in Australia?
  - (c) How many volunteers work for FareShare? Why do you think people volunteer to work for no wages?
  - (d) Explain what would happen to the surplus food if FareShare did not collect it.
- 7 Discuss the strengths and weaknesses of FareShare as a social enterprise.
- 8 Evaluate the need for social enterprises in our society.

**eBookplus**

**Weblink  
FareShare**



## Goal!

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

## Instructions

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

## Materials required

*basketballs  
basketball rings  
space*



## TEST your understanding

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

## APPLY your understanding

- 5 How can you measure the effectiveness of your group's performance in this activity?
- 6 Can you think of a way to measure your group's efficiency?

- 7 Complete the following table, using the results from your goal shooting. The table has already been started for you.

	Efficient	Inefficient
Effective	Score a goal from every shot	
Ineffective		

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

# 1.6 Business stakeholders in the internal environment



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

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

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

**Stakeholders** are groups and individuals who interact with the business and have a vested interest in its activities.

## study on

Unit 3

AOS 1

Topic 3

Concept 1

**Business stakeholders and their interests**  
Summary screen and practice questions



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

## Owners

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

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



# 1.6 Business stakeholders in the internal environment

## DID YOU KNOW?

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

## Shareholders

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



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

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

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

The **directors** of a company are the people who have overall responsibility for managing the company's business activities.

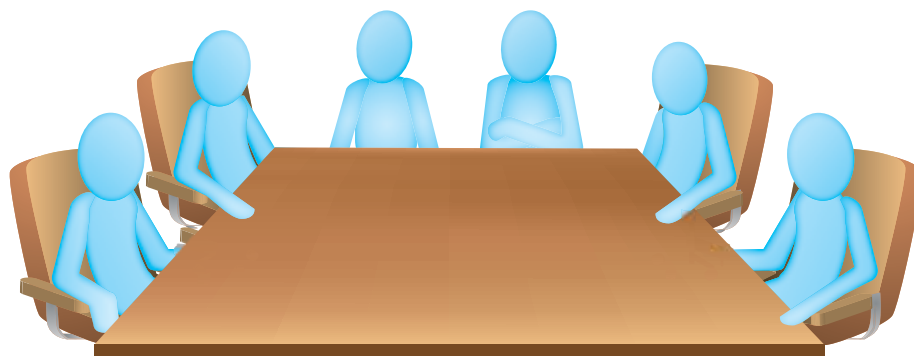
## Directors

The **directors** of a company are the people who have overall responsibility for managing the company's business activities. A director must be

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

## DID YOU KNOW?

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



# Management

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

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



**Management** are the people who have the responsibility for successfully achieving the objectives of the business.

### DID YOU KNOW?

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

# Employees

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



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



## TEST your understanding

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

Stakeholder	Interest

## APPLY your understanding

- 5 In a small group, brainstorm the internal stakeholders of your school. Choose a representative to share your comments with the other groups in your class.

- 6 Choose a business that you have heard about and use the Internet to research the internal stakeholders of the business. For example, you could find out about how many owners the business has. Do these owners have direct involvement in the operations of the business?
- 7 Use the **Internal business stakeholder** weblinks in your eBookPLUS to look at the websites of the following businesses. Choose one and complete the table below.

- Scentre Group
- Village Roadshow
- Visy
- Link Housing Ltd

### eBookplus

**Weblink**  
**Internal business stakeholder**

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



# 1.7 Business stakeholders in the external environment



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

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



Kelly O'Dwyer was the Minister for Small Business (Australia) for the first half of 2016.

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

## Government

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



**Competitors** are other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business.

**Competitive advantage** is the ability of a business to develop strategies that ensure it has an 'edge' over competitors.

## Competitors

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





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

## Interest groups

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



**Interest groups** are organisations who attempt to directly influence or persuade a business to adopt or change particular activities, processes or policies.

## Trade unions

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



The Australian Council of Trade Unions (ACTU) has over 2.5 million members. Trade unions have a lot of power, including the ability to organise strikes if certain demands are not met.

## Consumer groups

These interest groups, such as CHOICE, Australia's leading consumer advocacy group, monitor a business's performance in terms of product safety, packaging, pricing and advertising.

## Specific issue groups

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

## Customers

**Customers** expect to purchase quality products at reasonable prices and they expect to receive high levels of service. They are becoming more aware of socially responsible businesses and this is one of the factors they consider when making purchasing decisions. Many customers wish to purchase products from businesses they know have acted in a socially responsible manner. A business needs to be aware of changes in customer preferences and



**Customers** are the people who purchase goods and services from the business, expecting high quality at competitive prices.

# 1.7 Business stakeholders in the external environment

tastes, and respond to these so that it can continue to satisfy their needs. For example, a business might introduce more environmentally friendly products to its range to ensure its future profitability in response to changing customer expectations.

## Suppliers

**Suppliers** are businesses or individuals who supply materials and other resources to a business so that it can conduct its operations.

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



## Members of the community

Members of the community increasingly expect businesses to show concern for the environment. Some might be worried about businesses using valuable land resources or showing disregard for carbon emissions. They may be concerned about waste disposal or pollution. Others may be concerned about their future welfare through their own employment within businesses.



### TEST your understanding

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

Stakeholder	Interest

- 6 Looking at the information in your table, can you see any potential conflicts between external stakeholders? In what ways do the interests of these stakeholders conflict?

### APPLY your understanding

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

**eBookplus**

**Weblink  
Coles**

# 1.8 Potential conflicts between stakeholders and corporate social responsibility considerations



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

## Corporate social responsibility

Society increasingly expects businesses to consider **corporate social responsibility** and do the 'right' thing in the interests of all stakeholders. Modern businesses are expected to be enterprising and comply with the law, as well as being socially just and ecologically sustainable in their operations. Many businesses are now extremely sensitive to public opinion and strive to be recognised as being 'good corporate citizens'. Businesses recognise that they increase their chances of success when they pursue objectives that align with the interests and expectations of all stakeholders. However, these interests and expectations are not always compatible.



## Potential conflicts between stakeholders

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

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

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

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

### study on

**Unit 3** Corporate social responsibility considerations  
**AOS 1**  
**Topic 3** Summary screen and practice questions  
**Concept 3**

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

### study on

**Unit 3** Conflicting interests of stakeholders  
**AOS 1**  
**Topic 3** Summary screen and practice questions  
**Concept 2**

### 🗨️ DID YOU KNOW?

Ethisphere, a research-based international business dedicated to defining and measuring standards of ethical business practices, published its World's Most Ethical Companies list in 2016. In doing so, it said that investors and financial markets are proving that companies that operate with transparency and integrity are better performing over the long term.

## 1.8 Potential conflicts between stakeholders and corporate social responsibility considerations

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



### Stakeholders and their conflicting interests

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

The **triple bottom line** refers to the economic, social and environmental performance of a business.

### **DID YOU KNOW?**

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

## Corporate social responsibility considerations

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

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



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



Dexus is a property trust that manages and invests in a portfolio of diversified properties, including office and industrial properties, retail shopping centres and car parks. Dexus is committed to being a market leader in corporate responsibility and sustainability. One of the ways in which Dexus engages in the community is by helping the charity Barnardos Australia pack Christmas gifts for disadvantaged families.



### TEST your understanding

- 1 Define the term 'corporate social responsibility' in your own words.
- 2 Explain why there are potential conflicts between the interests of stakeholders.
- 3 Looking at the information in the table on page 28, in what ways do the interests of stakeholders conflict?
- 4 Suggest ways that a business could reconcile the following pairs of conflicting interests:
  - (a) Consumers demanding cheaper products and employees wanting higher wages.
  - (b) Shareholders desiring a higher return on their investment and society wanting a clean environment.
  - (c) Managers being required to keep costs of production down and ethical suppliers wanting higher prices for inputs.
- 5 List some business activities that could involve corporate social responsibility considerations.
- 6 Complete the following table to identify the advantages and disadvantages of adopting socially responsible strategies.

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

### APPLY your understanding

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





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

**Stakeholder engagement** occurs when businesses share information and seek input from stakeholders to discover the social and environmental issues that are important to them as part of the business's corporate social responsibility.

## Stakeholder engagement

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

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

### BHP Billiton

With approximately 80 000 employees and contractors working in 16 countries, BHP Billiton is the world's largest mining company. It was formed in 2001, following a merger between BHP and Billiton. BHP Billiton's major businesses include coal, copper, iron ore, uranium and titanium minerals, and it also has substantial interests in oil, gas, liquefied natural gas and diamonds. The headquarters for BHP Billiton Limited is located in Melbourne. BHP Billiton identifies its stakeholders in its sustainability reporting, as well as explaining how it engages them.



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

### Stakeholder engagement at BHP Billiton

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

### Community organisations

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

• BHP Billiton says that individual sites work with their own host communities, using community consultation and engagement groups. •



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

### Customers

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

### Employees and contractors

Employees and contractors are very much concerned with their own health and safety as well as working conditions in general. Members of staff need to be provided with career and training opportunities to maintain employee satisfaction. BHP Billiton realises that an operation's employees

*continued*

• Communication is vital. •

and contractors, who live locally, will also be concerned about such things as local employment, business creation and social infrastructure, schooling and health care. Quality of housing is also important to staff who live in remote communities. Processes need to be in place to enable employees and contractors to participate in performance improvement initiatives, and to take part in performance reviews and employee surveys. Communication is vital.

**Government**

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

**Shareholders**

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

**Suppliers**

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



**TEST your understanding**

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

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

**eBookplus**

**Weblink  
BHP Billiton**

**EXTEND your understanding**

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

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

# CHAPTER 1 REVIEW

## SUMMARY

### Types of businesses

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

### Business objectives

- An objective is a desired goal, outcome or specific result that a business intends to achieve.
- A vision statement states what the business aspires to become.
- A mission statement expresses why a business exists, its purpose and how it will operate.
- The main objective of most business is to make profit. Profit is not the only objective, however, as many businesses also pursue goals such as increasing market share, fulfilling a market need, fulfilling a social need and meeting shareholder expectations.
- Strategies are the actions that a business takes to achieve specific objectives.
- Businesses analyse performance by assessing whether it has been effective as well as efficient.
- Effectiveness is the degree to which a business has achieved its stated objectives. In other words, the business is 'doing the right things'.
- Efficiency refers to 'how well' a business uses its resources to achieve its objectives.
- Businesses can use key performance indicators to analyse performance.

### Stakeholders of businesses

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

## REVIEW QUESTIONS

### TEST your understanding

- 1 Distinguish between small, medium and large businesses.
- 2 Provide one example of a business that operates in the private sector and one example of a business that operates in the public sector.
- 3 Define the term 'industry' and outline the three main areas of industry.
- 4 Describe the key characteristics of the following types of business:
  - (a) sole traders
  - (b) partnerships
  - (c) private limited companies
  - (d) public listed companies
  - (e) social enterprises
  - (f) government business enterprises.

## eBookplus

### Digital document Glossary

Download a glossary of key terms from this chapter.

**Searchlight ID: doc-19070**

## eBookplus

### Digital documents Missing word glossary quiz

Test your knowledge of key terms from this chapter.

**Searchlight ID: doc-19071**

### Crossword

Check your understanding by completing this crossword on key concepts from this chapter.

**Searchlight ID: doc-19072**



- 5 Identify and explain three advantages and disadvantages of each type of business.
- 6 Does every business have profit as its objective?
- 7 Outline the difference between a vision statement and a mission statement.
- 8 Describe the five main business objectives.
- 9 Explain what a strategy is, using an example.
- 10 Explain the difference between effectiveness and efficiency.
- 11 Define the term 'key performance indicator' and explain what they are used for.
- 12 What is a stakeholder?
- 13 Distinguish between internal and external stakeholders.
- 14 List the main stakeholders of businesses.
- 15 In what ways can stakeholder interests potentially conflict?
- 16 Outline what is meant by the term 'corporate social responsibility'.

### APPLY your understanding

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

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

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

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

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

**study on**



Sit VCAA exam

## SCHOOL-ASSESSED COURSEWORK

### OUTCOME 1

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



## ASSESSMENT task — structured questions

**Time allowed:** 40 minutes

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

**Conditions:** closed book (no notes or textbooks may be used when completing this task)

1 Define the following terms and provide an example for each:

- Stakeholders
- Shareholders

2 marks

### eBookplus

#### Digital document

#### School-assessed coursework

Complete your end-of-chapter school-assessed coursework in Microsoft Word.

**Searchlight ID:** doc-19073

## Qantas

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

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



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

### Financial performance

For the full year ended 30 June 2015, Qantas reported a before-tax profit of \$975 million, a \$1.6 billion improvement on the prior year. Net profit after tax was \$560 million. Qantas CEO, Mr Alan Joyce, said, 'The driving force behind this turnaround is the \$2 billion Qantas Transformation program — the biggest step change for our company since it was privatised two decades ago'.

Read the Qantas case study then answer questions 2–5.

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

# CHAPTER 2

## The nature of management

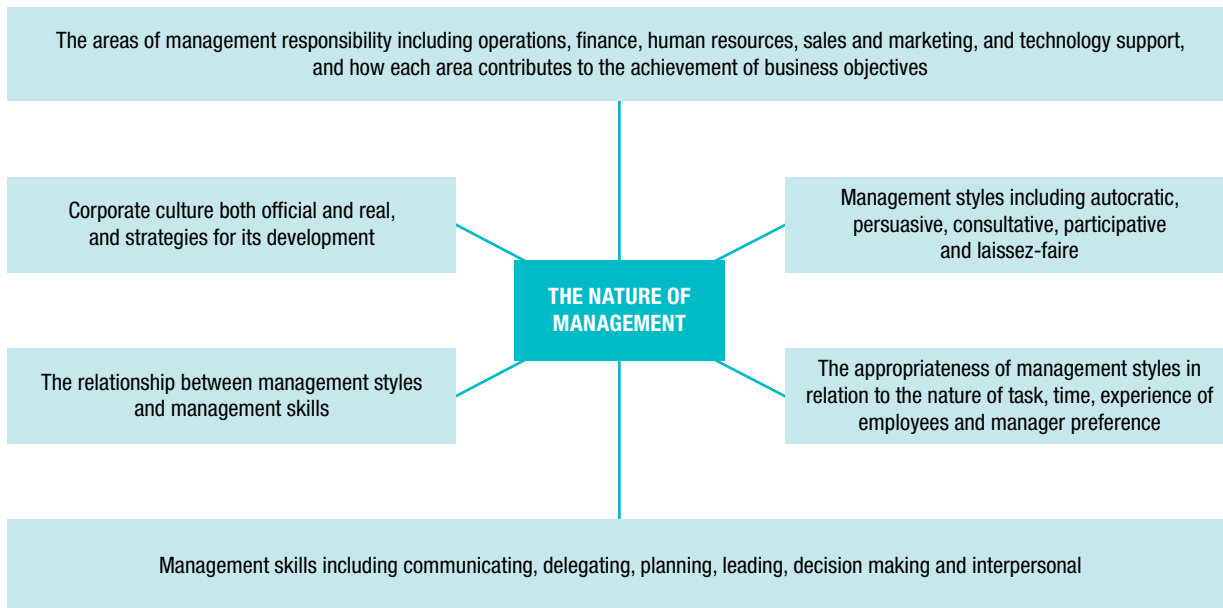
### WHY IT IS IMPORTANT

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

### WHAT YOU WILL LEARN

#### Key knowledge

Use each of the points below from the Business Management study design as a heading in your summary notes.



#### Key skills

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

- define, describe and apply relevant business management concepts and terms
- analyse case studies and contemporary examples of business management
- interpret, discuss and evaluate business information and ideas
- apply business management knowledge to practical and/or simulated business situations
- analyse and discuss management styles and management skills necessary for successful business management
- evaluate management styles and management skills and their appropriateness for a range of business situations
- propose and justify management strategies for developing corporate culture.

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## Management at Morgan Stanley

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

The company has its headquarters in New York City, but it started operations in Australia more than 50 years ago. It currently has more than 300 employees located in its offices in Sydney, Melbourne, Adelaide, Brisbane and Perth. Morgan Stanley operates in 40 countries around the world, with over 1200 offices and more than 50 000 employees globally. It has relatively few levels of management with a strong focus on teamwork, making use of employee-focused management styles and management skills.

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





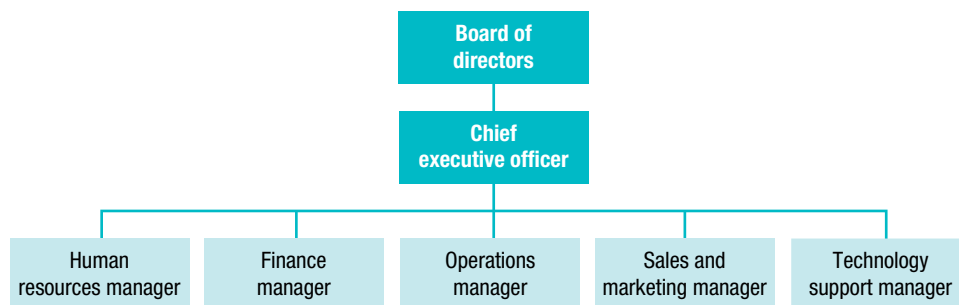
# 2.1 Management responsibilities



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

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

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



Typical areas of management responsibility in a large business structure

## study on

Unit 3 **Operations**

AOS 1 Summary screen and practice questions

Topic 4

Concept 1

## Operations

The operations area is responsible for the production of the business's product, whether it is a manufactured good or the provision of a service. It oversees the transformation of inputs into output, that is, the finished product.

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

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



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



## Finance

The finance area is responsible for managing the financial aspects of the business. This can include developing financial policies, raising finance, budgeting, accounting and reporting, and cash control.

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

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

## Human resources

The human resources area is responsible for coordinating all the activities involved from acquiring to terminating employees of the business. It manages the relationship between the employer and employees.

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

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

## Sales and marketing

The sales and marketing area is responsible for the marketing mix, often referred to as the 7 Ps (product, price, place, promotion, people, physical evidence and process). Marketing strategies undertaken by the sales and marketing area arise through the marketing mix: developing the product, pricing, promoting and distributing products to present and potential customers.

The sales and marketing area might work with the finance area, for example, to determine the right price for the business's product. Pricing is very important. A price that is set too high could mean that sales are lost, unless the business offers superior customer service. A price that is set too low may give customers the impression that the product is cheap and of low quality.

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



### study on

#### Unit 3 Finance

Summary screen and practice questions

#### AOS 1

#### Topic 4

#### Concept 2

### study on

#### Unit 3 Human resources

Summary screen and practice questions

#### AOS 1

#### Topic 4

#### Concept 3



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

### study on

#### Unit 3 Sales and marketing

Summary screen and practice questions

#### AOS 1

#### Topic 4

#### Concept 4

The sales and marketing area is responsible for promoting the product, such as through the use of billboards, as well as developing, pricing and distributing the product.

# 2.1 Management responsibilities

## study on

Unit 3 **Technology support**

AOS 1 Summary screen

Topic 4 and practice

Concept 5 questions

## Technology support

The technology support area is responsible for installing and maintaining technology, as well as providing assistance to the users of technology in the business. These technologies may include mobile phones, computers, computer networks, software products or other electronics. Technology support will often attempt to help employees solve specific computer-related problems.

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

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



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

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



### TEST your understanding

- 1 Explain what operations management is concerned with.
- 2 Why are accounting and financial management useful for a business?
- 3 Explain what human resources is concerned with.
- 4 Outline the importance of the sales and marketing area to a business.
- 5 What is the responsibility of the technology support area?
- 6 Classify the following tasks according to the area for which it would be responsible:
  - (a) planning an advertising campaign for a new product
  - (b) preparing a cash flow statement
  - (c) providing training for employees
  - (d) introducing the just in time materials management strategy
  - (e) installing a new computer network
  - (f) recruiting and selecting new employees
  - (g) establishing a quality system.

### EXTEND your understanding

- 7 A large energy provider decides to focus on the objective of improving customer service. Identify one strategy that each area of management responsibility could implement to support the attainment of this objective.
- 8 Large businesses do not always use every area of management responsibility in their structure. Sometimes

the areas will be referred to by other names. Examine the structures for the following two large businesses. For each one, write down the names of the areas you do find. If you think an area of management responsibility is present, but named differently, write down the name of that area as well.

- (a) Tasman Tank Co designs, manufactures and installs water storage systems throughout Australasia. Use the **Tasman Tank Co** weblink in your eBookPLUS to find Tasman Tank Co's organisation chart.

**eBookplus**

**Weblink**  
**Tasman Tank Co**

- (b) Toshiba International Corporation is a subsidiary of Toshiba Corporation, Japan. Use the **Toshiba International Corporation** weblink in your eBookPLUS to find Toshiba International Corporation organisational structure.

**eBookplus**

**Weblink**  
**Toshiba International Corporation**

- 9 Find the objectives for each of the businesses you looked at in question 8. How do you think the areas that you wrote down for each business support them in achieving those objectives?

# 2.2 Management styles — autocratic and persuasive



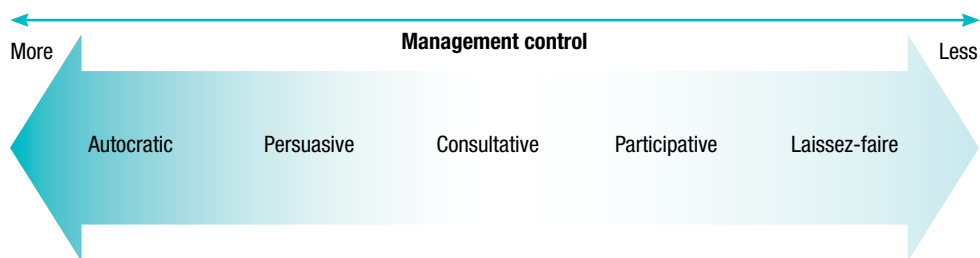
**KEY CONCEPT** Two management styles are the autocratic and persuasive styles.

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

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

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

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



The continuum of management styles

## Autocratic management style — do it the way I tell you

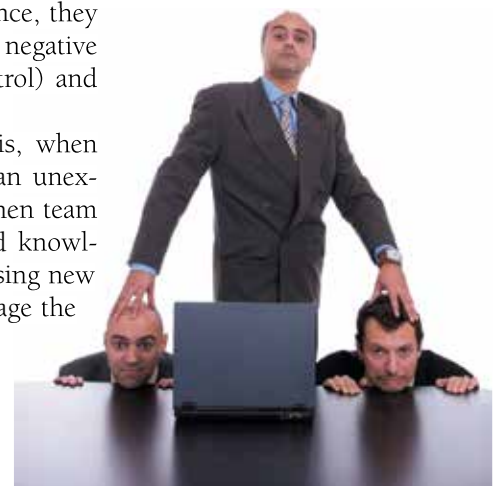
An **autocratic management style** is one where the manager tends to make all the decisions, dictating work methods, limiting employee knowledge about what needs to be done, and frequently checking on employee performance. The autocratic manager generally provides clear directives by telling employees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

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

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

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

An **autocratic management style** is one where the manager tells staff what decisions have been made.



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

## 2.2 Management styles — autocratic and persuasive

### study on

Unit 3

AOS 1

Topic 5

Concept 1



**See more**  
Autocratic  
management style

A **persuasive management style** is one where the manager attempts to sell decisions made.

### study on

Unit 3

AOS 1

Topic 5

Concept 2



**See more**  
Persuasive  
management style

The main disadvantages include the following:

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

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

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

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

The advantages of the persuasive management style include the following:

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

The main disadvantages include the following:

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



The persuasive management style



### TEST your understanding

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

### APPLY your understanding

- 6 Do you know an autocratic manager? What features of the style do they display? How do they make staff get things done? Is their style successful?

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



# 2.3 Management styles — consultative and participative



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

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

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

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

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

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

The main disadvantages include the following:

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

## Participative management style — I believe the people have something valuable to contribute

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

A **consultative management style** is one where the manager consults employees before making decisions.

### study on

Unit 3

AOS 1

Topic 5

Concept 3



**See more**  
Consultative management style



The consultative management style

## 2.3 Management styles — consultative and participative

### study on

Unit 3

AOS 1

Topic 5

Concept 4



**See more**  
Participative  
management style

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

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

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

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

The main disadvantages include the following:

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



The participative management style



### TEST your understanding

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

### APPLY your understanding

- 5 Do you know any participative managers? What characteristics of the style do they display? How do

they motivate staff to get things done? Is their style successful?

- 6 For the following situations, suggest whether the consultative or participative style is being used, and explain why you made your choice:
  - (a) Lisa is the project manager of a very experienced team of programmers. Her team has made all of the decisions about how to design, develop and implement new software applications.
  - (b) Greg is the production manager for a large manufacturing company. He holds a meeting to seek the opinion of his staff about introducing a direct marketing system.

## 2.4 The laissez-faire management style and situational management approach



**KEY CONCEPTS** Another management style is the laissez-faire style. The situational approach is when a manager selects the most appropriate style to suit the situation.

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

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



Laissez-faire is a French phrase meaning to leave things as they are, or to let (it) go.

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

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

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

The main disadvantages include the following:

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

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

#### study on

Unit 3

AOS 1

Topic 5

Concept 5



**See more**  
Laissez-faire  
management style

## 2.4 The laissez-faire management style and situational management approach

### ! DID YOU KNOW?

Some people argue that the laissez-faire approach should not be recognised as a separate management style. They argue it is only an extreme example of the participative style of management.

### study on

**Unit 3** **Situational management**

**AOS 1** Summary screen and practice questions

**Topic 5**

**Concept 6**

**Contingency management theory** stresses the need for flexibility and the adaptation of management styles to suit the situation.

## Situational management

The management style chosen by a manager will be influenced by:

- the manager — their personality, experience, values, beliefs and skills
- the personalities, experience, values, beliefs and skills of staff
- the nature of the task itself
- internal and external constraints, including time and resources.

Managers will choose the styles they are most comfortable with. However, highly effective managers change styles depending on the situation. Another name for this approach is **contingency management theory**. There is no one best style, except the one chosen appropriately and which contributes to the business achieving its objectives.



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



### TEST your understanding

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

### APPLY your understanding

- 5 Which management style would you prefer to adopt if you were a senior manager? Under what style of management would you prefer to work?

- 6 Alistair is the communications manager responsible for producing the company annual report in six months. He is a highly experienced and skilled manager but is working with a team consisting of many new employees. Outline the details of each of the situational elements (the manager, the staff, the task and constraints) in this scenario. What management style would you recommend that Alistair use?
- 7 Compare the five main management styles by completing the following table.

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



### PRACTISE YOUR SKILLS

- define, describe and apply relevant business management concepts and terms
- analyse case studies and contemporary examples of business management
- interpret, discuss and evaluate business information and ideas
- apply business management knowledge to practical and/or simulated business situations
- analyse and discuss management styles and management skills necessary for successful business management
- evaluate management styles and management skills and their appropriateness for a range of business situations

### An experienced manager

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

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

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

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



• As a result, production staff are often stressed because short notice is given for the production changes required.



## TEST your understanding

### Scenario one

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

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

### Scenario two

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

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

## APPLY your understanding

### Scenario three

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

- 3 Explain what management style you might expect Harvey Beck to adopt for each relationship. Give reasons for your answer.
- 4 The following scenarios illustrate different management styles. Working in groups of three or four, determine what style is being used. Also explain whether it is correct for the situation or whether a different style would work better.
  - (a) A manager is leading a team of research scientists working on new ways to use plastic. Although the team discusses the merits of each idea and project, she retains the final decision-making authority.
  - (b) A new supervisor has just been put in charge of the production line. He immediately starts by telling the crew what changes need to be made. When some suggestions are made, he tells the crew he does not have time to consider them.
  - (c) A construction crew has worked together for the past four years with little changeover in personnel. They always vote whenever a decision has to be made on how to proceed with the project.
  - (d) The manager of an electronics manufacturing department starts every day by telling the 15 employees what has to be done and how to do it.
  - (e) An inspection line has no supervisor. The employees are expected to have the correct staffing, procedures and expertise on each shift to ensure no defective parts get past them.
  - (f) There are seven people on a special project team, and each individual is from a different department. Although a leader was elected, for a decision to pass it must have the approval of each individual.
  - (g) A small department performs the same functions every day. To get information out to staff, the supervisor sends it by email or voicemail; rarely is a meeting called.
  - (h) An employee is not wearing the correct safety equipment. The supervisor tells him very sternly never to do that again and notes it in his log.
  - (i) A project is running late. The manager decides on a course of action to recover the lost time.
  - (j) A manager is working on the budget. He is told to get an important project running immediately. He calls his staff together and explains the project. He then tells them to get it up and going while he completes the budget.

# 2.5 Management skills — communicating, delegating and planning



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

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

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

Managers are not required to use all of these skills constantly. But, it is important that these skills are available when they are needed. There has been much research over the last 20 years into the kinds of skills that managers need to possess to carry out their work more effectively. More recently, the results of two surveys released in 2014 revealed that managers and employees believe that frontline and middle managers lack the skills they need to do their jobs effectively. These skills include communication and leading. A Monash University and Australian Institute of Management survey of 2000 managers and employees found that 83 per cent rated their middle manager's leadership skills as average or below average. A DDI Australia survey of 224 HR professionals found that 85 per cent had low or moderate confidence in their business's frontline leaders.

## The relationship between management styles and skills

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



**Management skills** are the abilities or competencies that managers use to achieve business objectives.

### DID YOU KNOW?

'Effective leaders can communicate with their staff — they are able to reach agreements with them not only about their tasks but also about the amount of direction and support they will need to accomplish these tasks. These three skills — flexibility, diagnosis and contracting — are the three most important skills managers can use to motivate better performance on the part of the people with whom they work.'

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

### study on

**Unit 3**  
**AOS 1**  
**Topic 6**  
**Concept 5**

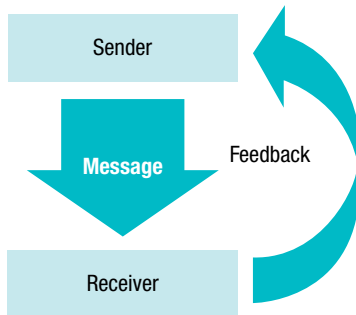
**Relationship between management styles and management skills**

Summary screen and practice questions

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



**Communicating** involves the ability to transfer information from a sender to a receiver, and to listen to feedback.



The basic communication process

**Delegating** refers to the ability to transfer authority and responsibility from a manager to an employee to carry out specific activities.

### study on

**Unit 3** **Communication and delegation skills**

**AOS 1**

**Topic 6** Summary screen and practice questions

**Concept 1**

**Planning** is the ability to define business objectives and decide on the methods or strategies to achieve them.

**Strategic planning** is long-term planning, usually over two to five years.

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

## Communicating

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

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

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

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

## Delegating

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

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

## Planning

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

### Levels of planning — strategic, tactical and operational

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

- **Strategic** (long-term) **planning** is planning for the following two to five years. This level of planning will help determine where the business wants to be in the market, and what the business wants to achieve in relation to its competitors.



- **Tactical** (medium-term) **planning** is flexible, adaptable planning, usually over one to two years. It supports the implementation of the strategic plan and allows the business to respond quickly to changes. The emphasis is on how business objectives will be achieved through the allocation of resources.
- **Operational** (short-term) **planning** provides specific details of the way the business will operate in the short term. Management controls the day-to-day operations that contribute to achieving short-term actions and objectives. Examples of operational plans are daily and weekly production schedules.

**Operational planning** provides specific details about the way in which the business will operate in the short term.

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

## The planning process

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

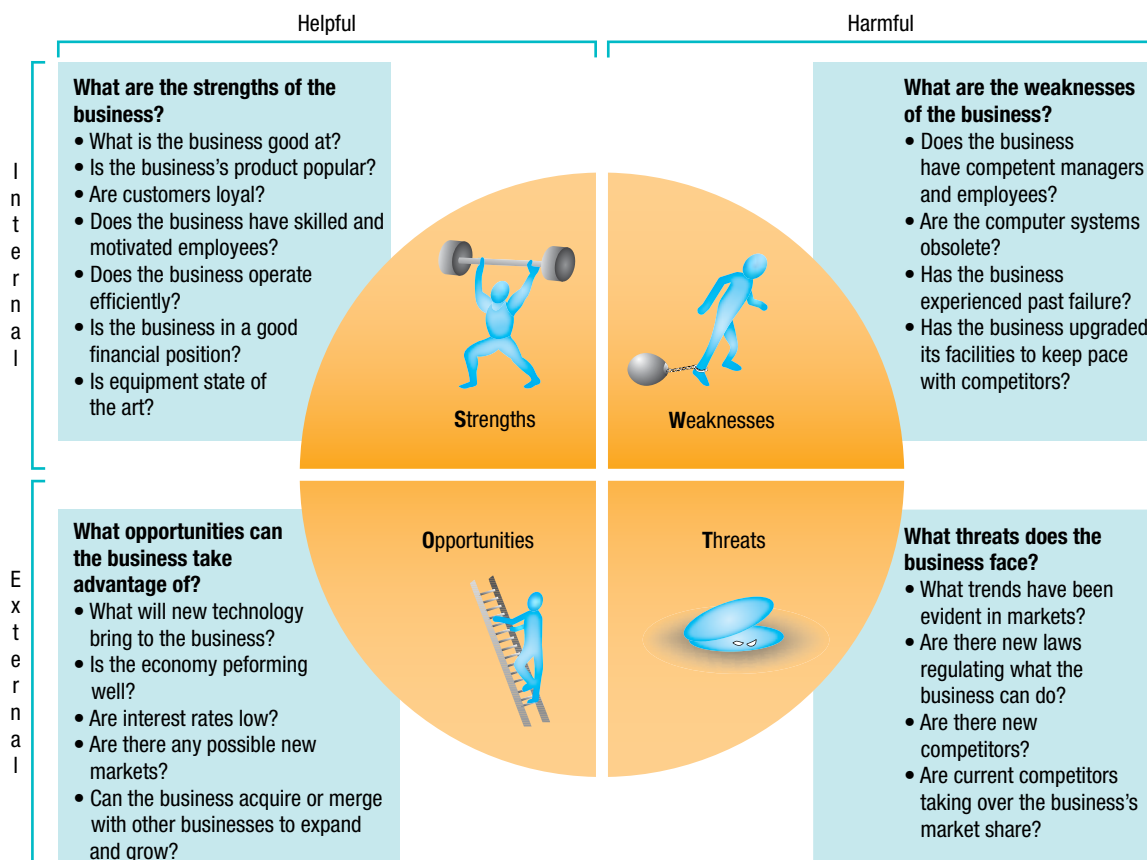
Step 1. *Define the objective.* Management begins the planning process by considering where they believe the business is headed.

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

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



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



A SWOT analysis

# 2.5 Management skills — communicating, delegating and planning

## study on

Unit 3 Planning skills

AOS 1 Summary screen and practice questions

Topic 6

Concept 2

### DID YOU KNOW?

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

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

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

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



## TEST your understanding

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

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

- 3 Outline the advantages and disadvantages of communicating, delegating and planning.
- 4 Explain how each of the skills in this section would be used if a manager decided to select:
  - (a) an autocratic management style
  - (b) a participative management style.

## APPLY your understanding

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

What skills is Josh using? In what way is he using each of those skills?

- 6 Use the **Communication Skills Test** weblink in your eBookPLUS to take the test. What were your results? Do you think this is accurate? How could you improve your communication? How competent do you think you are with the other skills in this section?

eBook plus

Weblink  
Communication Skills Test

# 2.6 Management skills — leading, decision making and interpersonal



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

## Leading

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

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



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

**Leading** is the ability to influence or motivate people to work towards the achievement of business objectives.

### study on

- Unit 3** **Leading skills**
- AOS 1** Summary screen and practice questions
- Topic 6**
- Concept 3**

### DID YOU KNOW?

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

Naomi Simson, Founding Director of RedBalloon, and Dick Smith, founder of Dick Smith Electronics and Dick Smith Foods, are both leaders. They set an example, earn the respect of employees and clearly communicate a vision in order to achieve objectives.

### DID YOU KNOW?

‘Management is doing things right; leadership is doing the right things.’ Peter Drucker, management consultant

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

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

**Decision making** is the ability to identify the options available and then choose a specific course of action from the alternatives.

### study on

- Unit 3** Decision-making and interpersonal skills
- AOS 1**
- Topic 6**
- Concept 4** Summary screen and practice questions

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

### 🗨️ DID YOU KNOW?

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

## Decision making

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

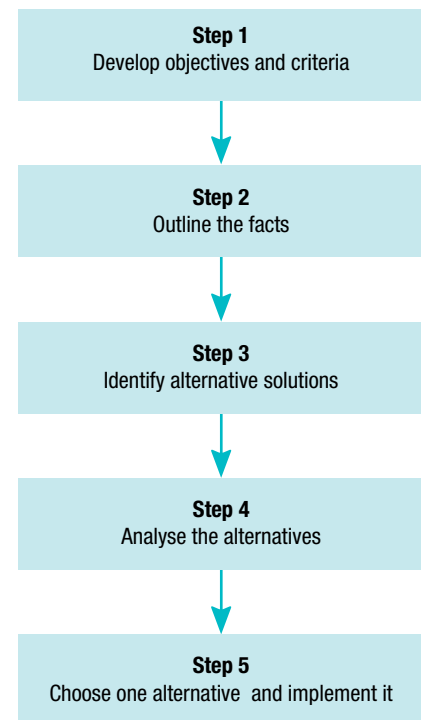


There are five steps in a typical decision-making process (see the diagram). The first step is to clearly state what the desired goal or position is, which includes determining measurable criteria for what this situation would look like. These criteria might be, for example, to increase profit by 10 per cent or to increase market share by 5 per cent. All of the facts and information related to the situation then need to be outlined, including the circumstances that may have caused the conflict, problem or issue, as well as the possible obstacles that may prevent the attainment of the desired goal or position. Once all the facts

have been outlined, the desired goal or position (step 1) should be reassessed to confirm if it was developed clearly and whether or not it is realistic.

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

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



A decision-making process



## Interpersonal skills

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

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

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

**Interpersonal skills** refer to the ability to deal or liaise with people and build positive relationships with staff.



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

### **DID YOU KNOW?**

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

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



### TEST your understanding

- 1 Draw a table similar to the one following to summarise details of the management skills in this section.

Skill	Definition	Characteristics	Application to the workplace

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

### APPLY your understanding

- 5 In groups of three or four, select a management skill. Explain the skill to the class using a PowerPoint presentation, a report or in the form of a lesson. Include a definition of the skill, its characteristics and application to the workplace.
- 6 Form groups of three or four. Imagine that you are members of the board for a large electronics manufacturer. Your company employs 1000 staff and earns annual revenue of \$1 billion. Your company has been facing increasing competition, and sales and profits have been decreasing over the last few years. You need to hire a new CEO for the company. In your group, list the skills you would require. What type of personality and management style would you hope to find for your company? Compare your response to that of other groups in the class. Were there similarities or differences? Why might this be so?

# 2.7 Corporate culture and its development



**KEY CONCEPT** All businesses have their own corporate culture — the values and beliefs of the people in the business.

**Corporate culture** refers to the values, ideas, expectations and beliefs shared by members of the business.

## study on

Unit 3

**Elements of corporate culture**

AOS 1

Topic 7

Summary screen and practice questions

Concept 1

### **DID YOU KNOW?**

When Anita Roddick founded The Body Shop, her vision was to build an ethical business that supports the community. Therefore, she came up with five values: (1) support community trade, (2) defend human rights, (3) against animal testing, (4) activate self-esteem and (5) protect our planet. These values guide all employees and the business decisions they make.

### **DID YOU KNOW?**

Origin Energy Australia is an energy company. Its employees are expected to reflect the company values, which include caring, listening, learning and delivering.

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

## Official corporate culture

Corporate culture can be revealed officially in the policies, objectives or slogans of a business.



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

## Real corporate culture

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

## Elements of a corporate culture

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

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

## Developing a positive corporate culture

A manager must understand and assess all facets of a business's unique culture, because this is a powerful tool for achieving objectives. Knowing and appreciating a business's culture makes it easier to get things done or to initiate a change to routine or procedures. Competent, effective managers will use the business's culture as a force for positive change. Research has shown that businesses with a healthy, well-developed and strong culture are more likely to be successful, because such a workplace is perceived by the employees to be more positive and personalised. Employees who have clear expectations feel better about their work — they develop a sense of belonging. A manager who does not understand a business's culture may experience failure or disappointment.

Management can develop a positive corporate culture by introducing or building on any of the four essential elements of a corporate culture. Management might, for example, establish social gatherings that will allow employees to feel valued because they are part of the rituals, rites and celebrations of the business. Once a positive corporate culture is established, it needs to be kept alive. Management must ensure that staff members are given sufficient training to reflect the values of the business. For example, if treating customers respectfully is important in the business, it should be part of its customer service training program.

For a change in corporate culture to be successful and sustainable, it is vital that senior management in a business be role models for staff in those important values. Management must reinforce corporate values by communicating with staff, rewarding employees who exemplify the appropriate values, and recruiting staff who fit in with the values of the business.

### study on

Unit 3

AOS 1

Topic 7

Concept 2

**Strategies for developing corporate culture**

Summary screen and practice questions



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

### 🗨️ DID YOU KNOW?

Management consultants Terrence Deal and Allan Kennedy wrote that having a positive corporate culture is essential for a business's survival given:

- the rapid rate of social, technological and environmental change
- an increasingly competitive macro environment
- intensified global competition.



### TEST your understanding

- 1 Define corporate culture and explain how it can influence the success of a business.
- 2 Outline the difference between official and real corporate culture.
- 3 Why is a positive corporate culture important when new work methods are being introduced?
- 4 Briefly outline the four essential elements of a corporate culture.
- 5 Identify other indicators of corporate culture using the information in this section.
- 6 What do you think the difference is between a positive and a negative corporate culture?
- 7 Identify strategies that management can use to develop a business's corporate culture.

### APPLY your understanding

- 8 Working in groups of three or four, describe the culture of your school. Identify the shared values, practices,

symbols, rituals, rites, celebrations and heroes. Present your information in a table. Share your answers with other members of the class.

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



# APPLY YOUR SKILLS

Styles, skills and corporate culture

## PRACTISE YOUR SKILLS

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

### Interview with the CEO of George Weston Foods



George Weston Foods (GWF) is one of the largest food manufacturers in Australia and New Zealand. It is a wholly owned subsidiary (a company that is completely owned by another company) of Associated British Foods plc. Its brands include Tip Top and Don KRC. The CEO of GWF, Andrew Reeves, was appointed to his position in 2011. Since then he has transformed the culture, strategies and vision of the company. The following is an interview with Andrew about his job and the changes he implemented.

***What was your understanding of the challenges you faced at GWF before you took up the CEO role, and how did it change, if at all, in the first few months in the position?***

• Another key early focus was developing a plan to survive the next 12 months ... •

Before you take up a CEO role you do, of course, talk to a range of people, both within and outside the company. The impression of GWF I got from those discussions was of a business that was in an OK state — reasonable market position, good capabilities, a workable strategy and so on, but was not fulfilling its potential, and it was my role to make sure that more of that potential was realized.

When I arrived at the business, however, it became clear that the state of the business was less robust than that. There had been a lot of short-term decision-making that had made recent results seem better than they really were, and these were not sustainable. Added to that, there were some very worrying, longer-term underlying issues that needed to be urgently addressed. This was certainly not foreseen by me, and it was not something that others had discussed with me. Rather than a business that was simply under-performing; the challenge was a full blown turnaround situation that had the potential to become a very serious crisis unless urgent action was taken.

***What were the key 2–3 challenges you faced then?***

There had been a very high rate of turnover amongst senior managers, so there was not that continuity and/or stability of leadership within the company. As well as this, there was a lack of accountability generally within the organization — people were not taking responsibility for outcomes, and/or attempting to solve problems. Things were often just being ‘kicked upstairs’ i.e. there was an expectation that ‘someone higher up’ would make all the problems go away!



**How quickly did you move to address some of these issues, and were you worried about acting too quickly?**

I believe you have to act relatively quickly, and that you can't wait for perfect information. Especially with a large business, it takes a lot longer to turn things around than you think, so you need to get moving! You have to set a tone of decisiveness early, and also demonstrate that. That encourages other people to do the same, and is consistent with the urgency that was needed. I think this was particularly important to do, given that there had previously been a culture of prevarication, avoidance and delay when it came to dealing with issues.

**What were the most important decisions/initiatives undertaken in that early period of your appointment?**

The most critical decisions were around people — I made some fairly quick calls in that regard. Because I had inherited a fairly large team (12 direct reports). Because we wanted to restructure the business and bring in some new capabilities, it ended up that about half of those people were changed. Speaking with the existing team, and interviewing for new roles, took up a lot of my time in the first months.

Another key early focus was developing a plan to survive the next 12 months — we took a lot of restructuring decisions to remove the costs from the business. We had inherited a very top-heavy organizational structure — around 1500 white collar staff in a total workforce of around 7500. We removed around 400 of these positions, in order to reduce costs, sharpen focus and strengthen accountability.

We also invested time on organisational alignment that had a two-fold purpose of anchoring the business in its purpose and driving clarity on roles and accountabilities (especially between the business units and head office). In the past, there had been confusion and duplication of accountabilities and roles, so we needed to sort this out to move the business forward. We had a problem in the past with people pursuing 'the interesting rather than the important' in a business sense, and that in itself was a symptom of the fact that priorities, roles and accountabilities were not as clear as they needed to be.

Running through all this early period was the need to communicate the case for change — many people in the organization had no real idea about what state the business was really in! We had to provide that contextual understanding, so they could understand why so much change was necessary. In my first three months, for instance, I had more than a hundred one-on-one conversations with individuals (mostly senior leaders) in the business. This not only enabled me to convey to them what I thought the challenges were, but also help me better understand their capabilities, and suggestions to improve the business.

My view is that establishing this case for change is imperative. Not only does it help them understand the organisational changes they are experiencing, but also empowers them to contribute their own changes to the process, once they understand the urgency of the situation the business faces.

Source: Extracts from 'Turnaround challenge', [www.ceoforum.com.au](http://www.ceoforum.com.au).

**eBook plus**

**eLesson**

**Leadership — Brambles**

Watch this video featuring Brambles and complete the attached worksheet.

**Searchlight ID: eles-1049**



**TEST your understanding**

- 1 What was George Weston Foods' corporate culture like when Andrew Reeves took over as CEO?
- 2 Describe the challenges that Mr Reeves faced.
- 3 Provide an example of how Mr Reeves used the following management skills:
  - (a) communicating
  - (b) delegating
  - (c) planning

- (d) leading
- (e) decision making.

**APPLY your understanding**

- 4 What role does a CEO play in changing corporate culture?
- 5 In your opinion, what management style did Mr Reeves adopt as he attempted to change the culture at George Weston Foods? Justify your response.

## Healthy management

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

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

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

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

• She is considered to be a great leader by her staff. •



Many hospitals today are introducing cultures which expect quality healthcare.

## Choco management

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

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

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

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

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

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

... he's treating us like we're kids.'



### TEST your understanding

- 1 What management style is Jan Dvorak using? What are the characteristics of this style?
- 2 What management style is Jack using? What are the characteristics of this style? Compare this style to the one being used by Carly.
- 3 Are these the best styles to use in each of these situations or should any of the managers reconsider? Justify your answer.
- 4 Identify and explain two management skills that could be used by Jan Dvorak to develop the corporate culture.
- 5 Identify and explain two management skills that Jack could use to improve the workplace conditions at Nars Chocolates.
- 6 Explain and apply a decision-making process that could be used either to develop the corporate culture at City Health, or at Nars for the new chocolate bar project.

### EXTEND your understanding

- 7 Match the two extreme styles with the skills below and then explain why you think each skill matches up with that style:

Style	Skills
<b>Autocratic</b>	Communicating
	Delegating
	Planning
<b>Participative</b>	Decision making
	Interpersonal
	Leading

- 8 Explain how the choice of management style will affect the way in which the skills are used.



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

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

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

## Semco — workplace participation in action

• A leader who fails more than twice to meet the standards expected of them by employees will be sacked. •

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



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

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

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

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



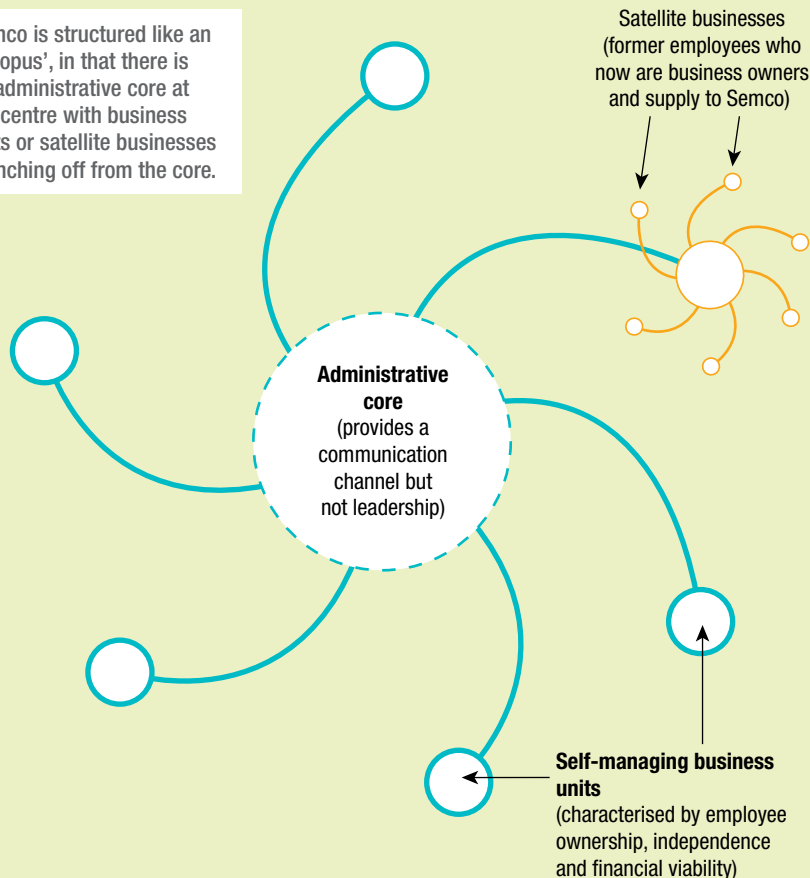
This provided greater freedom as well as more responsibility for managers and staff.

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

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

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

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



### TEST your understanding

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

### EXTEND your understanding

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

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

# CHAPTER 2 REVIEW

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### Digital document Glossary

Download a glossary of key terms from this chapter.

**Searchlight ID: doc-19074**

## SUMMARY

### Areas of management responsibility

- Businesses typically have areas of management responsibility and each area of responsibility implements different strategies to support the business in achieving its objectives.
- The operations area is responsible for the production of the business's good or service.
- The finance area is responsible for managing the financial aspects of the business, including the development of financial policies, raising finance, budgeting, accounting and reporting, and cash control.
- The human resources area is responsible for coordinating all the activities involved from acquiring to terminating employees of the business — it manages the relationship between the employer and employees.
- The sales and marketing area is responsible for the marketing mix — the 4Ps (product, price, promotion and place).
- The technology support area is responsible for installing and maintaining technology, as well as providing assistance to the users of technology in the business.

### Management styles

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

### Management skills

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

### Corporate culture

- All businesses have their own corporate culture — the values and beliefs of the people in a business.
- Official corporate culture can be revealed officially in the policies, objectives or slogans of a business.
- Real corporate culture can be seen in the unwritten or informal rules that guide how people in the business behave, such as the way staff dress, the language staff use, and the way that staff treat each other and customers.
- The elements of corporate culture include the practices that are valued by the business, such as honesty, innovation and hard work, the symbols that are important to the business, the rituals of the

business (such as social gatherings and celebrations), the heroes of the business and the degree of staff participation in the business.

- A manager must understand a business's culture and how it can be maintained or developed.

## REVIEW QUESTIONS

### TEST your understanding

- List the typical areas of management responsibility in a business.
- Distinguish between the operations and human resources areas.
- Describe the following areas of management:
  - finance
  - sales and marketing
  - technology support.
- Explain the importance of management styles to a business.
- Compare the autocratic management style to the persuasive management style.
- Identify two advantages and two disadvantages of the autocratic and persuasive management style.
- Distinguish between the consultative and participative management styles.
- Identify two advantages and two disadvantages of the consultative and participative management style.
- Describe the laissez-faire management style and outline two advantages and two disadvantages of this style.
- Outline the factors a manager will need to consider when choosing an appropriate management style.
- Define each of the following management skills and outline their main features:
  - communicating
  - delegating
  - leading
  - interpersonal.
- Explain the difference between the three levels of planning.
- Outline the steps involved in a planning process.
- Define 'decision making' and identify the steps in a decision-making process.
- Explain how management skills relate to the management styles.
- Define corporate culture.
- Explain the difference between official and real corporate culture.
- Why is it important for a manager to understand a business's corporate culture?
- Briefly outline elements or indicators of the type of culture a business has.
- Identify strategies that management can use to develop a business's corporate culture.

### APPLY your understanding

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

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

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#### Digital documents

##### Missing word glossary quiz

Test your knowledge of key terms from this chapter.

**Searchlight ID: doc-19075**

#### Crossword

Check your understanding by completing this crossword on key concepts from this chapter.

**Searchlight ID: doc-19076**

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

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

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

### study on



Sit VCAA exam

### eBookplus

**Digital document**  
**School-assessed coursework**  
 Complete your end-of-chapter school-assessed coursework in Microsoft Word.  
**Searchlight ID: doc-19077**

## SCHOOL-ASSESSED COURSEWORK

### OUTCOME 1

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

#### ASSESSMENT task — structured questions

- Time allowed:** 40 minutes  
**Marks allocated:** 20 marks — the task contributes 10 marks out of a total of 20 marks for Outcome 1. (the marks for each question are indicated at the end of each question)  
**Conditions:** closed book (no notes or textbooks may be used when completing this task)

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

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

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



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

# CHAPTER 3

## Human resource management — motivating employees

### WHY IT IS IMPORTANT

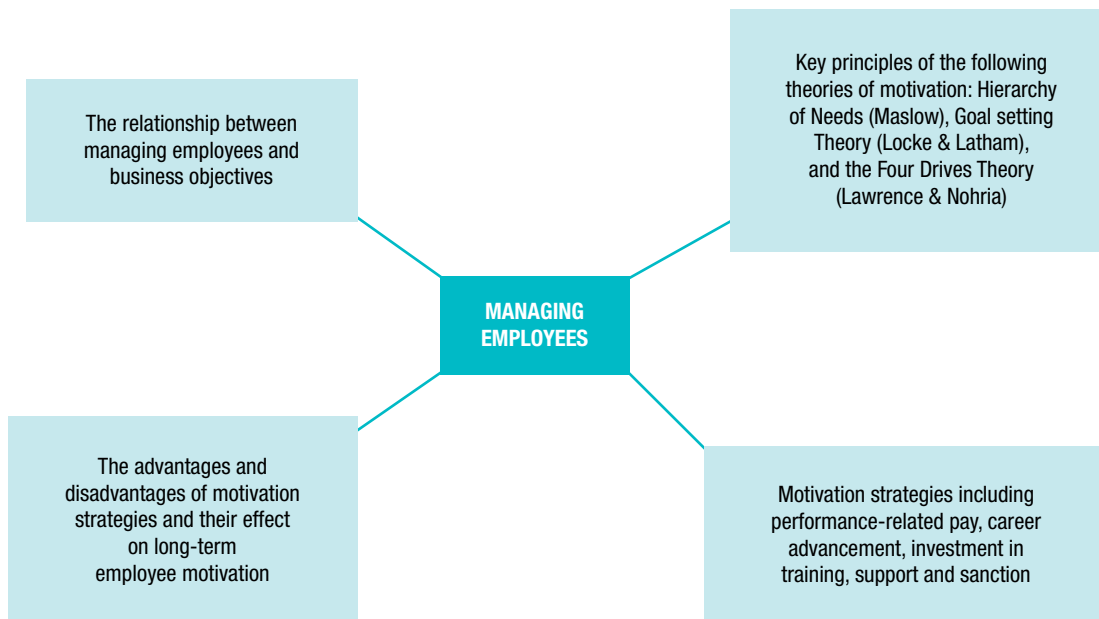
It is often said that employees are a business's most important resource. However, employees are more than just resources for a business. They are first and foremost, people — people with their own hopes, ambitions, likes and dislikes, and ultimately their own individual reasons for working. Motivation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

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

### WHAT YOU WILL LEARN

#### Key knowledge

Use each of the points below from the Business Management study design as a heading in your summary notes.



#### Key skills

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

- define, describe and apply relevant business management concepts and terms
- research and analyse case studies and contemporary examples of management related to managing staff in a business
- interpret, discuss and evaluate business information and ideas
- apply knowledge about managing employees to practical and/or simulated business situations
- examine and apply the key principles of the theories of motivation
- compare and evaluate strategies used for motivation and training when managing a business
- propose and justify strategies to manage employees effectively.



## FedEx cares

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

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

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

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



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

‘ . . . our people are the heart and soul of our business. ’

# 3.1 The relationship between managing employees and business objectives



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

## study on

Unit 3

AOS 2

Topic 1

Concept 1



See more

Human resources

**Human resource management**, in its simplest terms, is defined as the effective management of the formal relationship between the employer and employees.

A **human resource manager** coordinates all the activities involved in acquiring, developing, maintaining and terminating employees from a business's human resources.

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

## Human resource management

Iluka Resources Limited is a great place to work. Staff at the Australian mining company (that explores and processes titanium-based products and zircon) are treated fairly and honestly. Positive work relationships between management and staff are considered vital to the company's success. Iluka provides a fitness-for-work program for employees, supports employee work-from-home arrangements, and grants access to personal leave for both male and female staff.

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

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



## study on

Unit 3

AOS 2

Topic 1

Concept 2



See more

Human resource objectives and strategy

## Relationship to business objectives

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



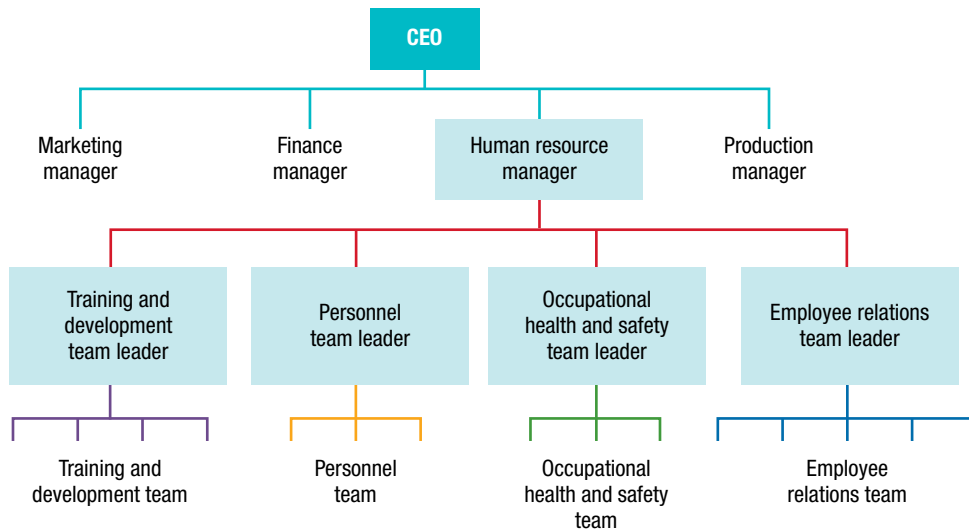
**eLesson**

**Human resource manager – Cancer Council**

Watch this video featuring the Cancer Council and complete the attached worksheet.

**Searchlight ID: eles-1051**

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



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

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

**How HR strategies can support business objectives**

Business objectives	HR objectives	HR strategies
Expand market share	Increase worker productivity	Thorough selection process
Increase in sales	Develop sales skills	Ongoing training
Increase in profits	Improve product knowledge	Regular performance appraisal
Provide safe workplace	Reduce number of accidents	Establishment of work teams
		Introduction of flexible work practices

Ultimately, it is the employees' job to achieve the objectives of the business. Because the HR department is responsible for managing employees, there is a very direct relationship between HR and business objectives and strategies.

The HR department will need to have strategies that ensure that decisions that affect employees are decisions that enhance the objectives of the business. If an objective is to increase sales, the HR department will need to ensure it has staff with good knowledge of the products or services sold by the business, either by recruiting appropriately skilled employees, or by training existing staff. The objective of increasing profits can be enhanced by ensuring staff are sufficiently well trained to work efficiently and contribute to improving business productivity. Ultimately, no business objective can be achieved unless employees are able to make a positive contribution.

## 3.1 The relationship between managing employees and business objectives



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

### Top Employers Institute

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



#### TEST your understanding

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

#### APPLY your understanding

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

# 3.2 An introduction to motivation and Maslow's hierarchy of needs



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

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

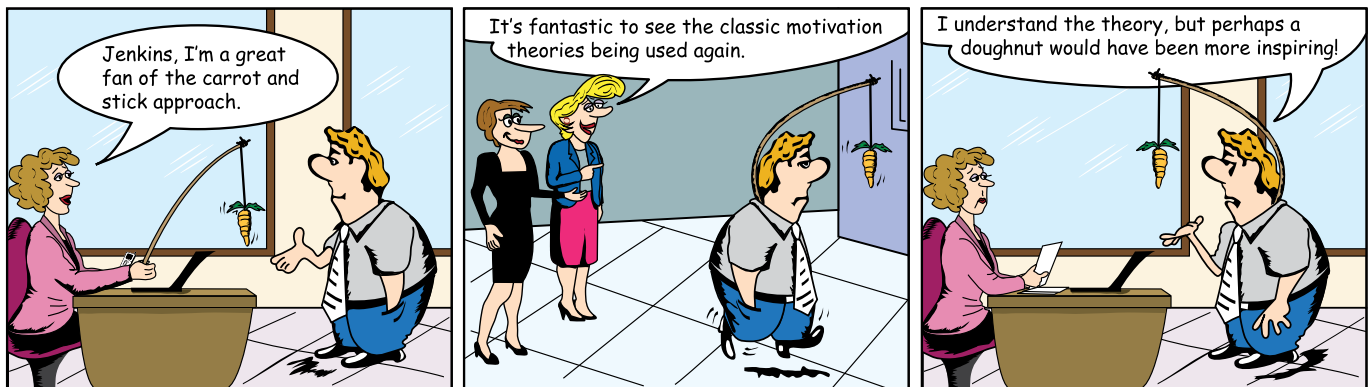
To put it in another way, motivation is what drives a person to behave in a certain way, or to achieve a certain goal; for example, what motivated you to:

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

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

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

**Motivation** refers to the individual, internal process that directs, energises and sustains a person's behaviour.



Motivation — carrot or stick approach

## Maslow's theory of motivation

Abraham Maslow (1908–1970), a psychologist, believed that all people have needs to be satisfied, and that they will work towards satisfying those needs. A **need** is what a person requires. He assumed these needs could be arranged according to their importance in a series of steps known as Maslow's **hierarchy of needs** (see the figure on next page).

Maslow proposed that people work to satisfy their physiological needs first, such as food and water. The wage that a business pays to an employee helps satisfy these needs. People then attempt to satisfy their safety needs, such as shelter and clothing. Businesses help to satisfy this need by providing safe working conditions and job security. Once these first two needs have been satisfied, employees seek to satisfy their social needs. People need to be loved and love someone in return, to be a friend and have friends, for example. Work provides an opportunity for people to meet and form

A **need** is a personal requirement.

**Hierarchy of needs** is Maslow's sequence of human needs in the order of their importance.

### study on

- Unit 3 **Hierarchy of needs theory (Maslow)**
- AOS 2
- Topic 2 Summary screen and practice questions
- Concept 1

## 3.2 An introduction to motivation and Maslow's hierarchy of needs

### 🗨️ DID YOU KNOW?

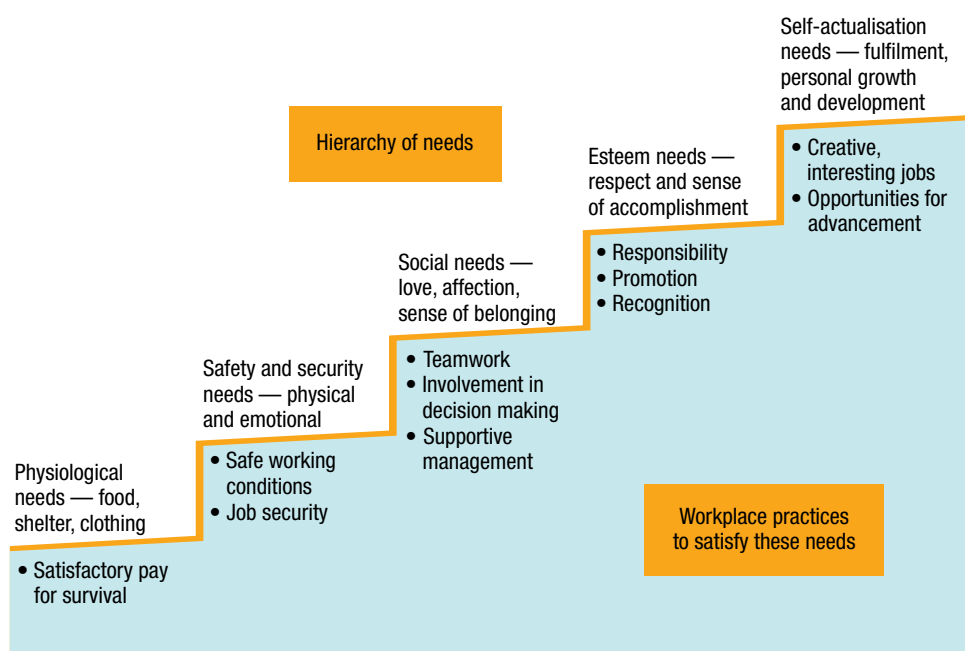
Naomi Fraser, a well-respected management consultant, has concluded that 'What motivates people is similar to how Winston Churchill viewed Russia . . . an enigma, inside a puzzle wrapped up in a mystery'.



According to Maslow's theory, a business might provide a creative or interesting work environment for employees to satisfy their higher order needs, in addition to satisfying all of the needs on the lower levels of the hierarchy.

working relations that provide a sense of belonging. Esteem needs are satisfied when an employee's work is appreciated and he or she is given recognition, promotion or added status in the business. Finally, self-actualisation needs refer to an employee's desire to reach his or her full potential. To satisfy these needs, businesses must provide a workplace that encourages personal growth and development, interesting and creative jobs, and opportunities for advancement.

Maslow's theory was important because it suggested that businesses have to create workplaces that attempt to satisfy all the needs of an employee. Businesses that attempt to motivate workers through pay rises or job security would only be satisfying lower order needs. Employees would not be fully motivated; they would become despondent, waiting for the day to finish, hating their jobs and only doing them for the money. Occasionally, these employees become so dissatisfied and unmotivated that they become troublemakers.



Maslow's hierarchy of needs



### TEST your understanding

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

- safety needs
- self-actualisation needs
- social needs.

- Why is Maslow's theory important?

### APPLY your understanding

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



# 3.3 Motivational theories: goal-setting theory



**KEY CONCEPT** Goal-setting theory is based on the notion that employees are more likely to be motivated if they are able to strive for specific goals, and can be rewarded for achieving those goals.

## Locke's goal-setting theory

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

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



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

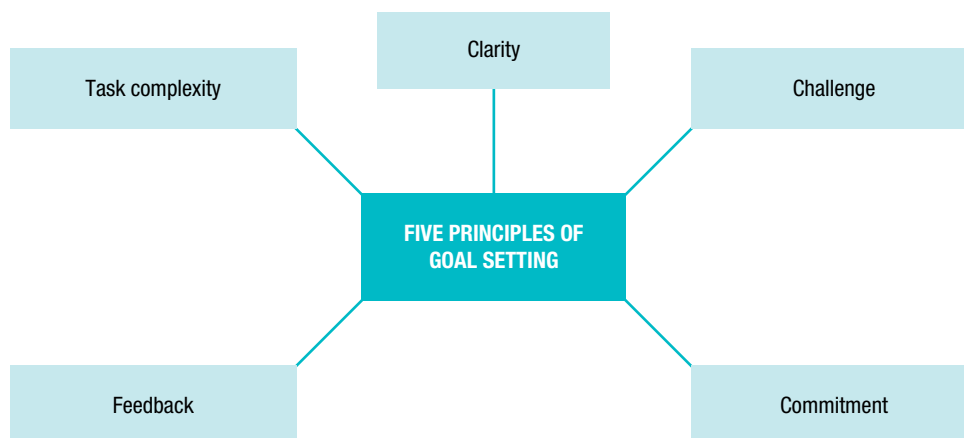


Locke's theory has been applied in many circumstances over a number of years.

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

## The five goal-setting principles

Locke and Latham identified five principles that should be applied when setting goals for employees. They can be summarised as follows:



Locke and Latham's five principles of goal setting

### study on

- Unit 3 **Goal-setting theory (Locke & Latham)**
- AOS 2
- Topic 2
- Concept 2 Summary screen and practice questions

### Clarity

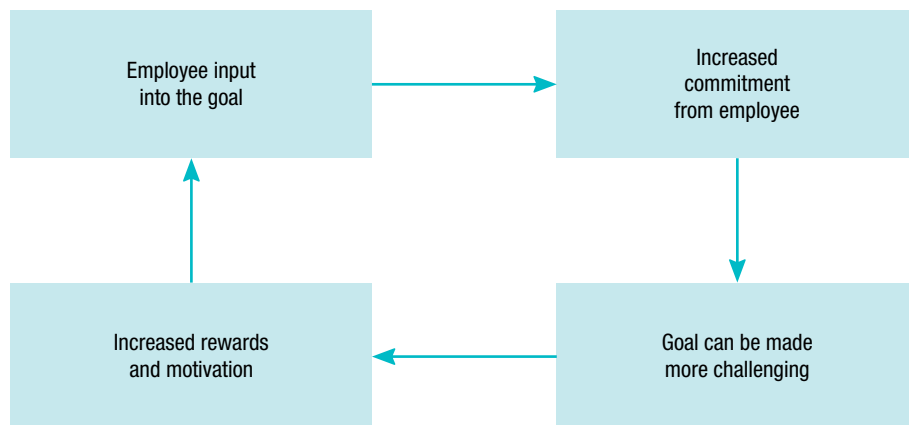
Simply telling someone to 'do your best' or 'improve your performance' is not as effective as setting clear achievable and specific measures, such as 'improve sales by 10 per cent' or 'increase production output by 5 per cent'. Giving goals clarity means making them unambiguous and measurable. Goals should be simple, clear and as specific as possible. It is important that everyone understands what is expected, and the result that will be rewarded. A vague goal such as 'provide leadership to your work colleagues' has very little value as a means of motivation, because it does not include any specific actions that could be taken to achieve this. In addition, goals should be developed within a time frame, so there is a clear end date for the goal to be achieved. This will vary according to the nature of the goal.

### Challenge

People are often motivated by achieving something they have not successfully completed before. The opportunity to complete a task that is highly valued by the owner or management of a business can provide a level of challenge that can motivate an employee. The goal should extend the employee, but should still be achievable. There is no point in setting a goal that is beyond the capabilities of the employee, or that sets him or her up for failure. At the same time, a goal that is too easy, or does not seem to have much importance in the operations of the business, will not provide much in the way of motivation. The significance of the challenge should also govern the rewards available to the employee for successfully achieving the goal. Goals must also be relevant, in that they help to realise the overall business objectives.

### Commitment

In order to ensure the employee will actively pursue the achievement of a goal, there must be a commitment on the part of the employee. While it is possible for the goal to be provided entirely by the employer or management, a goal into which the employee has had some input is more likely to serve as motivation. It is here that management styles can play an important role. A manager who adopts a participatory style will seek to give employees maximum input into the determination of appropriate goals. This does not mean that the employee decides the goal, but that it is negotiated between manager and employee, to achieve a balance between the objectives of the business and the particular strengths and skills of the employee. A consultative manager will also seek input from the employee. It is generally recognised that the greater the input from the employee, the more likely it is that the employees will commit to it, which means that a more challenging goal can be set, leading to greater rewards in the end. Increased rewards for achieving a goal will provide greater motivation for the employer to attempt the next goal.



The importance of employee commitment to a goal

## Feedback

An effective goal program must also include opportunities for feedback to the employee. Frequency of feedback can depend on the timeframe of the goal. Feedback provides opportunities to offer recognition for progress achieved, to make adjustments to the goal if necessary, and to ensure expectations are clear and realistic. Sometimes a goal can be broken down into smaller milestones to allow for progress to be measured along the way and achievements to be recognised. Feedback can be informal and may consist of little more than a catch-up over coffee. For longer term and more complex goals, formal feedback sessions may be necessary to ensure necessary detail is communicated.

## Task complexity

While goals should be challenging enough to motivate employees, it is important the level of complexity should not overwhelm them. It is important that any additional training that is required to assist the employee to complete the task is provided in a way that allows for genuine skill development over time. It is also important that deadlines and completion dates are appropriate for the task and the skill level of the employee. The aim of the exercise is to motivate the employee to contribute to the objectives of the business, and so every effort should be made to ensure that the process provides success for both the employee and the business.

Goal-setting theory is often associated with the concept of setting **SMART goals**: goals set should be Specific, Measurable, Attainable, Relevant and Time-bound. Setting goals that are specific, measurable and time-bound can relate to the *clarity* of the goals. Goals that are attainable and relevant relate very much to the levels of *challenge* and *commitment* required. When goals are measurable and time-bound, this can assist with the level, frequency and type of *feedback* provided. Setting goals that are attainable also relates closely to *task complexity*. Goal setting theory also links closely with the principles of management by objectives (see chapter 4, section 4.3, Performance management strategies). Note: Please be aware that, while related, SMART goals are not a part of Locke's theory and should not be used to cover the key elements of the theory in your VCAA exam.



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

**SMART goals** are goals that are Specific, Measurable, Attainable, Relevant and Time-bound.



### TEST your understanding

- 1 Explain how goal setting affects a person's motivation.
- 2 Explain what is meant by 'clarity' when it comes to setting goals for employees.
- 3 Why do you think that setting goals that are easy to achieve might lower motivation?
- 4 Why is 'task complexity' an issue in the process of goal setting?
- 5 Outline the relationship between the principles of setting SMART goals and the goal setting theory of Locke and Latham.

### APPLY your understanding

- 6 Have you set goals for yourself recently? If you did, how did this affect your motivation?

- 7 What goals might a football club establish at the start of a new season? Why do clubs set such goals?
- 8 Dean is a sales manager in charge of 15 sales representatives. He wishes to provide motivation for each of these representatives to improve their sales figures during the coming six-month period, and believes that the goal setting theory may provide him with the means of doing this.
  - (a) Outline a step-by-step process he could adopt with each of the sales representatives to establish such a program.
  - (b) Explain how he might monitor the process during its operation.
  - (c) What would you expect to occur at the completion of the six-month period?

# 3.4 Motivation theories: four drives theory



**KEY CONCEPT** The four drives theory attempts to identify the basic human drives that determine all human behaviour and apply these as a means of motivating employees in the workplace.

The four drives theory was developed by Dr Paul Lawrence and Dr Nitin Nohria, from the Harvard Business School, and outlined in their book *Driven: How Human Nature Shapes Our Choices*, published in 2002. They identified what they believe are the four main drives that shape the way in which all human beings think and behave. In doing so, they were attempting to explore the very core of human nature and the key determinants of all human behaviour. By applying what they saw as the four basic human drives to the business world, they hoped to be able to identify what motivates a range of stakeholders, including employees, customers, competitors and others.

## The four drives

Lawrence and Nohria identified the following as fundamental to all human behaviour:

- the drive to **acquire** — includes the desire to own material goods, and encompasses the desire for status, power and influence
- the drive to **bond** — includes the strong need to form relationships with other individuals and groups
- the drive to **comprehend** — includes our desire to satisfy our curiosity, to learn new skills and to explore the world around us
- the drive to **defend** — the desire to remove threats to our safety and security and to protect what we regard as 'ours'.

The four drives theory provides an A, B, C and D of human behaviour that covers all of our emotions and motivations, and is firmly planted in our evolutionary past. The drives to acquire, bond and comprehend are active drives, while the drive to defend is a latent drive that becomes active only in the face of a threat.

## The four drives and employee motivation

An employer or manager can harness the four drives in the development of a work environment that will motivate employees and encourage them to work productively towards achieving business objectives.



Providing opportunities for employees to feel proud of the work they do can satisfy the need to acquire and achieve.

### study on

Unit 3

AOS 2

Topic 2

Concept 3

**Four drives theory (Lawrence & Nohria)**

Summary screen and practice questions



## Acquiring and achieving

The drive to acquire can be expanded to include *achievement* as a means of identifying and including the desire for non-material things, such as status and influence. Employers and managers can apply this in the workplace by:

- ensuring levels of remuneration are comparable with those of competing businesses, to ensure that valued staff are satisfied and not easily lured away
- tying monetary rewards to improvements in performance
- recognising good performance from employees with appropriate financial incentives
- providing opportunities for employees to feel proud of the work they do, and to feel that they can distinguish themselves through their work
- clearly expressing the expectations of the business, particularly in relation to the ways in which work performance will be evaluated
- establishing high levels of performance as the norm, and the standard by which all employees are judged and rewarded.

## Bonding and belonging

In the context of motivating employees within a business, the drive to bond is most commonly expressed through a sense of *belonging*. Businesses wishing to harness this drive as a means of motivating employees will encourage this in the following ways:

- Managers and leaders will be people oriented, and will seek to interact with all employees in a positive and encouraging manner.
- Management will seek ways to demonstrate that it cares about individuals on a personal level, by recognising achievements outside of the workplace and milestones such as birthdays, or years of service.
- Teamwork and collaboration will be encouraged and recognised, and collective achievements highly valued.
- Sharing of best management practice amongst employees will be rewarded and staff will be encouraged to support the team culture.
- Employees will be encouraged to trust each other and to support colleagues.
- Personal friendships between employees are fostered and supported.

## Comprehending and learning

The drive to comprehend encompasses the need for *learning* to be part of the workplace experience, as well as the need to maintain interest and mental challenges. This drive can be used to provide motivation in the following ways:

- Opportunities to learn new skills are provided on a regular and ongoing basis.
- Tasks are made as interesting as possible.
- Each person's duties include a variety of different tasks to provide stimulation and avoid the boredom that can come from constant repetition.
- Challenges are built in to all work assignments to increase satisfaction when a difficult task has been completed.
- Employees feel that they are gaining additional skills and valuable experience as they go about their daily work.
- Management actively supports employees in gaining new skills and qualifications, including formal qualifications from external institutions such as universities and TAFE colleges.
- Each job or set of duties within the business is valued as making a significant and meaningful contribution to the achievement of the business's objectives.



Harnessing the drive to bond allows collective achievements to be highly valued by employees.

## 3.4 Motivation theories: four drives theory



Opportunities to learn new skills can satisfy the drive to comprehend.

### Defending

As the latent drive, defending comes into play in ensuring that the work environment is safe and non-threatening, with high levels of trust between employees and management. Motivation comes from removing fears and insecurities from the workplace.

- The workplace is welcoming and supportive, and intimidation is not used as a management technique.
- Managers treat all employees fairly and are seen to do so consistently.
- Systems and processes for determining rewards and recognition within the business are fair and transparent, so that no-one feels that any other employee is the subject of favouritism, or that they have been discriminated against.
- Managers and leaders foster an atmosphere of trust, by ensuring they are consistent and honest in all dealings with employees.
- Employees are encouraged to speak up, to air their concerns and offer suggestions, with full support of management, and without any fear of reprisals.



### TEST your understanding

- 1 What are the 'four drives' identified by Lawrence and Nohria, that they believe provide motivation for all human behaviour?
- 2 Explain two ways in which the drive to acquire and achieve can be harnessed to motivate employees in a workplace.
- 3 How can the drive to bond and belong be used to motivate employees?
- 4 In what ways does the drive to comprehend and learn usually show itself in human behaviour? How can employers make use of this drive to achieve improved work performance?
- 5 Outline two ways in which an employer can provide a workplace that satisfies and which employees would drive to defend.

### APPLY your understanding

- 6 Create two checklists, one under the heading 'Things to do', and one under the heading 'Things NOT to do'.
  - (a) Under the first heading, provide a list of at least eight actions that a manager could take to ensure he or she is making use of the four drives theory to improve employee motivation.
  - (b) Under the second heading, develop a list of at least eight actions that a manager should NOT do if he or she wishes to maximise employee motivation using the four drives theory

# APPLY YOUR SKILLS

Motivation theories — do they work?

## PRACTISE YOUR SKILLS

- define, describe and apply relevant business management concepts and terms
- research and analyse case studies and contemporary examples of management related to managing staff in a business
- interpret, discuss and evaluate business information and ideas
- apply knowledge about managing employees to practical and/or simulated business situations
- examine and apply the key principles of the theories of motivation
- compare and evaluate strategies used for motivation and training when managing a business
- propose and justify strategies to manage employees effectively.

In order to increase productivity, it is very important that managers understand the factors that motivate their staff to want to work. The theories of Maslow, Locke and Latham, and Lawrence and Nohria provide us with some guidance as to what motivates staff, but do they work in the real world? Through the following case studies, let us have a look at whether they are just theories, or if they can be put into practice.

### Goal-setting theory — is there any point?

Insurance Australia Group (IAG) owns brands such as NRMA Insurance, Swann Insurance and CGU. The business uses goal setting with staff when completing performance reviews. An Employee Pledge outlines each employee's accountability (for example, owning their own performance), how they will behave to deliver that performance and what behaviour they will avoid (for example, making excuses for not achieving their goals).

Kevin Cleland, the manager of IAG's retail business insurance sales team, says that there has been a large improvement in the performance of his business unit, as a result of the pledge being used as a framework for performance discussions and goal setting. Goal setting increases incentives for workers to complete work quickly and effectively, improving individual performance.

There are some disadvantages or limitations to Locke's theory. These include:

- time-consuming goals, which can result in employees having a hard time remaining motivated while they complete tasks. These tasks might eventually seem unimportant or not challenging.
- conflict between the goals of the employee and the goals of the business. Goal conflict can have a detrimental effect on both employee and business performance.
- difficult or complex goals that stimulate risky behaviour. Goals need to be challenging but not overwhelming.
- employees lacking skills or the competency to perform actions essential for achieving goals. This may lead to goal-setting failure, undermining performance.



Goal setting allows management to motivate staff by working with them to set clear and challenging goals, and then provide feedback on how they are progressing.

- Goal setting increases incentives for workers to complete work quickly and effectively, improving individual performance.

It is also important to know that individual employees each have a unique 4-Drive Motivational profile.

### Putting the four drives theory into practice

The Lantern Group is a motivational consulting firm that specialises in working closely with their clients to increase the engagement and motivation of their workforce. The following article appeared in one of their online blogs.

#### What great leaders need to do

Rightfully or not, many employees look to the company to provide them with their motivation for work. While many of these motivations are inherent in a company, good leaders know that they have to work at it constantly to ensure that they are satisfying all four drives.

#### 1. Focus on all 4 Drives

It is important to understand that all the good work that a company or leader does in these four areas can be ruined if one of the four drives is lacking. Research shows that weakness or fulfilling one of the 4-Drives 'casts a negative halo' effect on how the company or leader performs on all the other 3 drives. It is important then for a leader to ensure that they are identifying and addressing any issues that they see in any of the four drive areas.

#### 2. Individualise motivation

It is also important to know that individual employees each have a unique 4-Drive Motivational profile. In other words, some employees will respond or require greater satisfaction of the A drive, while others will focus more on the C drive (or B or D). Each employee will perceive how the company or leader is performing on each of these drives differently. Good leaders are those who understand these differences and can focus specific employees on satisfying the drives of their specific needs.

#### 3. Communicate effectively

Leaders need to effectively communicate how their systems, policies and structure align with the four drives. In other words, they need to be able to explain, or to map out the connections between what the company is doing or providing and how this would satisfy one or more of the drives. For instance, a leader could identify the reasons that they are sponsoring a community service event is not only to help the community (drive D) but also to provide an opportunity for employees to get to know each other and their families (drive B) and to give them a chance to learn a new skill (drive C).

#### 4. Experiment

Good leaders constantly look for ways of enhancing each of the four drives, by being committed to looking for different ways and different opportunities for employees to satisfy their needs. One such way could be to implement new structures and processes and see how they work.

Source: The Lantern Group, <https://thelantengroup.wordpress.com/2011/04/28/how-leaders-can-impact-the-4-drives-of-employee-motivation/>



### TEST your understanding

- 1 Read 'Goal-setting theory — is there any point?' List the advantages and disadvantages of Locke's theory.
- 2 Why is it important that a leader focuses on all four drives when managing employees?
- 3 Explain what is meant by 'individualising motivation'.
- 4 Outline the importance of communication and experimentation in enhancing the use of the four drives theory with employees.

### APPLY your understanding

- 5 'Goal-setting provides a sense of direction and purpose for employees.' Discuss whether or not you agree with this statement.
- 6 TechSol is an IT consultancy business that is expanding rapidly. It hired four new computer science graduates at the beginning of the year, but now two of them have indicated that they wish to leave because of low job satisfaction.

Using one of the three theories of motivation discussed in this chapter, set out a practical process by which TechSol could improve the working environment to motivate and retain these two graduates, and ensure they are better able to retain such employees in the future.

- 7 In groups of three, prepare a short role play, demonstrating your understanding of one of the motivational theories. Your play should illustrate situations before and after a motivational theory is applied. For example, if you choose to present the five needs highlighted in Maslow's theory, you might dramatise a scenario where a young, inexperienced employee in a bakery, employed for the Christmas period, is unsure of their long-term job prospects. For example, you could outline whether or not their physiological needs are met, and whether or not their safety and security needs are met. Finish your play by showing how these needs could be resolved.



# 3.5 Motivation strategies — financial



**KEY CONCEPT** A business may use financial or non-financial strategies to motivate employees. Financial strategies usually involve the provision of additional wages or salaries, or other financial benefits as a means of motivating employees.

We all go to work to earn money, in order to purchase the goods and services we need. The opportunity to earn additional wages or salary by increasing or improving work performance can be a powerful form of motivation for employees. An employer has a number of ways of using financial incentives to motivate employees, including performance-related pay, as well as access to a share in the profits of the business.

## Performance-related pay

An employer can provide motivation with direct payments to employees, such as pay increases, bonuses and commissions.

### Pay increases

When an employee begins work at a particular business the level of pay will be set by either an **Award** or an amount agreed to in an employment contract. This will probably be a standard amount paid to any new employee carrying out the same duties in that business. It is then open to the employer to offer pay rises to any employees who work hard, or who make a significant contribution to the achievement of business objectives. Such a pay rise would usually involve an increase in the hourly or daily rate of pay, and can serve as a strong incentive for employees to make that extra effort.

### Bonuses

A **bonus** is a one-off payment given to a particular employee or group of employees as a reward for meeting particular targets, or some other special effort. It does not involve any ongoing pay rise. Some businesses will hand out bonuses to employees at Christmas time to reward them for their efforts throughout the year, and provide them with a little extra spending money for the festive season. Different employees within the business may receive bonuses of differing amounts, depending on their contribution to the business as perceived by the employer.

### Commissions

A **commission** is an amount paid for accomplishing a sale. It is usually a fixed percentage of the sale price, and is paid to the salesperson who accomplished the sale of the service or product. The real estate industry is one in which salespeople earn most of their income from commissions. The finance industry also uses commissions for salespeople selling products such as insurance policies. Often the salesperson will be paid a relatively low base salary, which is topped up by commissions. The more sales the person makes, the greater their pay, so they have a strong incentive to make as many sales as possible.

### Other financial incentives

One of the objectives of a business is to increase profits, so providing employees with access to a share of those profits can be a powerful form of motivation.

#### study on

- Unit 3 Performance pay and career advancement
- AOS 2
- Topic 3 Summary screen and practice questions
- Concept 1

An **Award** is a legally binding agreement that sets out minimum wages and conditions for a group of employees in a given industry.

A **bonus** is a one-off payment given to a particular employee or group of employees as a reward for meeting particular targets, or for some other special effort.

A **commission** is an amount paid for accomplishing a sale, paid to the salesperson who accomplished the sale, and usually calculated as a fixed percentage of the sale price.



Real estate salespeople earn most of their income from commissions.

## Share plans

A registered company can offer shares in the ownership of the business to its employees. If the business is successful, the profit is paid as a dividend to its shareholders, so the employees will gain additional income from contributing to increased profits. If the business is a public company with its shares listed on the Australian Securities Exchange (ASX), good levels of profit can lead to an increase in the share price over time, so the value of the employees' shareholdings can increase, providing them with a valuable asset. When a company provides shares to its employees in this way, they are usually required to retain ownership of those shares while they remain employed by that company, and often have to sell them back to the company when they leave.



The ASX was formed on 1 April 1987 and has an average daily turnover of more than A\$4.5 billion.

**Gainsharing** is a method of rewarding employees for making suggestions that improve productivity in a business. The savings achieved from these improvements are distributed to the employees.

**Productivity** is a measure of efficiency — the amount of output compared with the amount of input in production.

### study on

- Unit 3 **Evaluating motivation strategies**
- AOS 2
- Topic 3 Summary screen and practice questions
- Concept 3

## Profit sharing

Instead of providing employees with shares, a company can offer a percentage of the profits to its employees as an incentive to work hard and raise the level of those profits. Usually the employees will be offered a fixed percentage of the profits, so the amount will vary from year to year. Clearly it is in the interests of all employees to maximise profits to earn the largest possible amount from the profit sharing scheme.

## Gainsharing

A particular type of profit sharing is a system known as **gainsharing**. In a gainsharing program, employees are encouraged to offer suggestions to improve **productivity**, or to reduce production costs. The savings to the business from those improvements are then distributed to the employees. The system is not necessarily tied to levels of profit, but to measured improvements in productivity when compared to the previous situation. Because it relies on ideas and suggestions from employees, it can provide a useful tool to engage employees in improving the operational systems of the business.

## Advantages and disadvantages of financial motivation strategies

The advantages and disadvantages of different financial motivation strategies can be summarised in the table on the opposite page.

### Advantages and disadvantages of different financial motivation strategies

Strategy	Advantages	Disadvantages
Pay increases	<ul style="list-style-type: none"> <li>The pay rise can be tied to levels in an Award, and so can be predictable and easily calculated</li> <li>When more experienced employees are on the higher level of pay, it provides the newer employee with a clear target to aim for in a pay rise</li> </ul>	<ul style="list-style-type: none"> <li>Once the employee is receiving the higher level of pay it is difficult to cut pay if the employee's performance declines</li> <li>Other employees doing the same work may expect a similar level of pay, even if their performance is not as good, leading to jealousies and lower morale</li> </ul>
Bonuses	<ul style="list-style-type: none"> <li>Can be varied from employee to employee, depending on level of performance, as each employee's bonus is confidential</li> <li>Only have to be paid when there is actual performance improvement</li> </ul>	<ul style="list-style-type: none"> <li>If confidentiality is not maintained, different levels of bonus can lead to conflict between employees</li> <li>If the value of the bonus is not maintained or increased each year, it may lead to employee dissatisfaction</li> </ul>
Commissions	<ul style="list-style-type: none"> <li>Only apply when sales take place, so a relatively low cost for the employer</li> <li>Can motivate sales staff to work harder to close a deal, so genuinely rewards effort</li> </ul>	<ul style="list-style-type: none"> <li>If base pay is too low, some employees may not earn enough, so may leave, resulting in high staff turnover</li> <li>Can lead to large differences in staff pay, with possible morale issues</li> </ul>
Share plans	<ul style="list-style-type: none"> <li>All employees have an interest in increasing profits and improving the share price</li> <li>Employees feel a sense of ownership and belonging in the business as they are shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Share prices can go up and down independently of the performance of the business because of the vagaries of the market, so may not be a secure investment for the employees</li> <li>Employees are usually not permitted to sell their shares until they leave the company</li> </ul>
Profit sharing	<ul style="list-style-type: none"> <li>Tied to levels of profit, so genuinely rewards improvements in that measure</li> <li>Is relatively easily calculated, and the percentage can be determined in advance, so is very transparent</li> </ul>	<ul style="list-style-type: none"> <li>Usually does not vary between employees so does not always identify individual effort or performance</li> <li>If profit drops because of external factors, employees may feel unfairly treated when their share declines</li> </ul>
Gainsharing	<ul style="list-style-type: none"> <li>Involves employees in improving productivity, so improves level of engagement and commitment</li> <li>Paid according to measurable improvements, so has a readily calculated value</li> </ul>	<ul style="list-style-type: none"> <li>Employees who have made suggestions for improvement may have to share the benefits with those who have not made such a contribution</li> </ul>



#### TEST your understanding

- 1 Explain how an employer can use the promise of pay increases to motivate employees.
- 2 What is the difference between bonuses and commissions?
- 3 Outline the possible benefits to employees of owning shares in the company that employs them.
- 4 How can schemes such as profit sharing and gainsharing reward employees for their contribution to achieving business objectives?

#### APPLY your understanding

- 5 If you were managing a business and had the choice of offering permanent pay rises to employees over time, or

bonuses once a year for good performance, which would you choose? Provide reasons for your choice.

- 6 If you were offered a sales job that included a low base pay, but had access to commissions based on the number of sales you achieved, would you be happy to accept those conditions of employment? Give reasons for your answer. What additional information would you want before accepting the position?
- 7 A small manufacturing business decides to set up a gainsharing program for its employees, while at the same time following Locke and Latham's goal setting theory. Explain how these two approaches could work together to improve motivation and help achieve business objectives.

# 3.6 Motivation strategies — non-financial



**KEY CONCEPT** In addition to providing financial rewards, employees can use a number of other strategies to motivate employees. These usually relate to the ways in which managers and leaders respond to the personal needs and ambitions of employees.

As we have seen with the motivation theories of Maslow, Locke and Latham, and Lawrence and Nohria, people's motivations are often closely related to their personal and emotional needs. Effective managers and business leaders recognise the importance of going beyond purely financial incentives to provide motivation that reflects the individual needs and ambitions of their employees.

## Career advancement

For most people in the workplace, the opportunity to advance to a better job is an important objective in their career plans. This can occur within a workplace, or by moving to a new workplace. Traditionally in Australia, the majority of people who entered the workforce during the period from the 1950s to the 1980s tended to remain with the one employer for long periods of their working life. Having a secure job was a high priority, and employees were often prepared to wait for a promotion opportunity to come up within their workplace. This has changed over the last 20 to 30 years, with younger employees more willing to change employers every few years in order to move up to a better paid or more challenging or interesting job. In this context, it is important for employers to provide career advancement within the workplace if they wish to retain valued employees.

The opportunity to move into a more challenging or stimulating position, with some supervisory or managerial responsibilities, can provide valuable motivation for employees. Career advancement provides a means by which some of the higher level needs in Maslow's hierarchy can be satisfied. An opportunity to be involved in decision making in a leadership position can satisfy the social needs; gaining responsibility through promotion can satisfy esteem needs; and providing creative and interesting work can satisfy self-actualisation needs. In the same way, career advancement also satisfies some of the four drives as outlined by Lawrence and Nohria. The drive to achieve and acquire status and influence, the drive to bond and belong, and the drive to learn and comprehend can all be satisfied by promotion and career advancement.



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



## Investment in training

Improving the skills of employees has benefits for both the business and the workforce. A skilled workforce can improve productivity, and help achieve core business objectives. Providing employees with additional skills can increase job satisfaction, and promote higher levels of motivation. A more highly skilled job will usually pay more, so naturally employees will take the opportunity to take on additional training to give them access to those types of jobs. A business that invests in training can gain a number of advantages.

In terms of Maslow's hierarchy, providing additional training supports the esteem need by providing the employee with a sense of accomplishment on successful completion of the training. The personal growth and development that comes from gaining new skills can also help satisfy the self-actualisation need. In terms of Locke and Latham's goal setting theory, training and skill development goals can be established for employees to improve their own abilities, as well as to contribute to the business in a concrete way. Completing a particular training course is a clear and unambiguous goal; it can provide a suitable challenge; it requires commitment on the part of the employee; it provides many opportunities for positive feedback; and it can involve an appropriate level of task complexity without overwhelming the employee. Staff training also satisfies a number of the drives identified by Lawrence and Nohria. A sense of achievement through the acquisition of new skills, an opportunity to bond and belong by demonstrating a higher level of skills to contribute to business objectives, and the learning and improved comprehension that comes from training can all satisfy these basic drives.

## Support and sanction

Support and **sanction** are two sides of the one coin in that they represent the positive and negative ways in which an employer can relate to employees. Providing support and encouragement for employees can motivate them to do better, and should always apply when an employee has done a particularly good job, or achieved a pre-arranged goal or target. Support can also be relevant when an employee has made a mistake, particularly if the employee is relatively new or inexperienced. Most people learn from their mistakes, and provided the mistake has not endangered other workers, or seriously jeopardised the relationship with a valued customer or supplier, the employee



### study on

Unit 3

**Investment in training, support and sanction**

AOS 2

Summary screen and practice questions

Topic 3

Concept 2

A **sanction** is a form of penalty or punishment.

Blaming an employee when things go wrong has very limited value.

may benefit from the experience. Providing a supportive environment can encourage the worker to take greater care in future.

At times, sanctions or punishment may be necessary when an employee does the wrong thing in the workplace. This is particularly relevant if the error is deliberate or reckless, and may be potentially harmful to other staff or customers. While positive encouragement is likely to motivate most people, fear of sanctions can also be a motivating factor. Such fear will generally only influence lower order needs on the Maslow hierarchy, such as physiological, or safety and security needs, but can also influence the defence drive as identified by Lawrence and Nohria. A desire to avoid unpleasant consequences can be influential in motivating some people, but otherwise has very limited value. Positive reinforcement and support are likely to be more effective in providing motivation in most cases.

## study on

- Unit 3 **Effect on short- and long-term motivation**
- AOS 2
- Topic 3 Summary screen and practice questions
- Concept 4

## Advantages and disadvantages of non-financial motivation strategies

The advantages and disadvantages of different non-financial motivation strategies can be summarised as follows.

### Advantages and disadvantages of different non-financial motivation strategies

Strategy	Advantages	Disadvantages
Career advancement	<ul style="list-style-type: none"> <li>• Can provide a means of retaining valuable employees</li> <li>• Satisfies three of the higher level needs of Maslow's hierarchy</li> <li>• Can satisfy some of the four drives (Lawrence and Nohria)</li> </ul>	<ul style="list-style-type: none"> <li>• Promotion positions cannot just be created — they have to have some purpose</li> <li>• Employees may have to compete for a limited number of promotion positions, creating some rivalries and conflict</li> </ul>
Investment in training	<ul style="list-style-type: none"> <li>• Benefits the business by improving the skills of employees</li> <li>• Improving skills can satisfy higher level needs in Maslow's hierarchy, as well as providing goals for goal-setting theory, and satisfying some of the four drives</li> </ul>	<ul style="list-style-type: none"> <li>• Unless there are sufficient jobs within the business requiring higher level skills, training may be wasted</li> <li>• The business may pay the cost of training only to have the employee leave for a position in another business</li> </ul>
Support and sanction	<ul style="list-style-type: none"> <li>• Support and encouragement can influence employee attitudes, improving motivation</li> <li>• Sanctions for poor behaviour in the workplace can motivate some workers to improve their work performance</li> </ul>	<ul style="list-style-type: none"> <li>• It may be difficult to find reasons to support and encourage some employees</li> <li>• Excessive emphasis on sanctions can reduce employee sense of belonging, and therefore have a negative impact on motivation</li> </ul>



### TEST your understanding

- 1 Why is it important for employers to provide career advancement opportunities?
- 2 Explain why investment in training is able to provide benefits for both employers and employees.
- 3 Under which circumstances might it be appropriate to use a sanction or punishment with an employee?
- 4 Why is it usually better to use support and encouragement rather than punishment and sanction?

### APPLY your understanding

- 5 Jane is human resource manager at a pharmaceuticals company. She is a strong believer in using Maslow's hierarchy of needs as a means of motivating employees within the company. How can each of the following strategies help her to meet the motivational needs of employees:
  - (a) providing career advancement opportunities
  - (b) investing in the training of employees?
- 6 Identify and explain three of the difficulties Jane may face in implementing these strategies.

Motivated employees will always perform better in the workplace than those who simply turn up, do the bare minimum and collect their pay. While everyone recognises the importance of money as a motivating force, the use of non-financial motivation strategies can add to business performance and greatly assist in achieving business objectives.

### Motivating means more than money

Managers often instinctively resort to financial reward as the main method of motivating their staff. However, many studies have shown that for people with good salaries, non-financial motivators are more effective than offering extra money. Some non-financial motivators that have been found to be very effective include:

- 1 *Regular attention from leadership.* This may occur, for example, through monthly one-on-one conversations, which can nurture the bond between employee and manager as well as improve performance. This involves a manager taking time out to reflectively discuss performance with each employee and create individual action plans. Many businesses have replaced their annual performance appraisals with regular check-ins.
- 2 *Praise or recognition.* Acknowledgement from management is very important for engaging employees. This does not necessarily require the recognition of staff at annual awards nights or functions. However, many businesses do this. A simple thank you note handed to a staff member or an email praising them for a job well done can also have very positive consequences. Employees can also be encouraged to praise or recognise each other.
- 3 *Responsibility.* By giving employees more responsibility they feel their contribution is more valuable to the business. This might include the opportunity to lead a project or a special task force.
- 4 *Provide creative, challenging and varied work.* Employees will find their jobs more engaging if they are challenging and interesting. Sometimes tasks can be made more interesting simply by removing unnecessary aspects of the job, such as excessive paperwork or bureaucratic systems.

Financial rewards can result in short-term motivation, which can have damaging, unintended consequences. Non-financial motivators can be much more cost-effective. They also have the extra benefit of making employees feel that the business values them, leading to improved productivity. Motivated employees are more likely to be retained by the business, which reduces recruitment and training costs. Research carried out by RedBalloon and AltusQ in 2013 suggests that a highly engaged workforce is a highly productive workforce. Their *Employee Engagement Capabilities Report* found that businesses with the highest levels of engagement outperformed other businesses in performance indicators including sales and turnover, profit, productivity, staff retention, attracting talent, customer loyalty and customer satisfaction.

So why don't more managers make use of non-financial motivators? One factor deterring businesses from using non-financial motivators is the traditional management belief that only money matters as a form of incentive. Another reason is the greater amount of time and commitment required from managers to use the non-financial motivators. Many of these motivators require management to interact with employees, and failing to do so can seriously harm employee engagement.

Optiver is a Dutch market maker trading company. A market maker is a company that quotes a buy and a sell price for financial commodities, such as shares, options and futures. The traders and IT developers who work at Optiver generate large numbers of instructions, using automated trading software, to move in and out of trades very quickly.

The company has created an engaged, highly satisfied workplace at its Australian headquarters in Sydney, which was voted the best place to work in Australia by BRW in 2013.

Optiver hires talented people and teams new recruits with a buddy to make the induction process work smoothly. It offers flexible conditions and training in ethics, and makes an effort to cut 'red tape' and bureaucracy. Employees are encouraged to pursue interests outside of work. Open communication and teamwork are used to gather and act on the ideas of staff.

The work that staff do at Optiver is, in itself, interesting. Many employees report a major buzz from the experience of trading.

• . . . studies have shown that . . . non-financial motivators are more effective than offering extra money.



### Motivating employees at Fonda Mexican Restaurant

The word 'Fonda' is used in Mexico to describe a house with an open kitchen, where visitors are always welcome. The Fonda restaurant chain was founded in Melbourne by David Youl and Tim McDonald in 2011, and aims to carry on this tradition of a relaxed and welcoming dining experience. Although the restaurant now operates at five different sites in Melbourne, David and Tim have chosen not to make use of a franchise model, as they wish to maintain a consistent management culture across each of the restaurants. This culture encompasses the following features:

- Alignment between the business objectives and employee objectives is given highest priority. This means that employees have a direct interest in improving the profits of the business through a system of profit sharing.
- Each branch of the business is managed by a Restaurant Business Leader. This person is paid a base salary, which is augmented monthly by a 7 per cent share of the profit of that restaurant. The higher the profit, the larger the amount paid to the RBL. Base salaries are kept relatively low, but the share in the profits has meant that the actual take home pay is generally higher than the industry average.
- Assisting the RBL in each restaurant is a Senior Assistant Business Leader, who is paid 3 per cent of the profits, and two or three Assistant Business Leaders who are each paid 2 per cent. While base salaries for each of the members of the leadership team is also relatively low, their share of profit inevitably means they actually take home salaries that are higher than comparable employees in other restaurants.
- The leadership teams meet together monthly with the business owners, when profit share payments are made and ideas for improving productivity are shared. Leaders are encouraged to learn from each other and to celebrate the achievement of business goals.
- Every three months, all staff meet for a 'Buzz Breakfast', at which a wide variety of staff achievements are reported and celebrated.
- An annual awards dinner is held each year for all employees, and this is seen as the company's equivalent to a Brownlow Medal celebration.
- Each May, the leadership teams meet to set the objectives for the next financial year. These objectives are broken down into monthly, weekly and even daily goals, and these goals are made measurable and communicated to all staff. It is not unusual for customers in one of the restaurants to see staff stop for 20 seconds and break out into cheering and applause when a daily sales goal or a food preparation time goal has been achieved.
- Staff are known as 'Fondarians', and are encouraged to see themselves as important team members. Ideas and suggestions for improvement from all staff is strongly encouraged, acknowledged regularly and celebrated.

In 2015, Fonda was recognised by the *Business Review Weekly* as the 22nd fastest growing company in Australia, up from 39th the previous year. Aligning staff motivation with business objectives has proved a recipe for success for Fonda in the very crowded and competitive hospitality industry.



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



#### TEST your understanding

- 1 Read 'Motivating means more than money'. Summarise the incentives that have been found to be effective in motivating staff.
- 2 To what motivational theories do these motivators relate?
- 3 Outline factors that could deter managers from using non-financial motivators.
- 4 How do the owners of Fonda Mexican Restaurants make use of both financial and non-financial strategies to motivate staff?
- 5 In what ways are the business objectives of Fonda Mexican Restaurants aligned with the objectives of employees in those restaurants?
- 6 Explain why customers at a Fonda restaurant may occasionally see employees break out into cheering, applause, and congratulating each other.

#### EXTEND your understanding

- 7 Survey your family and friends about what motivates them in the workplace. Use a selection of the main motivators as categories, including pay, working conditions, setting goals, achievement, recognition, creative and interesting work, and teamwork. Present your results neatly in graphs supported by a written conclusion, then compare and contrast your findings with those of your classmates.
- 8 Outline the ways in which the Fonda Mexican Restaurant business demonstrates how each of the following theories of employee motivation can be applied in a practical business situation:
  - (a) Maslow's hierarchy of needs
  - (b) the goal setting theory of Locke and Latham
  - (c) the four drives theory of Lawrence and Nohria.



# CHAPTER 3 REVIEW

## SUMMARY

### Human resources and business objectives and strategy

- Human resource management involves effectively managing employees in a business with the aim of ensuring the business objectives are successfully met.
- The overall business objectives of the business will determine the objectives and strategies adopted by human resources.

### Motivation and Maslow's motivation theory

- In order to achieve business objectives, staff must be motivated. A number of theories have been developed proposing how workers can be motivated.
- Maslow's hierarchy of needs theory requires that managers understand where each worker is situated according to a hierarchy of needs in order to try to satisfy employee needs appropriately.

### Motivation theories: Locke and Latham

- Locke and Latham's theory involves the establishment of clear, challenging goals as a way to motivate staff and improve their performance.
- Clarity, challenge, commitment, feedback and task complexity are the essential principles of goal setting theory.

### Motivation theories: Lawrence and Nohria

- Lawrence and Nohria identified four basic human drives that determine all human behaviour and applied these to the motivation of employees in the workplace.
- These drives are the drives to acquire, bond, comprehend and defend.

### Motivation strategies: financial

- Financial motivation strategies can include direct payment incentives such as pay increases, bonuses and commissions.
- Employees can also be motivated by having the opportunity to share in the performance of the business through share ownership, profit sharing and gainsharing.

### Motivation strategies: non-financial

- The opportunity for career advancement and access to training can provide levels of personal challenge and satisfaction that will motivate employees.
- Support and encouragement will generally produce better results than sanctions and punishment in the workplace.

## REVIEW QUESTIONS

### TEST your understanding

- 1 Devise your own definition of 'human resource management'.
- 2 Explain how human resource objectives and strategies are linked to overall business objectives.
- 3 Choose one motivational theory and explain how it could be used by a business to motivate staff.
- 4 Explain how an employer can use pay increases, bonuses and commissions to improve employee motivation.
- 5 How can share ownership plans, profit sharing and gainsharing be used to align business objectives with the personal objectives of employees?
- 6 Outline the key non-financial strategies that can be used to motivate employees.

### APPLY your understanding

- 7 An accountant in a major accounting firm is often late to work, his productivity has decreased, and some clients have complained that he is slow to respond to their requests. As the human resource manager, how would you handle this situation? Apply a motivational theory that you think could be used to improve his performance.

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Complete your end-of-chapter school-assessed coursework in Microsoft Word.

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- 8 Examine the advantages and disadvantages of different motivation strategies and describe the three most effective strategies that you would recommend a business use to maximise the motivation of its employees. Give reasons for your choices.

## SCHOOL-ASSESSED COURSEWORK

### OUTCOME 1

Analyse and evaluate practices and processes related to human resource management.

### ASSESSMENT task — structured questions

**Time allowed:** 50 minutes

**Marks allocated:** 20 marks (the marks for each question are indicated at the end of each question)

**Conditions:** closed book (no notes or textbooks may be used when completing this task)

- 1 What is a 'human resource manager'? 1 mark
- 2 What are 4 specific duties, functions or roles carried out by a human resource manager in Australia today? 1 mark

## HUMAN RESOURCES MANAGER

### OMNI TECHNOLOGIES

3-year contract  
Salary up to \$74 000 p.a.

The dramatic growth of Omni Technologies over the past 12 months has placed greater emphasis on the recruitment, retention and effective management and support of the 640+ employees who now work in the business.

This new and challenging position has arisen in response to the need to develop HR practices and initiatives across the company that support the business's needs and help provide an effective and enjoyable working environment. Key elements of the role include:

- Internal and external recruitment support
- Coordinating HR information and reporting systems
- Providing support to line management
- Developing training and development packages
- Contributing to employee support programs.

The position reports to the Group General Manager and will work in a small team of internal and external staff.

The role requires a person with appropriate tertiary qualifications in HR or a related area and who has extensive HR experience. You will possess well-developed written and verbal communication skills. You will be a skilful negotiator, have strong analytical ability and be self-motivated. Most important is the capacity to work effectively and sensitively with people in a large business.

Salary range: \$68 000 to \$74 000 per year

Tenure: Three-year contract with the possibility of renewal

Initial inquiries and written applications should be directed to Amelia Murphy, HR Officer on 03 9811 4593 or am@omni.com.au by Friday 31 July.

Omni Technologies Ltd  
is an equal opportunity employer  
and supports a non-smoking  
work environment

Omni Technologies Ltd  
PO Box 389  
Camberwell VIC 3124

- 3 Why is human resource management so important for businesses? 2 marks
- 4 Identify and justify two possible performance indicators that could be used to determine whether or not the successful applicant for a position has his or her contract of employment renewed after three years. 2 marks
- 5 Examine the advertisement on the previous page and answer the questions that follow.
- (a) Briefly explain how the function of HR is linked to the business objectives of large-scale businesses, using the advertisement to illustrate your answer. 2 marks
- (b) Identify those skills and characteristics identified in the job advertisement that would allow the successful candidate to implement a positive approach to employee motivation. 2 marks
- 6 Read 'Part of the furniture' below and then answer the questions that follow.
- (a) Using this information, explain what you think motivates each worker. 4 marks
- (b) Using a motivational theory that you have studied, explain how this theory could be used to motivate each worker. Also, state clearly the strategies you would adopt. 6 marks

### Part of the furniture

You are the human resource manager in a large furniture manufacturing company. You have become concerned about the performance of two valuable employees.

Peter has worked in the company for many years and is on a high salary due to his experience and skill development. However, he seems to have lost some interest in his work, especially after being overlooked for promotion in the business over recent months.

Veronica is a single mother with young children. She is scheduled to start work at 8.00 am, but is often late to arrive. She says she is unhappy with the poor pay she receives and is looking for a new job. She is a very good worker, who produces good results and is well liked in the company.

# CHAPTER 4

## Human resource management — managing employees and workplace relations

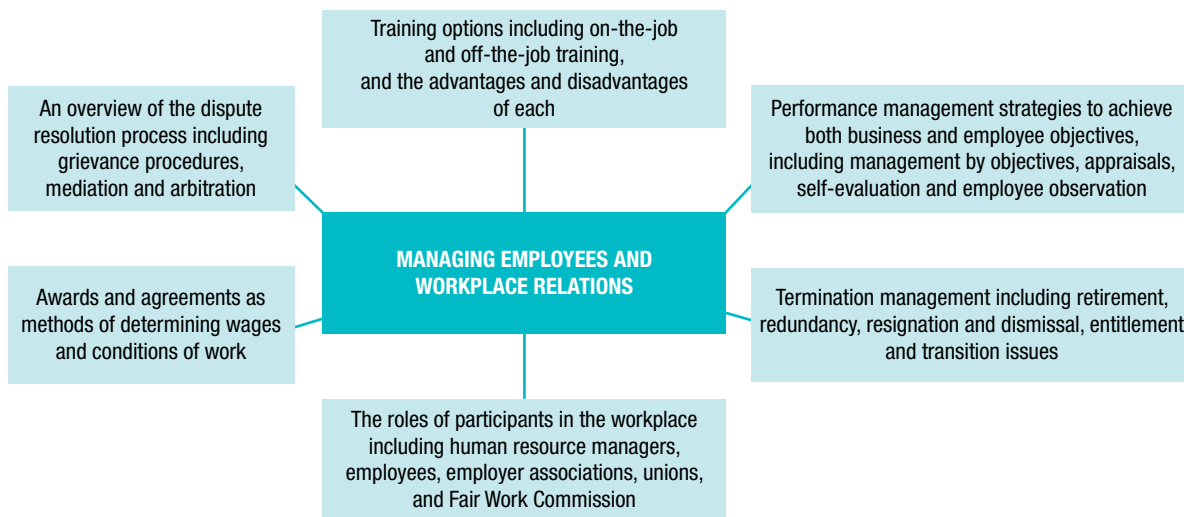
### WHY IT IS IMPORTANT

Images such as that opposite have been used as part of the recruitment drive for the Australian navy. The young woman in the image is seen to be making use of skills she has acquired through high quality training. All Defence Force recruitment material stresses the significance of training, recognising that young people don't just want a job, they want to gain skills, and they want a career path that provides a variety of opportunities. A significant task for managers in achieving the aims of a business is retaining and therefore keeping good employees. In this chapter, you will learn about how employees are 'maintained' in the workplace. Training and development of employees is essential to ensure the employee is able to carry out the required tasks, and improve chances of job satisfaction. Ongoing feedback on work performance can assist both the employer and employee to achieve their objectives. Termination of employment is the final phase of any employment arrangement; it must also be managed to ensure employees are treated fairly and within the law.

### WHAT YOU WILL LEARN

#### Key knowledge

Use each of the points below from the Business Management study design as a heading in your summary notes.



#### Key skills

- define, describe and apply relevant business management concepts and terms
- research and analyse case studies and contemporary examples of management related to managing staff in a business
- interpret, discuss and evaluate business information and ideas
- apply knowledge about managing employees to practical and/or simulated business situations
- examine and apply the key principles of the theories of motivation
- compare and evaluate strategies used for motivation and training when managing a business
- propose and justify strategies to manage employees effectively.







## Training and retaining staff at acQuire Technology Solutions

Perth-based acQuire Technology Solutions is an employee-owned company that provides a geoscientific information management system to companies operating in the mining and resources industry. It takes great pride in its processes of training staff and retaining them, with staff turnover a relatively low 4 per cent. It either hires geologists and trains them in the IT aspects of the business, or hires technologists with a background in IT, and then trains them in geology. Employees have their career path with the company planned three to five years in advance. Individual career needs and future succession planning are at the centre of these plans, and annual reviews help identify the next steps to be taken in each individual's career path. All employees have access to a training levy to help fund any professional or personal development that is seen to be appropriate in benefiting both the employee and the company.

Employees are encouraged to contribute suggestions for improvement and innovation through a computerised system known as 'Novedad' (Spanish for 'new ideas'). All ideas are assigned to an action officer, who has the responsibility for evaluating them and making recommendations to management. Novedad also provides a forum for other employees to have input into any new suggestions, often allowing for additional ideas to refine and improve the original concept. The company also makes use of a job satisfaction calculator to measure the level of employee satisfaction with their current role, and balance this with their anticipated career path. In completing this calculator, employees allocate 100 points across five employment categories, in terms of current position compared to their ideal job. Scores are discussed with mentors who work with the employee to take action where necessary.

The company has in place a number of strategies to support maximum use of employee skills, and to reinforce the strong desire to retain valued staff. Flexible working hours allow staff to come and go as they please. There are no time clocks as employees are trusted to put in the necessary time to complete their assigned duties. Staff are also able to work from home if they have a reliable internet connection. Profit sharing also forms part of the company's commitment to retaining staff, with eligible employees able to access shares in the company after three years of service.



A high level of training is provided to all employees at acQuire Technology Solutions

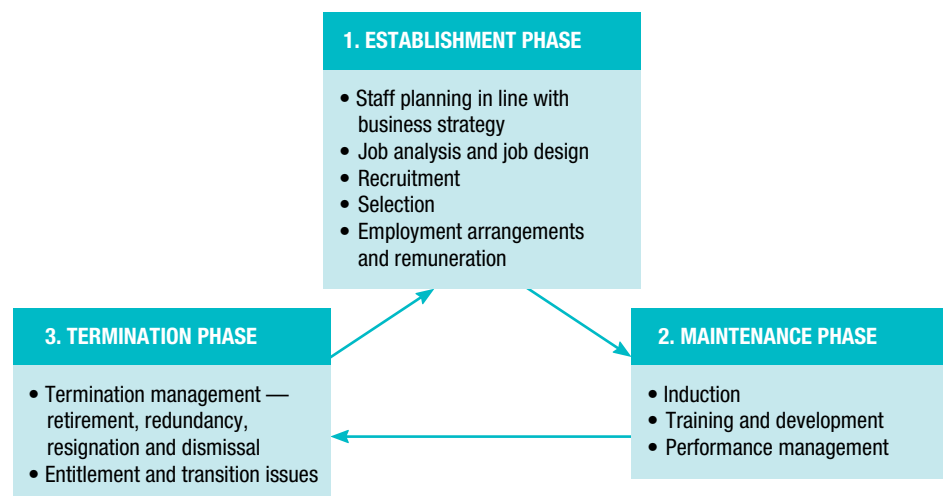
# 4.1 The employment cycle



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

## An introduction to the employment cycle

The employment cycle involves a business determining its employment needs in line with its business strategy. Once employment needs are established, it's time to hire staff. Once staff are employed, steps need to be taken to ensure employees are satisfied and productive. The final phase of the cycle is managing what happens when employees leave the business. These three phases of the employment cycle are summarised in the following diagram.



The three phases of the employment cycle

## Phases of the employment cycle

We will now look at these three phases in more detail.

### The establishment phase

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

#### Planning

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

**Job description:** the duties, tasks and responsibilities associated with the job.

**Job specification:** the qualifications, skills and experience that an employee would need to have to carry out the job.

#### Recruitment

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

**Job analysis** is the study of an employee's job in order to determine the duties performed, the time involved with each of those duties, the responsibilities involved and the equipment required.

A **job description** is the duties, tasks and responsibilities associated with a job.

A **job specification** is the qualifications, skills and experience that an employee needs to have to carry out a job.

transferring an existing employee into a new position, or promoting an existing employee into a position of greater responsibility.

### Selection

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

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

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

### Employment arrangements and remuneration

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

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An **Award** is a legally binding agreement that sets out minimum wages and conditions for a group of employees in a given industry.

### The maintenance phase

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

### Induction

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



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

### Training and development

On various occasions in the employee's time with a business, new processes may be introduced, or the employee's duties may otherwise change. Preparing employees for these changes will usually involve some training, to provide them with any new skills they may need. Many businesses also recognise the value of developing and expanding the skill base of employees by giving them access to additional education and training opportunities.

### Performance management

All businesses seek to achieve their objectives by improving productivity, and getting the best value from employees. It is important to monitor the performance of all employees, and find ways of improving that performance over time. We have already seen how employee motivation can be a powerful driver of improved performance. Businesses will employ a variety of methods to evaluate both business and individual employee performance.

### The termination phase

All employees will eventually leave the business. This phase involves managing the termination of the employment relationships and dealing with entitlement and transition issues.

### Managing termination

The employment relationship may end voluntarily, when an employee retires at the end of their working life, or resigns, often to take up a position elsewhere. Departures of this nature will be managed differently from involuntary departure, such as when a position becomes redundant and the person in that job can no longer be retained; or in the case of dismissal, usually as a result of unsatisfactory job performance or unsatisfactory behaviour.

### Entitlement and transition issues

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



#### TEST your understanding

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

#### APPLY your understanding

- 5 Peter has completed a degree in marketing and has gained employment with a real estate agency to manage

their advertising, both through their website and through a section in the local newspaper.

- (a) Describe an induction process that may help Peter settle into his new position.
  - (b) Following his induction, what additional training might be useful for Peter, and for his employer?
  - (c) Explain how a process of performance management could benefit both Peter and the real estate business.
- 6 Why might an employer need to manage a voluntary termination of employment differently from an involuntary termination? Make a list of the issues that might arise with each type of termination.



# 4.2 Training and development of employees



**KEY CONCEPTS** Giving a person the right knowledge and skills to perform their job effectively is what training is all about.

Development focuses on preparing the employee to take on responsibilities within the business in the future and often requires training.

## An introduction to training and development

Training and development are aimed at improving employees' skills and abilities — they are necessary for both personal and business growth. New employees may need some training and development, depending on their level of experience. Existing employees also need training and development to continually upgrade their skills.

**Training** is teaching staff to perform their job more productively. **Development** is the process of preparing employees to take on more responsibilities in the future through acquiring better knowledge and skills and gaining more experience in a particular area. Developing staff often involves training. It is interesting to note that many employees expect their business to provide them with opportunities to grow and learn and ultimately improve their employability.

## Training

The aim of training is to seek long-term change in employees' skills, knowledge, attitudes and behaviour in order to improve work performance in the business. However, many businesses do not spend enough on staff training. This is unfortunate because training and development benefit both the employee and the employer. These benefits are listed in the table on the next page.



Importantly, a well-organised and well-presented training program develops and maintains a business's sustainable competitive advantage. Ongoing training for all employees is becoming critical due to rapid technological change and global competition — so critical that many businesses now promote the concept of a

**Training** generally refers to the process of teaching staff how to do their job more efficiently and effectively by boosting their knowledge and skills.

**Development** refers to activities that prepare staff to take on greater responsibility in the future.

### **DID YOU KNOW?**

The Australian Government Department of Education and Training operates a program known as Australian Apprenticeships Ambassadors. The Ambassadors are all people who have successfully completed an apprenticeship, and many are available to speak about their experiences at functions or events, all promoting the advantages of job training. They include young people from a huge variety of trades, as well as high profile names such as AFL legend Kevin Sheedy, who originally trained as a plumber; Scott Cam, presenter of *The Block* on TV and a trained carpenter; and celebrity chef, Neil Perry.

Life is a continual learning curve and it doesn't just stop when you've finished VCE. You may go to university or you might start full-time work. In any case you will receive training to help you gain knowledge and learn skills to work productively.

## 4.2 Training and development of employees

A **learning organisation** monitors and interprets its environment, seeking to improve its understanding of the interrelationship between its actions and its environment.

**learning organisation.** A learning organisation is aware of its actions and its environment and tries to improve its understanding of the relationship between the two. All employees are involved in developing knowledge and insights that allow the business to continually grow and improve.

### Benefits of training

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

### Technology creates the need for ongoing training

It is the task of the human resource manager to plan for the effective introduction of new technology. Training needs must be identified well in advance of any proposed technological implementation. This will ensure change happens at a pace consistent with the capabilities and expectations of the workforce. It also means human resource managers must constantly consider the skills required by the workforce in the future. The existing workforce must be trained and, if very rapid technological change demands it, retrained within a short time. While training of employees is often expensive, it cannot be ignored. Untrained employees will often resist new technology or not use it effectively.



Most major hospitals are integrating advanced technology into their operations and thus have required training for all employees.

### Training options

Employers have a number of different options available to them. Generally these fit into two categories: on-the job training and off-the-job training.

## On-the-job training

On-the-job training occurs when employees need to learn a specific set of skills to perform particular tasks in the workplace. This training usually occurs within the working environment, and uses the equipment, machinery and documents that are present in that workplace. It may occur while the employee is performing their regular duties, at their regular workstation, or it may occur in a special setting, such as a training room or conference room. Training may be provided by an experienced co-worker, or by a leader or manager with particular or specific expertise. Managers and leaders can ensure that the culture and strategies of the business are passed on to employees. Sometimes external providers are brought in to the business to provide training. This can apply when new equipment is being introduced, and the supplier of the equipment runs training sessions for employees who will be using the equipment. It can also apply when a business makes use of new software.

### Advantages and disadvantages of on-the-job training

Advantages	Disadvantages
The most cost-effective alternative, as no travel expenses or other costs are incurred	Quality of the trainer may vary — not everyone has the ability to teach others
Employees are often actually working while training, so are more productive	Bad habits of older staff may be passed on to younger employees
Trainees use the actual equipment that is required to do the job	The learning environment may be noisy, with distractions from other work activities
Employees are in a familiar environment, with colleagues they are used to working with	If real tools and equipment are used, it may disrupt production
Immediate feedback from more experienced colleagues is available	The trainer may have to leave their own duties to carry out the training

## Off-the-job training

The conduct of training away from the workplace is known as off-the-job training. It usually involves sending individuals or groups of employees to a particular specialised training institution. This may be a university or TAFE college, where employees can gain a recognised qualification that will assist them in performing more effectively and efficiently at work. It may be a specialist provider, with particular knowledge relevant to an industry, type of equipment or product. For example, the Institute of Chartered Accountants offers special courses in a range of financial issues for employees in the finance industry.

### Advantages and disadvantages of off-the-job training

Advantages	Disadvantages
Availability of a wider range of skills and qualifications than those in the workplace	May be too theoretical without access to workplace tools or equipment
Outside experts and specialists can provide broader experiences	More expensive, with fees charged, travel costs, etc.
Usually more structured and organised, with clear assessment processes	Lost working time while the employee is absent from the workplace
Can provide a formally recognised qualification for employees	Employees with an externally recognised qualification may be tempted to leave to find a better job
Can be more intense without workplace distractions for both trainer and trainee	May not relate directly to the exact skills required in the workplace

### study on

- Unit 3 **On-the-job training**
- AOS 2 Summary screen and practice questions
- Topic 4
- Concept 1

### study on

- Unit 3 **Off-the-job training**
- AOS 2 Summary screen and practice questions
- Topic 4
- Concept 2

### study on

- Unit 3 **Evaluating training options**
- AOS 2 Summary screen and practice questions
- Topic 4
- Concept 3

## 4.2 Training and development of employees

### DID YOU KNOW?

Training at the communications company Motorola is high on the agenda. Every Motorola employee must complete at least 40 hours of training a year.

**Succession planning** focuses on preparing employees with potential to take on key management positions within the business in the future, should the need arise.

A mentor will pass on knowledge and skills to an employee, with the expectation that one day the employee will be ready to fulfil a more senior role.

## Development

How an employee is developed in a business will depend on the business's needs as well as the employee's career stage. In the early stages of an employee's career, the focus may be on gaining qualifications. As they move from one employment area to another, younger employees focus on experiencing a variety of roles to determine their interests and talents. Later, developing specialist or managerial competencies may become important as employees move into senior positions.

Programs aimed specifically at developing effective managers may focus on the use of:

- *job rotation* — the employee experiences many different aspects of a business. For example, a manager may move from one section of the business to another, taking with them their management skills and applying them to a different situation.
- *mentoring* — a mentor acts a bit like a coach, supporting the employee as they learn. The employee is able to gain from the experience and skills of another person in the business.
- *formal business training* — this may be done through programs such as the Masters of Business Administration (MBA).

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



### TEST your understanding

- 1 Distinguish between the terms 'training' and 'development'.
- 2 Outline how training and development can benefit both the employee and the employer.
- 3 Distinguish between on-the-job training and off-the-job training.

### APPLY your understanding

- 4 What are the benefits to a business of promoting a 'learning organisation' concept?
- 5 Use the **Succession planning** weblinks in your eBookPLUS to define succession planning and state why many businesses undertake succession planning.

**eBookplus**

**Weblink**  
**Succession**  
**planning**



# 4.3 Performance management strategies



**KEY CONCEPT** Just as a business will attempt to measure and evaluate the degree to which it is achieving its strategic objectives, it will also attempt to measure how well the performance of its employees is contributing to the achievement of those objectives.

## Performance management

**Performance management** aims to improve both business and individual employee performance by relating the business's performance objectives to the employee's performance objectives. A business can utilise a number of different strategies to measure and evaluate the contribution each employee makes to achieving those objectives. These include performance appraisals, management by objectives, self-evaluation by employees and broader employee observation.

## Performance appraisal

**Performance appraisal** involves five main objectives:

- 1 to provide feedback from management to employees regarding work performance
- 2 to act as a measurement against which promotion and pay rises can be determined
- 3 to help the business monitor its employee selection
- 4 to identify employees' training and development needs
- 5 to identify new objectives and put a plan in place to improve future performance.

If most employees continually perform below expectations, the business's recruitment and selection process may need to be changed, or extra training and development may be required. Although many managers are uncomfortable with the idea of evaluating employees, effective performance appraisal is a crucial function of good management.

### Regular feedback equals successful performance appraisal

While the end of the financial year provides businesses with an opportunity to do a 'stocktake' on their financial performance, equally important, but often overlooked, are regular reviews of the team's performance.

It is often said employees are the most important asset. If this is accepted, it would also stand to reason that people leaders would also review the performance of their employees.

...

Performance reviews [or appraisals] are a key aspect of keeping your team engaged and 'buying in' to what the business is trying to achieve. However, for some — both people leaders and employees — performance appraisals can be seen as a tiresome and difficult process, but it need not be.

When both parties know what is expected of them, a performance review should not contain any nasty surprises. However, lack of clear expectations is often where problems begin.

Most employees have a strong work ethic and want to do well . . . Notwithstanding, feedback from peers and people leaders is an important gauge for what an employee is doing well and what areas need development.

*continued*



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

**Performance management** focuses on improving both business and individual performance through relating business performance objectives to individual employee performance objectives.

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

### 🗨️ DID YOU KNOW?

The recruitment firm Hudson found that 42 per cent of Australian employers did not have a way of monitoring staff performance.

## 4.3 Performance management strategies

• A monthly catch up is a good starting point to review not . . . only what is being achieved, but also . . . how it is being achieved. •

### study on

Unit 3

AOS 2

Topic 5

Concept 1



See more

Management by objectives and appraisals



It is important to remember that feedback should not happen only at the end of the year in the form of an official performance appraisal. Feedback should happen regularly to ensure all parties are on the same page and any issues can be addressed quickly.

. . . this four step process of performance management has traditionally worked well for setting employees up to achieve the best possible results.

**Step 1.** Ensure expectations are clear, for no other reason than employees are typically more productive when they know what is expected of them and when. These expectations may be set on a weekly basis but also typically cover a longer term, say half yearly or yearly. Some employers fall into the trap of assuming that their staff know what is expected of them. As a people leader, it is your responsibility to be clear.

**Step 2.** Assess performance regularly. Some people leaders complete an annual performance review and think their job as a people leader is done. Of course, an annual performance review is important to discuss what has been achieved over the year, but performance should be assessed on a regular basis to make sure projects are on track, milestones are being met and any queries resolved. A monthly catch up is a good starting point, to review . . . not only what is being achieved, but also . . . how it is being achieved.

**Step 3.** Provide feedback on a regular basis. Ideally, you should not need a formal catch up to provide feedback, but it is imperative that feedback is provided when performance is assessed. Feedback should include recognition of the effort, improvements and achievements throughout the past month, quarter or year, which is an excellent motivator for many employees. This is also the time to provide constructive feedback for development areas. Providing constructive feedback to highlight and bridge performance gaps, if delivered in the right way, can be equally motivating, as most employees want to continually improve their knowledge and skills.

**Step 4.** Continuous development will keep employees engaged and will ultimately result in increased productivity. Development planning looks not only at what the employee needs to do to complete their current role, but also helps to up-skill them for their next role. Development means different things to different people, but typically encompasses learning new skills on the job, mentoring, new responsibilities or stretch targets and formal courses.

**Source:** Extracts from 'The benefits of performance reviews', [www.probonoaustralia.com.au/news/2014/06/benefits-performance-reviews](http://www.probonoaustralia.com.au/news/2014/06/benefits-performance-reviews).

### Common methods of appraisal

Following are some of the commonly used techniques for carrying out appraisals.

- *Essay method.* A manager keeps a journal on each employee being appraised. Notes may be restricted to specific aspects of job performance, such as customer service, sales, personal presentation and cash register use.

- *Critical incident method.* This is similar to the essay method except that the manager records only exceptionally good or bad aspects of work performance.
- *Comparison method.* Each employee is ranked according to a list of predetermined performance characteristics. This method often incorporates statistical values as a means of measurement. For example, a rating scale of 1 to 5 may be employed (1 being poor and 5 being excellent). This scale may be used to assess knowledge, speed, accuracy, communication, interpersonal skills, oral and written skills, personal presentation and administration techniques.



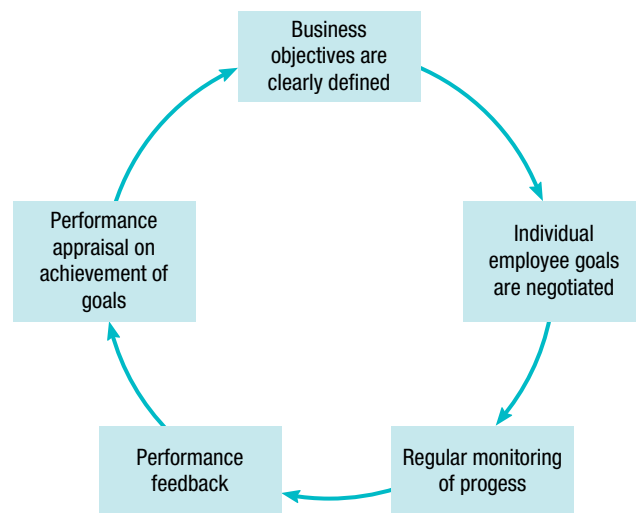
No matter which appraisal technique is used, the results should be discussed with the employee as soon as possible. The manager should explain both the positive and the negative aspects of an employee's performance, encourage the employee to continue with his or her positive behaviour, and let the employee know what to do to be recognised as a more productive employee in the future. Without this **performance feedback**, performance appraisals are a pointless exercise.

For performance appraisals to be effective, employees have to know what is expected of them, how their performance will be measured and feel confident that their efforts will be recognised.

**Performance feedback** is the information provided to an employee after a performance appraisal.

## Management by objectives

One method of giving clear purpose to the process of performance appraisal is management by objectives. This concept was first popularised by Professor Peter Drucker of New York University in 1954, in his book *The Practice of Management*. It is a process by which management and employees agree on a set of goals for each employee, with these individual goals all contributing to the objectives of the business as a whole. Included in the process are the means of measuring progress towards the achievement of these goals, as well as performance appraisals when goals have been achieved. Each employee should be aware of the objectives of the business, as well as their own responsibilities in achieving those objectives. The process can be summarised as follows:



The process of management by objectives

As we have already seen in chapter 3, the process of goal-setting can be a powerful means of motivating employees. objectives also uses the concept of setting **SMART** goals, that is, the development of goals that are **S**pecific, **M**easurable, **A**ttainable, **R**elevant and **T**ime-bound. Ultimately, performance appraisal is focused on the results and the degree to which objectives have been achieved, and using the SMART criteria will more readily allow this to occur.

## Employee self-evaluation

This strategy involves employees carrying out a process of self-assessment, based on a set of agreed criteria. Employees would normally be expected to honestly ask themselves questions such as:

- What are my strengths?
- What are my weaknesses, and what can I do overcome them, or reduce their impact on my work performance?
- What could I have done better during the period under review?
- What initiatives can I take to become a better employee in the future?

### study on

**Unit 3**  
**AOS 2**  
**Topic 5**  
**Concept 3**

**Performance management to achieve business and employee objectives**

Summary screen and practice questions

# 4.3 Performance management strategies

## study on

- Unit 3 **Self-evaluation and employee observation**
- AOS 2
- Topic 5 Summary screen and practice questions
- Concept 2

Self-evaluation should also take into account an employee's career aspirations. He or she should be prepared to:

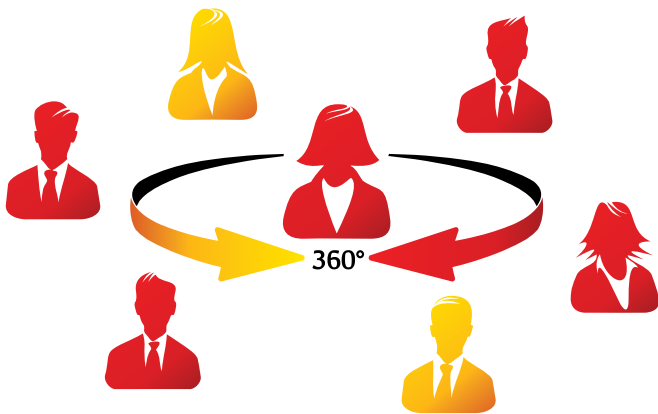
- examine their current role in the business,
- consider how that role may change, and
- identify how greater responsibility and leadership could be taken on in the future.

Employee self-evaluation can also highlight the need for training, and allows employees to request training opportunities to assist them to improve work performance and productivity. Employees undertaking the self-evaluation process should be encouraged to keep documentary evidence of their achievements, as this helps provide a factual and measurable basis for that evaluation.

## Employee observation

Often it is useful to seek a variety of opinions on the performance of employees. The aim is to get feedback from a variety of different parties in order to arrive at

a more comprehensive picture of past and current performance. One common approach to utilising employee observation of performance is known as '360 degree feedback'. This is commonly used to evaluate the performance of managers and supervisors, by seeking input from their subordinates, fellow supervisors and superiors. A diverse group of between eight and twelve fellow employees complete confidential and anonymous evaluation forms, and the employee under review can also complete a self-evaluation. The idea is to identify strengths and weaknesses, and the broad range of observations from a variety of different employees can provide a comprehensive picture of employee performance. This process is very useful in evaluating skills such as leadership, teamwork and interpersonal abilities. It is not always as valuable in assessing technical skills, or the achievement of objectives, as these may not always be fully understood by every participant in the process.



360 degree feedback relies on observations from fellow employees.



### TEST your understanding

- 1 Distinguish between performance management and performance appraisal.
- 2 Read 'Regular feedback equals successful performance appraisal'. What are the benefits of a regular informal catch up with employees?
- 3 How does the author of 'Regular feedback equals successful performance appraisal' believe performance appraisals can contribute to ongoing employee development?
- 4 Briefly outline two different methods of conducting a performance appraisal.
- 5 Describe each of the key steps in the process of management by objectives.
- 6 Explain what is meant by SMART goals?
- 7 What are the two main advantages of employee self-evaluation?
- 8 Outline the process used in 360 degree feedback.

### APPLY your understanding

- 9 Have you been asked to appraise your own learning or performance? Research how self-appraisal could be used as a part of a performance appraisal process.

- 10 Survey five people, asking them to respond to the following statements. Collate the results as a class and write a paragraph about what the survey has revealed about performance appraisal.

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



# 4.4 Termination of employment: retirement, resignation and redundancy



**KEY CONCEPT** The final stage in the employment cycle is the ‘termination stage’, in which workers leave the workplace on a voluntary or involuntary basis. This stage needs to be handled carefully and sensitively by the human resource manager.

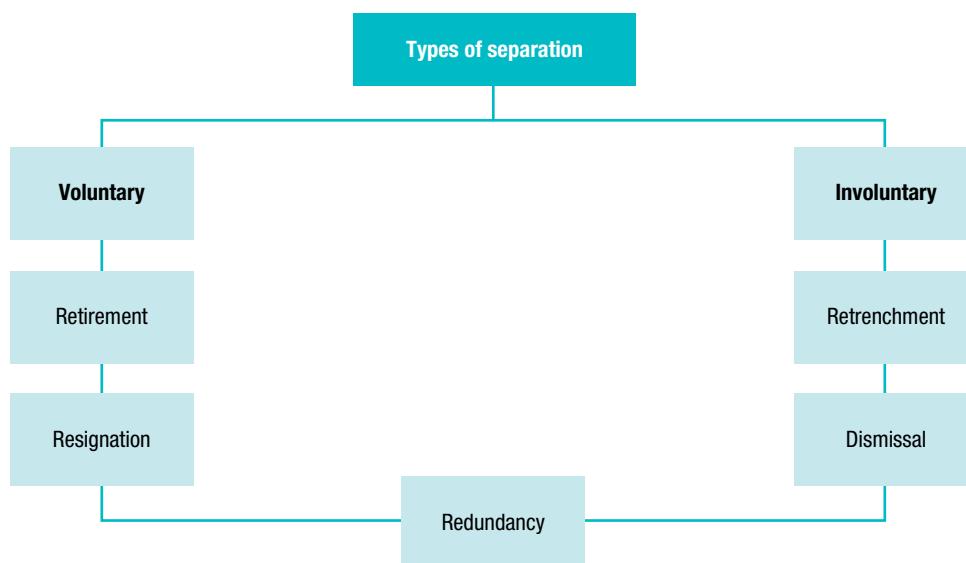
## Termination of employment and how it is managed

Gone are the days when a person would commence their full-time working life at the age of 16 or 17, work for approximately 45 years, and then retire. Work patterns and business operations have undergone radical change over the past two decades and this has dramatically altered the movement of people into and out of jobs. Due to increased international competition, many businesses — large, medium and small — have been forced to restructure. As a result, there has been a marked increase in the number of voluntary and involuntary redundancies being offered.

**Termination** of employment is when an employee leaves a particular workplace, ending the employment relationship. Termination of employment is usually managed by the human resource manager, who must ensure that the employee is treated both fairly and within the law.

There are many reasons why employees leave a business. However, it is possible to classify the different types of separation into two broad categories: voluntary and involuntary (shown in the following figure).

**Termination** is the ending of the employment of an employee.



Termination — voluntary and involuntary

## Retirement

**Retirement** is when an employee voluntarily leaves the workplace and the workforce. Until the mid-1980s, it was common for men to retire once they reached 65 years of age and women when they reached 60 years of age. Since changes to legislation in the 1990s, there has been no ‘official’ retirement age. People now can choose when they would like to retire. A recent trend is for people to retire ‘early’ — that is, in their mid- to late 50s. The way businesses have approached employee retirement has also changed. Today, many businesses provide advice and assistance to employees to help them prepare for retirement.

**Retirement** occurs when an employee decides to give up full-time or part-time work and no longer be part of the labour force.

## 4.4 Termination of employment: retirement, resignation and redundancy

### study on

Unit 3

**Retirement and resignation**

AOS 2

Summary screen and practice questions

Topic 6

Concept 1



Early retirement allows people to enjoy a high quality of life for many years after their working life.

**Resignation** is the voluntary ending of employment by the employee 'quitting' their job.

### Resignation

**Resignation**, or 'quitting', is a voluntary ending of the employment relationship. People resign for a variety of reasons, including:

- the offer of a promotion with another business
- to start their own business
- boredom with their present job
- a change of lifestyle.

Usually, the employee needs to give the employer sufficient notice of his or her intention to resign. The length of notice varies from job to job, ranging from a few hours for casual employees to a month for some professionals.

Whenever a business wants to downsize — that is, decrease the size of its operation — it will not fill vacancies that have come about due to retirements and resignations.

**Redundancy** occurs when a person's job no longer exists, usually due to technological changes, a business restructure or a merger or acquisition.

### Redundancy — voluntary and involuntary

**Redundancy** occurs when the job a person does is no longer necessary, usually due to technological changes, restructuring or a merger or acquisition. Unless the existing employee can be retrained for another job, he or she will be made redundant.

Redundancy can be either voluntary or involuntary. Voluntary redundancy occurs when the business wishes to reduce either the size or the nature of its workforce, and decides how many employees should be 'let go'. Employees are informed of the situation and given the opportunity to nominate themselves for voluntary redundancy. Involuntary redundancy occurs when an employee is asked to leave the business against his or her will. In this case, the employee is not at fault in any way; the decision to make the employee redundant is purely based on the ongoing needs of the business.

### study on

Unit 3

**Redundancy and dismissal**

AOS 2

Summary screen and practice questions

Topic 6

Concept 2

**Retrenchment** occurs when a business dismisses an employee because there is not enough work to justify paying them.

**Retrenchment** is sometimes called redundancy, but there is a subtle difference between the two terms. Redundancy occurs due to the permanent elimination of some jobs, because business or technological change has removed the need for those particular skills. Retrenchment is employee termination due to lack of sufficient

work to keep the employee fully occupied. Retrenchment is a cyclical phenomenon tied closely to the level of economic activity. The end result of both retrenchment and redundancy is that the employee is out of a job.



An employee may leave a business for many reasons. If an employee is retrenched (laid off) or dismissed, it can lead to feelings of disappointment and rejection. Fear of not getting a replacement job and being able to pay the bills make termination difficult to bear for some people.

The HR manager must be aware of the rights of an employee in relation to redundancy and retrenchment, and must follow the correct procedures. These procedures might include providing necessary information to the employee being made redundant or retrenched, a consultation process, time off leading up to the final day when the employee leaves, and organising redundancy pay (sometimes referred to as severance pay). The amount of redundancy pay will usually depend on how long the employee has been continuously employed in that workplace. Other entitlements, such as payment for accrued annual leave or long-service leave, may also be owing to the employee when they leave the business.

Ethical employers also take responsibility for assisting departing employees find new employment, particularly if that employee is leaving as a result of redundancy or retrenchment. Providing references and recommendations to other employers in the same industry can be of assistance to departing employees. Those being made redundant can also be given paid time off work to attend interviews with potential new employers.



### TEST your understanding

- 1 Explain the difference between voluntary and involuntary termination of employment, and give an example of each.
- 2 In what ways has the process of retirement changed in recent years?
- 3 Outline two reasons why a person may decide to resign from their current employment.
- 4 How can a business use the resignation or retirement of employees as a means of downsizing its workforce?
- 5 What is the difference between redundancy and retrenchment?

### APPLY your understanding

- 6 Rather than retire completely from work, many people now transition to retirement by gradually reducing their hours and working part-time before giving up work completely. Outline two advantages for a business and two advantages for the employee of allowing such a process to occur.
- 7 Following the introduction of new equipment, Ace Engineering Pty Ltd has found that it only needs to retain four of its team of eight machine operators, so four positions are now redundant. Outline a process that the management could follow that would be fair to all affected employees.

# 4.5 Termination of employment: dismissal, entitlement and transition issues



**KEY CONCEPT** A common form of involuntary termination is dismissal. This needs to be handled carefully as employees may have a number of legal entitlements that need to be observed.

## Dismissal

**Dismissal** occurs when the behaviour of an employee is unacceptable and a business terminates their employment.

### DID YOU KNOW?

An employment contract is legally binding. Therefore, employers must terminate the contract in a legally compliant manner. Gone are the days when a boss can simply shout: 'You're fired!' on a whim.

There will be occasions when the behaviour of an employee is unacceptable and it then becomes necessary for a business to terminate the employment contract of that employee. This is called **dismissal**. The most serious form of dismissal is summary dismissal — when an employee commits a serious breach of their employment contract. For example, an employee who is drunk at work or is found to have engaged in criminal activity may be summarily dismissed. If an employee is given a summary dismissal, no notice is required. Another form of dismissal is referred to as dismissal on notice, when an employee is not performing the job satisfactorily. Poor performance may be identified during an appraisal or performance process. The amount of notice (or payment given in lieu of notice) will vary depending on a number of factors, such as whether the employee is governed by a particular Award or contract, the age of the employee and how long they have worked for the employer on a continuous basis. Selecting staff for dismissal can be risky and requires awareness of legislation and industrial agreements to avoid litigation and industrial action.

### study on

- Unit 3 **Entitlement and transition issues**
- AOS 2
- Topic 6 Summary screen and practice questions
- Concept 3

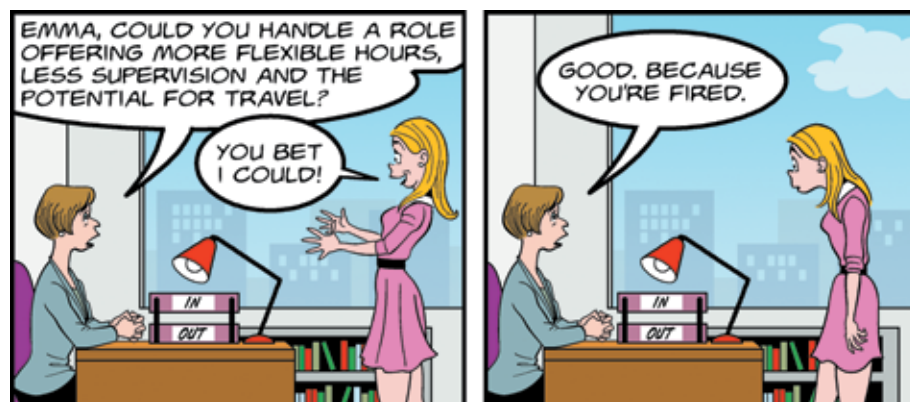
## Entitlement and transition issues

The legal rights of employees and obligations of employers need to be followed rigorously when employees are dismissed, especially if the dismissal is due to poor work performance. Employers are now expected to warn employees if their work performance is not satisfactory, and to provide training opportunities to help them improve. The Fair Work Act includes provisions to protect employees from unfair dismissal, and provides a means by which employees who believe they have been unfairly dismissed can take legal action against the employer.

Employees must be given proper notice and employers must comply with procedures established in law. To avoid misunderstandings, written warnings and/or notice is preferable. Written confirmation of resignation is also preferable to verbal statements made in the 'heat of the moment'. This way, a lengthy unfair dismissal case can be avoided.

**Unfair dismissal** is when an employee is dismissed because the employer has discriminated against them in some way, such as firing someone because she is pregnant.

**Unfair dismissal** occurs when an employer dismisses an employee for discriminatory reasons. This is an issue that both employers and HR managers need to be aware of. Some examples of discrimination under Commonwealth workplace relations laws include dismissal because of:



An inappropriate dismissal technique



- absence from work due to illness or injury
- either belonging or not belonging to a trade union
- race, colour, sex, sexual preference, age, disability, marital status, family responsibilities, pregnancy, religion, political opinions held, or nationality. An employee who believes they have been unfairly dismissed may lodge an unfair dismissal claim with an industrial tribunal, such as the Fair Work Commission.

More businesses are recognising that managers need to be trained to handle dismissals in a way that:

- takes account of the legal and financial implications
- minimises the trauma for both parties
- does not have adverse effects on the morale of the remaining staff.

### 🗨️ DID YOU KNOW?

Many colloquialisms are used to describe involuntary termination: 'given the bullet', 'shown the front door', 'fired', 'booted out', 'told to pick up my pay and go', 'no longer required' and 'given an offer I couldn't refuse'. They all have one feature in common: the business requests that the employee leave the business.

## Unfairly dismissed for rescuing a kitten

In August 2012, the Fair Work Commission found that a cleaner who found a kitten at her work and gave it to a friend was unfairly dismissed for doing so. Judith Montague was working as a cleaner at student accommodation in Carlton when she found a kitten that Melbourne City Council workers had been attempting to rescue from a drain. She had been led to believe that she would be allowed to keep the kitten if it escaped. However, when it was discovered she had taken the kitten, council workers were upset she had done so, which resulted in her employer dismissing her.

The Fair Work Commissioner pointed out that Ms Montague's employer had failed to follow the Small Business Fair Dismissal Code by not issuing a warning before dismissing her. He found the dismissal to be 'harsh, unjust and unreasonable' and ordered the employer to pay \$3940 to Ms Montague.

The employer had offered Ms Montague two weeks pay in lieu of notice, and had later increased it to five weeks pay. Ms Montague pointed out that she had barely worked since the dismissal, and had few prospects of gaining new employment.

- Ms Montague's employer had failed to follow the Small Business Fair Dismissal Code by not issuing a warning before dismissing her.🗨️



### TEST your understanding

- 1 Which of the following scenarios would most likely lead to summary dismissal?
  - (a) John bribed another employee not to tell his manager that he had been accessing pornographic websites during office hours.
  - (b) Peter arrives for work totally drunk. He has just been out to see a client, driving a company car. It is the third time this week he has arrived in such a condition.
  - (c) Jane is just not very good at her job. She frequently makes mistakes and does not have the knowledge or skills to perform the job satisfactorily.
- 2 In which situations would a dismissal be considered unfair?
- 3 Why was the dismissal of the cleaner in the case study above considered to be 'harsh, unjust and unreasonable'? What compensation was she awarded?

### APPLY your understanding

- 4 Termination management is about managing the final phase of the employment cycle, when the employee leaves. Give a general outline of the issues an

HR manager must be aware of when dismissing an employee.

- 5 In August 2008, workers at SPC Ardmona in the Goulburn Valley were informed that 60 retrenchments were to occur, because the strong Australian dollar had meant a drop in exports, and there was a fruit shortage due to the drought. The company employed 450 workers in three plants in the region. SPC Ardmona chief executive, Nigel Garrard, said at the time that initially the redundancies would be voluntary and workers would be offered deployment to different sites.
  - (a) Explain what Nigel Garrard meant when he said that initially redundancies would be voluntary.
  - (b) Predict the possible impact on staff who volunteer for redundancy and those who remain.
- 6 Use the **Termination of employment** weblink in your eBookPLUS to summarise the latest employee rights and rules that apply to termination of employment.

### eBook plus

**Weblink**  
**Termination of employment**

# 4.6 Workplace relations: participants in the internal environment



**KEY CONCEPT** The key workplace relations participants in the internal environment of a business are the employer and the employees. Human resource managers form the key link between these two groups.

## **DID YOU KNOW?**

The proportion of employees who are trade union members has remained steady at around 18 per cent for a number of years according to Australian Bureau of Statistics figures. Over 43 per cent of government employees are members of a union, while only 13 per cent of private sector employees are union members. Over two-thirds of union members have been members for more than five years, while only 11 per cent had been union members for less than 12 months.

## Employers

Employers and human resource managers handle employee relations issues on a daily basis, including their involvement in developing programs that focus on improving business performance. Many large businesses will employ one or more employee relations specialists within their human resource management departments. Such specialists are particularly valuable as the legal responsibilities of business in relation to employee relations matters have become more complex. This is because we have moved away from a centralised system where most workers in a particular industry would be given the same working conditions under what was known as an 'Award'. We now have a more decentralised system where negotiation can occur at enterprise level.

## Employees

Employees today are, on average, more highly educated than in the past. They demand more challenging, interesting work, greater involvement in decision-making processes and autonomy at their workplace. The increasing practice of negotiating employment agreements at the workplace level means that employees will be more closely engaged in the process of developing new or changed agreements. This may happen if they are required to negotiate individual employment conditions directly with the employer. Alternatively, they may be called on to vote to approve a new agreement that has been negotiated on behalf of all employees in that workplace by a representative organisation, such as a union (a collective agreement). In either case, employers are likely to want improved productivity, or the achievement of specified objectives, in return for improved wages or conditions, so the process may involve employees having to modify existing work practices to achieve those objectives.

Negotiating agreements at the workplace level where workers collectively bargain for better working conditions with their employer is one way of improving working conditions, and can mean that both the employer and employee 'win'. Often employees negotiate to improve productivity in some way in order to get better working conditions.

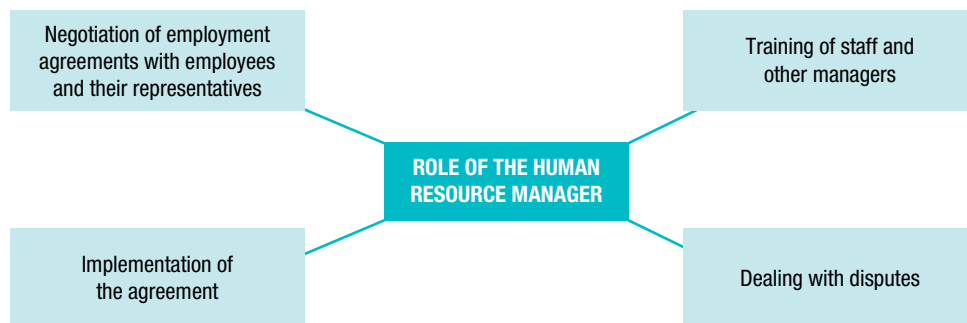


## Human resource managers

The role of human resource managers in the employee relations environment includes:

- negotiating employment agreements with employees and their representatives
- training other managers and supervisors to facilitate the implementation of agreements within their areas of responsibility
- ensuring the implementation of all key terms of agreements
- dealing with disputes and conflict that may arise during the life of an agreement.

The manner in which the role of the human resource manager will be performed is determined by the corporate culture, strategic vision and objectives, and dominant management style of the business. The degree to which employees are valued by management, the level of employee participation in decision making and the importance of using non-monetary motivational approaches will all influence the manner in which the human resource manager approaches the development of enterprise agreements. The degree to which the business adopts ethical and socially responsible management practices will also have an impact on the way these agreements are negotiated and implemented.



Role of the human resource manager in a decentralised employee relations environment

## Negotiating employment agreements

The following process can be used by human resource managers seeking to achieve the best possible outcome in terms of employee commitment, genuine productivity improvements, and flexibility for both employer and employee:

- 1 *Be aware of all relevant Awards and legal requirements.* Modernised Awards and the National Employment Standards provide the legally enforceable safety net, and the context in which an agreement can be negotiated. A human resource manager must be aware of the details of all these requirements.
- 2 *Ensure all relevant information is available to employee representatives.* An immediate level of trust can be established with employee representatives if details of strategic planning and relevant financial reports are tabled in negotiations. A cooperative approach will support this atmosphere of trust.
- 3 *Consult widely.* If productivity gains are to be part of the bargaining process, human resource managers need to consult with production managers, operations managers and supervisors to determine feasible changes to work practices. Consultation with employer businesses or other human resource professionals in similar businesses can provide information on how to overcome potential problems.
- 4 *Keep an open mind.* Employee representatives who are keen to gain improvements in wages and conditions may have worthwhile proposals on productivity improvements. Union officials often have experience in negotiating similar agreements in other workplaces, and may be able to offer examples of good practice.

### study on

Unit 3

AOS 2

Topic 7

Concept 1

**Human resource managers, employer associations**

Summary screen and practice questions

### ! DID YOU KNOW?

Hazelwood Power Station management in the Latrobe Valley adopted a policy of 'openness and honesty' with staff and unions. They have an open email system that any employee can use to address questions directly to the CEO.

## 4.6 Workplace relations: participants in the internal environment

- 5 *Keep the big picture in mind.* Consistency with the business's vision, strategic objectives and financial performance is vital. Specific objectives such as the expansion into new markets or introduction of new technology need to be incorporated into any changes in work practices, and rewarded accordingly.
- 6 *Exercise care with the wording of the agreement.* Ensure that everyone understands all implications, that ambiguous language is avoided, and that legal requirements such as the dates of operation and dispute resolution procedures are included.
- 7 *Lodge the agreement.* Human resource managers need to be aware of the lodgement and approval requirements of the Fair Work Commission.



Other managers must be made aware of changes in work practices, and assisted to set up monitoring procedures.

### Training other managers and supervisors

Other managers and supervisors need to be fully informed of the details of the agreement to ensure that processes for achieving productivity improvements are put into operation. Monitoring processes with appropriate performance indicators (PIs) is necessary to track the success of changes in work practices. Production managers, operations managers and supervisors will be responsible for day-to-day implementation of these aspects of the agreement.

### Implementing agreements

Changes to wages, hours of work, leave entitlements and flexibility arrangements will be handled by human resource managers. They also have responsibility for preparing and distributing the legally required Fair Work Information Statement. Assisting other managers in preparing performance indicators to measure productivity improvements and seeking regular feedback on the operation of the agreement are other parts of the human resource manager's role.

### Dealing with disputes and conflict

Human resource managers are central to managing the resolution of disputes that may arise under an enterprise agreement (see section 4.10 'Resolution of disputes').



#### TEST your understanding

- 1 Why would a business use the services of employee relations specialists within its human resource management department?
- 2 Identify and explain two ways in which employees might be directly involved in the employee relations processes at their workplace.
- 3 Give examples of the legal requirements that a human resources manager must be familiar with before commencing enterprise agreement negotiations.
- 4 What would be the benefits of providing a business's financial reports to employee representatives during the negotiation process?
- 5 Describe two possible sources of information from outside the business that could assist in the development of an employment agreement.
- 6 What role will a production manager have in:
  - (a) the negotiation of an employment agreement?
  - (b) the implementation of an employment agreement?

- 7 In what ways will management be able to determine the success of an employment agreement?

#### APPLY your understanding

- 8 Hannelore Wuth is the human resource manager for Delite Cakes and Pastries, which has a factory supplying supermarkets throughout Victoria. The current employment agreement with employees is due to expire in three months. Hannelore is new to the company and was not involved in negotiating the current agreement.
  - (a) Identify and explain the key issues Hannelore needs to be aware of before she begins the process of negotiating a new agreement.
  - (b) What are the three most important issues that she needs to keep in mind during the negotiation process?



# 4.7 Workplace relations: participants in the external environment



**KEY CONCEPT** In dealing with workplace relations issues, businesses have to be aware of the influence of external organisations that can affect decisions made at the business level.

External organisations within both the operating and macro environments can have an impact on workplace relations decisions within a business.

## Participants in the operating environment

### Trade unions

**Trade unions** that have members employed by a business will have a direct stake in the employee relations processes of that business. They will often be called to represent their members in the development of new or changed employee agreements, with the aim of getting the best possible deal for the employees. Historically, the centralised industrial relations system in Australia gave unions a powerful role in employee relations. Working conditions were often determined for entire industries, rather than for individual businesses, and this provided unions with an official bargaining position in the making of industrial agreements. Through test cases, unions won major improvements in terms and conditions of employment. These established key principles that flowed on to other workers. Union membership, as a proportion of the total workforce, has been falling in recent years. In 1986, 46 per cent of employees were union members. By 2014, only 18 per cent of full-time employees and 15 per cent of part-time employees were trade union members.

**Trade unions** are organisations formed by employees in an industry, trade or occupation to represent them in efforts to improve wages and the working conditions of their members.

#### **DID YOU KNOW?**

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

### Employer associations

**Employer associations** were originally created by employers in response to employee membership of unions, to represent employers in the making of Awards through the centralised employee relations system. Just as unions originally represented employees in particular trades or industries, employer organisations represented employers in those industries. Organisations such as the Master Builders Association, the Australian Retailers Association and the Australian Mines and Metals Association represent the interests of employers in those industries. Over the years they have assisted employers in formulating policies and processing **logs of claims** served on their members by unions.

**Employer associations** are organisations that represent and assist employer groups.

A **log of claims** is a list of demands made by workers (often through their union) against their employers. These demands cover specific wages and conditions. Employers may also serve a counter-log of claims on the union.



Australian  
Retailers  
Association



MASTER BUILDERS  
AUSTRALIA



Employer associations represent the interests of employers.

## 4.7 Workplace relations: participants in the external environment

### 🗨️ DID YOU KNOW?

The peak trade union body is the Australian Council of Trade Unions (ACTU). Some of the larger unions include:

- Australian Services Union (ASU), which includes a wide field of employees, such as airline staff; service technicians; call centre staff; transport, social and community service workers; and local government workers
- Australian Workers' Union (AWU), which includes workers in many fields, such as agriculture; building construction; engineering; the gas industry; the metal industry; oil refineries; and security companies
- Australian Manufacturing Workers Union (AMWU)
- Construction, Forestry, Mining and Energy Union (CFMEU)
- Finance Sector Union (FSU)
- Maritime Union of Australia (MUA)
- Transport Workers Union (TWU)
- Community and Public Sector Union (CPSU).

### study on

Unit 3 **Employees, unions**

AOS 2 Summary screen and practice questions

Concept 2

Since the late 1980s, legislative changes decentralising employee relations processes have placed greater emphasis on the negotiation of working conditions at the individual workplace level. Employer associations have taken on the responsibility of keeping their members informed of the implications of these legislative changes, and assisting their members to negotiate workplace agreements that are consistent with the legislation.

## Participants in the macro environment

Employers and employees, and their unions and employer associations, will be influenced by government policies and legislation as well as the policies and activities of peak employee and employer organisations.

### Peak union bodies

Most unions are also affiliated with state bodies such as the Victorian Trades Hall Council, and federal bodies such as the Australian Council of Trade Unions (ACTU). The ACTU formulates and coordinates national union policies, and represents the union movement in courts and tribunals and in dealings with government and other organisations. The ACTU often assists in the settlement of disputes, particularly those involving large companies, or those in which a dispute in one business is likely to have an impact on other related businesses. It also campaigns politically on behalf of unions and their members.



The ACTU logo



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

### Peak employer bodies

Most employer organisations are affiliated with peak bodies such as the Australian Chamber of Commerce and Industry (ACCI). These bodies perform a similar role for employers to that performed for unions by the peak union organisations at the state and federal level.

## Governments and government organisations

Governments have five key roles in employee relations processes:

- 1 **Legislator.** State and federal parliaments pass laws which provide the legal framework for employee relations. The federal *Fair Work Act 2009* is the major legislation governing the operation of employee relations in Australia.
- 2 **Employer.** Federal and state governments employ almost one-third of Australian workers, as teachers, nurses, clerks, police officers, postal workers, transport workers and in other roles.
- 3 **Economic manager.** Governments are concerned to ensure that wages costs do not lead to inflationary pressure in the economy.
- 4 **Administrator of government policies on employee relations.** Governments implement legislation by publishing information and guidelines, and providing advice to employers, employees and their representatives (see the 'Did you know?' feature on the right).
- 5 **Representative of Australia in the international arena.** Australia is a foundation member of the International Labour Organization and has been represented on its governing body.

### 🗨️ DID YOU KNOW?

The federal department responsible for industrial relations is currently the Department of Employment. This department:

- represents the government in national wage cases before the Minimum Wages Panel of the Fair Work Commission, and in other cases before the Fair Work Division of the Federal Court
- conducts research and disseminates information
- provides advice
- promotes good industrial relations practices
- investigates breaches of Awards and certified agreements.

## The Fair Work Commission

In addition, governments over the years have set up various bodies to deal with the resolution of industrial disputes, and to act as an independent umpire in setting minimum wages and employment standards. The current body is known as the Fair Work Commission. It approves agreements reached at the enterprise level, ensuring all parties comply with those agreements; it resolves disputes between an employer and the employees when no agreement can be reached. The Fair Work Commission also sets a minimum wage level for the lowest paid workers through its Minimum Wages Panel (MWP).

The Office of the Fair Work Ombudsman promotes compliance with the legislation through education, information and assistance. It also appoints Fair Work Inspectors to monitor compliance with the legislation and take enforcement action through the courts if necessary.

### study on

Unit 3

AOS 2

Topic 7

Concept 3

**The Fair Work Commission**

Summary screen and practice questions



### TEST your understanding

- 1 Why were employer associations originally created?
- 2 What functions are performed by the peak employer and employee organisations?
- 3 List and briefly explain the five key roles played by government in employee relations.
- 4 What is the role of the Fair Work Commission in the employee relations system?

### APPLY your understanding

- 5 Amalgamated Printing and Containers (APC) Ltd is a printing company that produces cardboard packaging and containers for a number of different manufacturers. The current employment agreement is due to expire in six months, and the company now needs to enter

negotiations to develop a new agreement with its employees. Most of the employees are members of the Australian Manufacturing Workers Union, and members are prepared to strike to gain improvements in their working conditions. Other companies that rely on APC Ltd to provide their packaging would be seriously affected by any such action.

- (a) Outline the role each of the following could have in the development of the new agreement:
  - Australian Manufacturing Workers Union
  - Printing Industries Association of Australia (employer organisation).
- (b) Under what circumstances might either a peak union body or a peak employer body become involved in the process?

# 4.8 Awards and agreements



**KEY CONCEPT** In the past, employment conditions were determined by sets of rules known as Awards. Awards now provide only a safety net of minimum conditions, while collective and individual agreements provide the opportunity for employees to gain improved pay and conditions in return for improvements in productivity.

**Collective bargaining** involves determining the terms and conditions of employment through direct negotiation between unions and employers.

An **enterprise agreement** is an agreement that has been directly negotiated between the employer and employees at the enterprise level.

### **DID YOU KNOW?**

Modern Awards are new and streamlined and created to replace thousands of existing ones. The new Awards apply to many employees and employers in the national workplace relations system. For example, the security industry will see a reduction from 10 Security Awards to just one National Security Award.

## Industry-wide Awards

Historically most employees in Australia have had their wages and working conditions set by Awards. These were usually established by industrial tribunals following submissions from unions and employer organisations. Since the early 1990s, there has been greater emphasis on **collective bargaining** between employers and employees, leading to the growth in **enterprise agreements** between the employers and employees within a particular enterprise. In practical terms, this means that Awards no longer apply in businesses that have developed an agreement at enterprise level. However, the Award would still apply to any businesses in the same industry that have not developed such an agreement. The significance of industry-wide Awards today is that they provide a set of minimum employment standards for employees working within an industry. In most cases, however, the process of enterprise bargaining has provided the opportunity for employees to gain employment conditions that improve on these minimum standards.

## Award modernisation

Under the *Workplace Relations Amendment (Transition to Forward with Fairness) Act 2008* a process was set in place to modernise all Awards, removing inconsistencies and amalgamating overlapping Awards that previously covered different parts of an industry. In carrying out this process, a consultation structure was set up to gain assistance and input from relevant unions and employer associations. The process commenced in April 2008. By the end of 2009, the Fair Work Commission had reviewed more than 1500 Awards, and created 122 industry and occupation Awards. These Awards came into effect on 1 January 2010, but most of the Awards include transitional provisions to phase in changes in wages, loadings and penalties over a five-year period. The aim of the process was to reduce the number of Awards to cover just over 100 industries.

## What do Awards include?

Modern Awards combine with 10 National Employment Standards to provide the safety net of basic employment conditions for all employees. The table below summarises the National Employment Standards and the matters included in modern Awards.

All modern Awards that came into effect on 1 January 2010 are to be reviewed by the Fair Work Commission every four years, a process which commenced in 2014. The National Employment Standards and modern Awards provide minimum working conditions for all employees. Enterprise bargaining allows employees to negotiate better pay and conditions over and above the Award, particularly when linked to changes in work practices that can deliver improvements in productivity within the business.

Matters covered by Awards and collective agreements

The 10 National Employment Standards	The 10 matters that can be included in modern Awards
1 Maximum weekly hours of regular work	1 Minimum wages, including disability and training wages
2 The right to request flexible work arrangements	2 Types of employment, such as full time, part time, outworker

(continued)



Matters covered by Awards and collective agreements (continued)

The 10 National Employment Standards	The 10 matters that can be included in modern Awards
3 Parental leave and related entitlements	3 Arrangements for the hours during which work is performed
4 Annual leave	4 Overtime rates where applicable
5 Personal, carers and compassionate leave	5 Penalty rates
6 Community service leave	6 Annualised wages and salaries
7 Long-service leave	7 Allowances
8 Public holidays	8 Details of leave, leave loadings etc.
9 Notice of termination and redundancy pay	9 Superannuation arrangements
10 Provision of a Fair Work Information Statement, which details the rights and entitlements of employees, and how to seek advice and assistance if required	10 Procedures for consultation, representation and dispute settlement

**Source:** Information derived from a Department of Employment fact sheet; and 'Current and emerging issues for the Australian Industrial Relations Commission', speech by Justice Giudice, AIRC President, at the Australian Mines and Metals Association National Conference, 2 April 2008.

## Collective and individual agreements

The workplace relations structure now in place in Australia has collective agreements as the means of determining the wage and conditions of most employees. Even though many employees will sign an individual employment contract when they commence work with a new employer, the terms and conditions of the contract will generally be based on the enterprise agreement that has previously been negotiated. If no enterprise agreement exists, the relevant Award may still be applicable. There have been recent cases in Australia where employers have been prosecuted for attempting to pay below Award wages, and imposing long working hours without paying suitable **penalty rates**.

### Collective agreements

A collective agreement, otherwise known as an enterprise agreement, may be made between an employer and a union, acting on behalf of its employees, or between the employer and a group representing the majority of its employees. In addition to the 10 National Employment Standards, enterprise agreements must include the following:

- a nominal expiry date, usually two or three years after the commencement of the agreement
- procedures for settling any disputes that might arise in the implementation of the agreement, including the right of employees to be represented in the dispute settlement procedure
- terms that allow for individual flexibility, so that arrangements can be made between the employer and individual employees
- provisions for consultation with employees on major workplace change.

There is an expectation that parties should enter negotiations in good faith. This means that both employer and employee representatives should:

- attend and participate in meetings at reasonable times
- disclose relevant information (other than confidential or commercially sensitive information) to the other party to the negotiations in a timely manner
- provide responses to proposals made by other bargaining representatives in a timely manner

**Penalty rates** are additional wages paid to employees who work outside of normal working hours.

#### DID YOU KNOW?

If an employer refuses to bargain with its employees, an employee representative can ask the Fair Work Commission to determine if there is majority employee support for negotiating an enterprise agreement. If so, the employer will be required to bargain collectively with its employees. The Fair Work Commission can issue good faith bargaining orders which specify the bargaining requirements that both sides must follow.

## 4.8 Awards and agreements

- give genuine consideration to the proposals of other bargaining representatives and provide reasons if these proposals are not accepted
- not engage in unfair conduct that undermines freedom of association or collective bargaining.

Good faith bargaining does not mean that either side should be forced into signing an agreement where they do not agree to the terms. Good faith bargaining is primarily about the process and conduct of negotiations, not about forcing either side to make particular offers, or accept offers made by the other side.



Both sides must voluntarily approve of the terms for a collective agreement to be made.

Once the parties to an enterprise agreement have concluded their negotiations, the agreement needs to be submitted to the Fair Work Commission for approval before it can commence operation. The agreement must be signed by the employer and the bargaining representatives acting on behalf of employees, to certify that the agreement has been entered into voluntarily by both sides. The Fair Work Commission will examine the detail of the agreement to ensure that:

- there is genuine evidence that both the employer and employees agree to the terms of the agreement
  - a majority of employees has been consulted, either by the relevant union or any other group or individual representing the employees in negotiations
  - employees will be better off overall by entering into the agreement than simply being covered by the relevant Award
- the agreement is consistent with the National Employment Standards
  - no unlawful content is included in the agreement, such as provisions that might contradict equal employment opportunity legislation.

### Individual contracts

In many cases it is common practice for an employee to sign an employment contract with an employer. While this may be seen as an individual agreement between the two parties, it is still governed by the terms of the Fair Work Act. All individual employment contracts must comply with the relevant Award, and must be consistent with the 10 National Employment Standards. Such contracts may provide conditions that are better than the relevant Award, but cannot exclude any Award condition, or reduce the relevant conditions or benefits. The only cases in which a common law employment contract can exclude relevant Award conditions is when the employee

### Can your Employer Refuse to Bargain?

When two parties negotiate they should bargain in good faith. This means they are to meet regularly, and discuss issues honestly and with a willingness to reach an agreement. Where an employer refuses to bargain, and the Fair Work Commission determines, via a ballot or petition, that there is majority employee support for pursuing an enterprise agreement, the Fair Work Commission can force the employer to bargain collectively with the relevant employees.



is guaranteed an income that is above the high income threshold. This threshold is indexed each year on 1 July, and at 1 July 2016 was set at \$138 900. As Awards are seen to have less relevance to employees earning high salaries, an employee earning above this figure can enter an individual agreement with their employer which renders the Award not applicable to them. These types of employment contracts can be enforced through the courts in the same way as any other legally binding contract between two parties.

## Employment contracts for Business Management students

When a job applicant accepts an offer from an employer, a contract is established between the two parties. An employment contract is a legally binding, formal agreement between an employer and an employee. Let us examine two different types of employment contracts: collective/enterprise agreements and individual contracts.

### Collective/enterprise agreement

Imagine all the students in your Business Management class sitting down with your teacher and negotiating a set of working conditions for your class. Apart from the essential conditions, such as completing all the work and respecting each other's opinions, you might negotiate a homework-free month in return for one extra assessment task. You have just entered into a collective/enterprise agreement.

A **collective/enterprise agreement** is a negotiated agreement between an employer and a union or a group of employees. The agreement deals with the pay and conditions of people employed in that workplace or enterprise.

### Common law individual contract

Now imagine if your Business Management teacher and you, after a period of negotiation, came to an agreement about your conditions of work for this subject. These conditions would apply only to you. The new contract would do away with the classroom conditions agreed to in the collective/enterprise agreement. For example, the new agreement may offer you a 'classroom (employment) package' that includes more homework in return for the right to attend only two Business Management lessons each week. You have just entered into a common law individual contract.

A **common law individual (employment) contract** covers employees who are not under any Award or collective/enterprise agreements. They are most common among professional and managerial employees. Such contracts are signed individually and are secret; that is, not open to public scrutiny.

• An employment contract is a legally binding, formal agreement between an employer and an employee. •

A **collective/enterprise agreement** is a negotiated agreement between an employer and a union or a group of employees.

A **common law individual (employment) contract** covers those employees who are not under any Award or collective/enterprise agreements.



## TEST your understanding

- 1 Explain the role of industry-wide Awards in the current employee relations environment.
- 2 What is the purpose of the Award modernisation process?
- 3 What mechanism is in place to ensure that Awards remain relevant into the future?
- 4 List and explain the key elements that must be included in collective agreements.
- 5 Explain the meaning of the term 'bargaining in good faith'.
- 6 What requirements must be satisfied before the Fair Work Commission will approve a collective agreement?
- 7 In what ways do individual common law employment contracts differ from AWAs?
- 8 Explain the special provisions that apply to employees earning over \$138 900 per year.

## APPLY your understanding

- 9 Use the **Fair Work Commission** weblink in your eBookPLUS to find the modern Award relevant to the retail or hospitality industry, or any other industry in which you or your classmates have part-time employment. List and briefly explain the key matters that are covered by this Award.
- 10 Obtain a copy of either an enterprise agreement that applies to an employer in one of the industries mentioned in question 9, or an individual common law contract as provided by your own or a classmate's employer, and compare it with the relevant Award.
  - What features does this document contain that are the same as the relevant Award?
  - Identify those provisions, if any, that improve on the basic conditions allowed for in the Award.

**eBookplus**

**Weblink  
Fair Work Commission**

# 4.9 Disputes in workplace relations

**KEY CONCEPT** Even with the most positive employee relations environment, conflict between employers and employees can still occur. This conflict can be expressed as industrial action on the part of either the employers or the employees.

**Conflict** refers to disputes, disagreements or dissatisfaction between individuals and/or groups.

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

A **lockout** occurs when employers close the workplace for a period of time as a means of applying pressure to employees during a period of industrial conflict.

## **DID YOU KNOW?**

A union wishing to conduct a secret ballot for protected industrial action must first apply to the Fair Work Commission. This application will normally be dealt with within two working days. The Fair Work Commission must be satisfied that the union or employees seeking the ballot have made genuine attempts to negotiate with the employer. The order for a ballot will include details of the types of employees who are to be balloted, the timetable for the ballot and the questions to be put. In most cases a postal ballot is conducted by the Australian Electoral Commission. A ballot is successful if at least 50 per cent of those eligible to vote actually voted, and more than 50 per cent voted in favour of the action.

'Sickies', or 'mental health days', are part of the Australian workplace culture. A recent survey by Gallup found that the main reason people take a 'sickie' is because they are unhappy with the style used by their manager. Employees who are unhappy at work, or do not feel adequately rewarded or appreciated, use the 'sickie' as a form of hidden revenge.

**Conflict** in the workplace most often refers to a dispute between the employer and employees. The Australian Bureau of Statistics defines an industrial dispute as a withdrawal from work by a group of employees, or refusal by an employer or number of employers to permit some or all of their members to work. Each withdrawal or refusal is made to enforce a demand, resist a demand or express a grievance. Withdrawal of labour by employees is known as **strike** action, while refusal by employers to allow employees to work is known as a **lockout**.

Other forms of industrial action include:

- 1 Picket lines.** Picket lines (also called blockades) are protests that take place outside the workplace, generally associated with a strike. Unionists stop the delivery of goods and try to stop the entry of non-union labour into the workplace.
- 2 Work bans.** A ban is a refusal to work overtime, handle a product, piece of equipment, process, or even a refusal to work with particular individuals.
- 3 Work-to-rule.** In this action, employees refuse to perform any duties that are additional to the work they normally are required to perform.
- 4 Absenteeism, vandalism and sabotage.** These concealed (covert), unofficial expressions of conflict may be even more costly to businesses than open (overt) official industrial disputes.



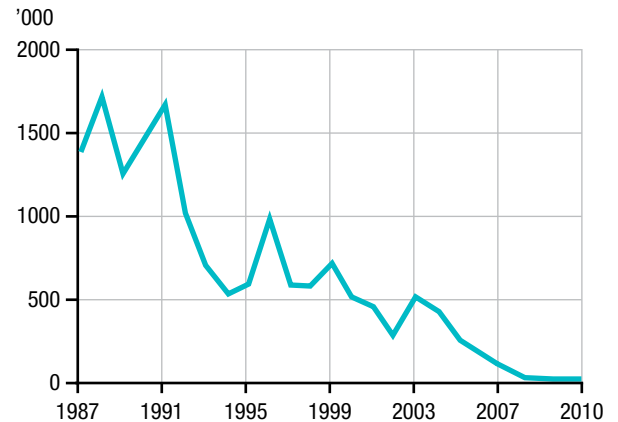
The Australian Bureau of Statistics publishes statistics on industrial disputation in Australia. The number of working days lost through industrial disputation has decreased over the last 20 years or so, as can be seen in the following figure, largely due to the trend towards enterprise bargaining.



## Causes of conflict

The major causes of industrial conflict recognised by the Australian Bureau of Statistics are:

- 1 Disputes relating to negotiation of Awards and collective/enterprise agreements. These issues include disputes about:
  - remuneration, which includes matters such as wages, allowances, entitlements and superannuation
  - employment conditions, such as working hours, leave, benefits, and other general employment conditions
  - other agreement related matters, such as job security and other causes relating to the process of enterprise bargaining negotiation.
- 2 Disputes relating to outside Awards and collective/enterprise agreements. These issues include disputes about:
  - health and safety that relate to physical working conditions, including safety matters, and workers' compensation provisions, protective clothing and equipment, and employee amenities
  - job security issues, such as retrenchment of employees, downsizing, restructuring, use of contractors, and outsourcing
  - managerial policy issues, such as discrimination, Award restructuring, terms and conditions of employment, promotion, discipline, personal disagreements and changing work practices. Because of the increasing emphasis on enterprise bargaining, managerial policy is the most common cause of disputes. The overwhelming number of disputes relate to the negotiation and implementation of employment conditions, and the attitude of management during that process.
  - union issues dealing with matters that relate to employer approaches to the union, inter-union and intra-union disputes (demarcation disputes), sympathy stoppages in support of employees in another industry, and recognition of union activities
  - other non agreement related matters, including political or social protests, such as the **Green Bans**: bans imposed by trade unions on any development that is considered harmful to the environment or an area of historical significance.



Industrial disputes in Australia, number of working days lost, 1987–2010

Source: Data derived from Australian Bureau of Statistics, *Australian labour market statistics*, cat. no. 6105.0.

### 🗨 DID YOU KNOW?

Staff turnover costs Australian businesses \$100 billion a year in lost productivity and training and recruitment costs, according to research. Staff turnover is currently running at 18 per cent overall and at 40 per cent for workers in their twenties. According to Exit Info, which interviews employees about to leave their jobs, one in five cite poor management as the main reason behind their resignations.

**Green Bans** are bans imposed by trade unions on any development that is considered harmful to the environment or an area of historical significance.

## Protected and unprotected action

Commonwealth employee relations legislation distinguishes between protected and unprotected industrial action. **Protected industrial action** is considered to be a legitimate tactic in pursuit of claims in a new enterprise agreement and will usually occur during the process of negotiating that new agreement. For strike action on the part of employees to be protected, the union involved must conduct a secret ballot of members, the majority must vote in favour of the action, and the employer must be informed of the proposed action at least three working days in advance.

If the action by either party is considered to threaten the wider economy, or other businesses which have a commercial relationship with the business involved in the dispute, the Fair Work Commission can order the end of the action, and set up a conciliation process to resolve the dispute. If the conciliation fails to resolve the dispute, the Fair Work Commission can determine a solution through a process of arbitration.

Industrial action that takes place before the expiry date of the previous agreement is considered to be **unprotected industrial action**; therefore, unlawful. Strike action taken without a proper warning is also unprotected. Either party taking unprotected action may be subject to legal action before the Fair Work Division of the Federal Court, which can order the payment of compensation or impose fines.

**Protected industrial action** refers to action taken by either party to a dispute that has been approved by the Fair Work Commission.

**Unprotected industrial action** refers to action that has not been approved by the Fair Work Commission.

## 4.9 Disputes in workplace relations

• . . . union members wanted to send a strong message on the issue.

### Paramedics in dispute over pay and conditions

In March 2014, Victorian paramedics working in Victoria's ambulance service voted to increase work bans and to hold a series of stop-work meetings across the state as part of a pay dispute with the state government. The bans have been approved by the Fair Work Commission as protected industrial action. This new industrial activity was expected to include paramedics allowing journalists to ride in ambulances with them, to report first-hand on the pressures of their work. Their campaign has included wearing special campaign T-shirts while attending to emergencies and displaying campaign messages on ambulances.



Paramedics have turned to industrial action in pursuit of a new enterprise agreement.

Negotiations over a new enterprise agreement for paramedics had been underway since August 2012 between the ambulance employees union and the state government and Ambulance Victoria. The union was demanding a pay rise of 30 per cent over three years. An offer of 12 per cent over three years had been made in November 2013, but this was rejected by the union. The offer came with a number of conditions, including cutting back on working conditions that the paramedics believed would reduce safety and their work effectiveness.

Steve McGhie, state secretary of the union expressed his concern at the unwillingness of the employers to negotiate seriously with the union over pay and conditions. He said that his members wanted to send a strong message on the issue.



#### TEST your understanding

- 1 Differentiate between a strike and a lockout.
- 2 Unscramble the following terms, and then use each of them in a sentence to explain their meaning.  
(a) tpikce enil  
(b) krwo snab
- 3 Outline the main causes of industrial conflict.
- 4 Explain why industrial disputes over 'managerial policy' are the most common in Australia when compared to the other causes of industrial conflict.
- 5 Under what circumstances will industrial action be 'protected' under current legislation?
- 6 Describe the steps that the Fair Work Commission could take to deal with unprotected industrial action.
- 7 Read the case study above. What management skills would have been needed to solve the dispute that arose at Ambulance Victoria?

#### APPLY your understanding

- 8 Jules works for Empire Engineering. His union is currently negotiating a new enterprise agreement with the employer, but negotiations are not going well. The union wants to arrange for the employees to take industrial action in the near future.
  - (a) What type of action might the employees take?
  - (b) What might they hope to achieve by taking this action?
  - (c) What has to happen for this action to be 'protected'?
  - (d) Three other businesses which rely on Empire Engineering for supplies are concerned that industrial action at that company will affect their businesses. What can they do to address the problem?

# 4.10 Resolution of disputes



**KEY CONCEPT** A number of different approaches are available to resolve industrial disputes when they arise. The successful resolution of conflict will often depend on the styles and skills of managers, particularly human resource managers.

All enterprise agreements must contain dispute resolution procedures to gain the approval of the Fair Work Commission. If the relationship between the employer and the employees and their representatives is likely to be hostile, these procedures are likely to be very formal, with strict procedural rules and clearly defined roles for the employer, employees, unions, employer organisations and any third parties that may be brought in to assist with the resolution. Where the workplace relationship is positive, through a consultative or participative culture, disputes can often be resolved informally through discussions between the local employee representatives and human resource management without any involvement of external third parties. In the case of an autocratic management style, more formalised dispute resolution methods are likely to be preferred.

## Negotiation

**Negotiation** is the least formal method of dispute resolution, in that it involves direct discussions between the parties, without the involvement of external third parties. This method is likely to be most effective when the employer utilises a consultative or participative management style, and possesses the interpersonal and communication skills to be able to negotiate a suitable compromise solution.

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

## Mediation

**Mediation** is a more formal method of dispute resolution, in that it involves the assistance of a third party. The third party assists the parties in dispute to work towards their own agreement, but will usually not offer suggestions or solutions, preferring to allow the parties to develop the agreement in their own terms. The third party may either be independent and agreed on by key parties in a dispute, or a representative from a business, tribunal or government agency, such as the Human Rights and Equal Opportunity Commission.

**Mediation** is the confidential discussion of issues in a non-threatening environment, in the presence of a neutral, objective third party. Many businesses now specify mediation as a first step in their dispute resolution or grievance procedures.



A mediator can assist the parties to resolve a dispute in the workplace.

# 4.10 Resolution of disputes

A **grievance procedure** provides an orderly system whereby the employee and employer can resolve matters relating to complaints about wages, hours, working conditions or disciplinary action.

## study on

Unit 3

**Dispute resolution: grievance procedures**

AOS 2

Topic 7

Summary screen and practice questions

Concept 4

## DID YOU KNOW?

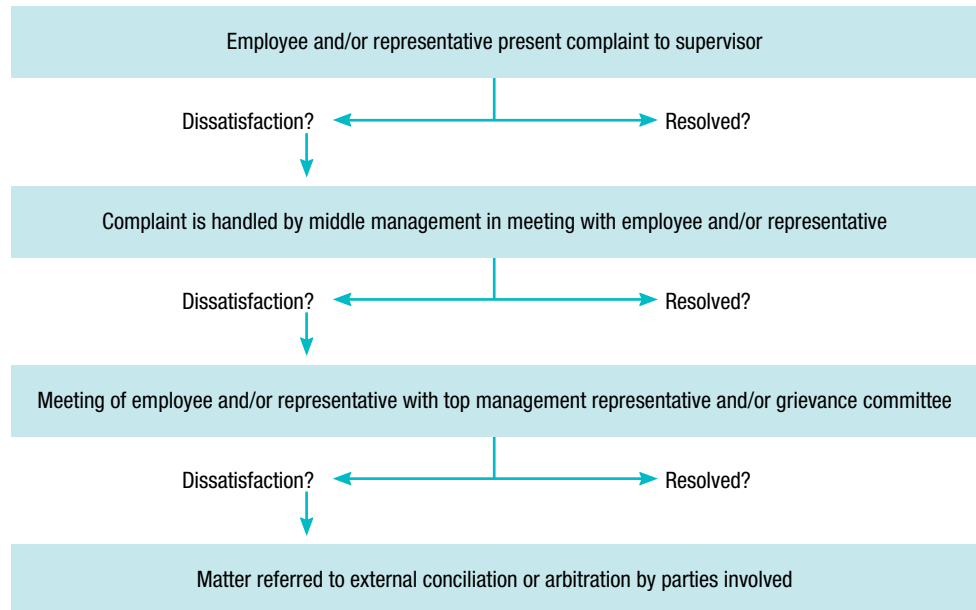
Around 84 per cent of workplaces with over 20 employees have formal grievance procedures, and these procedures are used all or most of the time.

**Conciliation** is a process that occurs when a third party participates in the resolution of a dispute and attempts to resolve the differences through discussion.

**Arbitration** is a process that occurs when a 'judge' (such as a commissioner of the Fair Work Commission) hears both arguments in a dispute in a more formal court-like setting and determines the outcome.

## Grievance procedures

**Grievance procedures** are a formalised set of steps which can involve management, local union representatives and/or external advisers. Since the introduction of enterprise bargaining, most businesses have established a formal process by which issues can be handled. Around 70 per cent of managers are involved in grievance handling and cite the most common issues as being personality conflicts, allowances/pay and discipline.



A typical formalised grievance procedure

## Dispute resolution at the Fair Work Commission

The Fair Work Commission is the national independent workplace relations tribunal and can help parties resolve workplace disputes in a variety of ways, particularly through **conciliation**, mediation and, in some cases, **arbitration**. In a conciliation at the Fair Work Commission, a tribunal member (or a member of staff trained as a conciliator for unfair dismissal matters) brings both sides together, either in person or over the phone, and attempts to help them reach an agreement. This may include assisting to clarify the issues, asking the parties to continue negotiations and report back, or developing strategies to resolve the dispute. Mediation is a similar process, but the tribunal member may take a less proactive role than they would in conciliation. Depending on the type of workplace dispute, conciliation and mediation at the Fair Work Commission may be voluntary or compulsory.

In some circumstances, a dispute may be referred to the Fair Work Commission for arbitration by a tribunal member. Arbitration at the Fair Work Commission involves a tribunal member considering the arguments of each side and, unlike conciliation or mediation, making a decision that resolves the dispute. Examples of when the Fair Work Commission may arbitrate a dispute include where it is authorised to do so under an enterprise agreement or where an employee has been unfairly dismissed. An arbitration is similar to a court hearing, with each side presenting their case, calling and cross-examining witnesses and, sometimes, being represented by a lawyer or advocate. A member of the Fair Work Commission conducts the hearing and, at its conclusion, makes a decision that is legally binding on all parties.





## study on

Unit 3

AOS 2

Topic 7

Concept 5

**Dispute resolution: mediation and arbitration**  
Summary screen and practice questions

A HR manager must have a thorough understanding of workplace laws and procedures as detailed preparation will be necessary if a dispute is referred to the Fair Work Commission.

## Common law action

Legal action before the courts is open to any party involved in or affected by industrial action. Parties may make direct claims for damages caused by the parties taking the action, or for breach of contract resulting from such action. Legal action arising from employee relations issues is usually heard in the Fair Work Division of the Federal Court. If the industrial action is protected during a bargaining period, the parties taking the action cannot be sued through the courts. Taking legal action would be considered a 'last resort', when all other avenues have been exhausted. Any business seeking to operate under a consultative or participative management style would tend to avoid this method of resolving conflict, as it is likely to prolong hostility and mistrust in the workplace.



### TEST your understanding

- 1 Explain the differences between negotiation, mediation and conciliation as alternative means of resolving industrial conflict.
- 2 Why do around 84 per cent of workplaces with more than 20 employees have established grievance procedures?
- 3 Explain the conciliation and arbitration procedures utilised by the Fair Work Commission.

### APPLY your understanding

- 4 Identify the term used to describe the way in which the following disputes have been resolved:
  - (a) A third party is called in to assist the employer and employee to work towards a mutually beneficial solution themselves.
  - (b) A Fair Work Commission tribunal member orders Sener Sofas to reinstate 12 workers who were sacked last month.
  - (c) Millar Machines finally reaches agreement with the union after regular meetings with a Fair Work Commission tribunal member and the union. The tribunal member actively works with all parties, helping them to reach a solution.
  - (d) Lafitani is fed up with his workmates playing practical jokes on him. He complains to Rhonda Pok, his supervisor, who records the complaint and, because it is serious, takes it to the company's group specially established to help deal with such problems.

# APPLY YOUR SKILLS Workplace-level disputes

## PRACTISE YOUR SKILLS

- apply human resource management knowledge and concepts to practical and/or simulated situations
- evaluate different practices and processes for managing human resources.

### Workplace conflict — how to extinguish the flame and avoid a fire

Research has shown that a manager's skill in averting the escalation of such disputes is critical.

When an employee has a grievance it means they have a complaint about a situation in the workplace they perceive as unfair. It may be a situation where the employee feels they are working in an unsafe environment. For example, an employee grievance was soon referred to the union when management ignored the complaints made by female employees who constantly tore their stockings on the old wooden furniture in the office. This issue finally came to a head when an employee suffered from a splinter under her kneecap. The frustrated employee went to her union and that was the catalyst for management to agree to purchase new furniture.

Research has shown that a manager's skill in averting the escalation of such workplace disputes is critical. According to a senior human resource management executive at ANZ, encouraging communication and listening to staff is one way to avert potential problems in the workplace. He says: 'What we have done quite consciously is to build better communications with our staff — direct relationships face to face with our staff for matters that affect them in the workplace and there is no substitute for that'. Supervisors and HR managers are recommended to approach grievances in the first instance at the workplace level in the following way:

- Treat the grievance seriously and in private.
- Listen to what the employee is saying.
- Establish exactly what the problem is.
- Identify the source or sources of dissatisfaction.
- Remain calm. Lost tempers and accusations can only escalate bad feeling.





### 🗨️ DID YOU KNOW?

Dealing with bullying in the workplace is one conflict that needs to be handled carefully. Bullying may take the form of yelling, offensive language, excluding or isolating employees, giving employees impossible tasks to perform or assigning them meaningless tasks. A 2010 Productivity Commission report found the total cost of bullying and harassment to be about \$14.8 billion a year. In 2010, a case of bullying in the workplace was decided in the Magistrates' Court against the owner of Cafe Vamp in Hawthorn. The owner pleaded guilty to failing to provide and maintain a safe working environment, and the company was fined \$220 000. In this case, bullying resulted in a waitress committing suicide. Managers have a legal and a moral obligation to ensure that bullying is appropriately dealt with in the workplace. Education about bullying is one step in the right direction, and ensuring that proper grievance procedures are in place to handle bullying complaints when they occur can help avert a crisis.

After the manager has heard the grievance, some time should be set aside for establishing the facts. This could mean visiting the workplace to see firsthand what the problem is and talking to witnesses that the employee has identified. Lengthy delays in responding to the employee grievance should be avoided and a decision, once made, must be communicated. The reason behind the decision should be clearly articulated. It is considered unhelpful to just pass off the decision by saying to the employee that it is 'management policy'.

The procedure described is based on the concept of natural justice, which means that employees must be given a fair hearing and that decisions should be made without bias.



### TEST your understanding

- 1 Why is the manager's skill in resolving disputes at the workplace level crucial in avoiding the escalation of an industrial dispute?
- 2 Explain why a manager who adopts an autocratic management style may find it difficult to resolve disputes at the workplace level.
- 3 Explain the steps a manager should take when confronted with an employee grievance in the first instance at the workplace level.

### APPLY your understanding

- 4 Read the following scenarios and identify in each case:
  - (i) why the dispute was not resolved adequately
  - (ii) what skills the manager lacked.
  - (a) Jennifer told her manager that the new procedure for ensuring the customer received product within 24 hours meant that she consistently had to miss lunch. Her manager said that it was a cost-effective way of losing weight and laughed it off.
  - (b) Tran told his manager that he wanted to talk to him because he thought the equipment he was using was dangerous. Tran's manager said he was more than happy to talk about it, but that it would have to wait at least three weeks because he was so busy. He also added that it has never been a problem in the past.
  - (c) Tough cost cutting at the firm meant that John had to pay for his own tea and coffee. John thought that this was ridiculous and spoke to his manager. John's manager informed him that it was just 'tough luck', and that he couldn't do anything about it because it was a decision made by head office.
  - (d) Geoff wants to talk to his manager about a coworker who constantly has personal telephone conversations and will not lower her voice. Geoff's manager said: 'You're a big boy, I'm sure you can handle it yourself.'
  - (e) Trina wanted to ask her manager for a pay rise. She felt that she had worked very hard, and it was time that her manager acknowledged her efforts. Trina's manager organised a time to meet and discuss the issue. He listened to everything Trina had to say, and then exploded, saying that Trina was lucky to get the pay she got and should be thankful she has a job in the current economic climate.
- 5 Choose one of the scenarios from question 4 and conduct a role play demonstrating the appropriate way workplace level grievances should be handled.



**KEY CONCEPT** Learning to negotiate effectively is a skill that all managers should aim to refine, especially now that working conditions and pay are increasingly being negotiated at the enterprise or workplace level.

## The importance of negotiation in employee relations

If you have ever convinced someone to give you what you want, even though they may not have wanted to, you will have used your negotiation skills. Negotiation is a process where one party (such as a union), asks for something (for example, change to work hours) from another party (such as a manager). With the move towards a more decentralised employee relations system, the human resource manager and other managers increasingly have to negotiate with their employees. The employer and employee may negotiate on a range of issues, some of which might include:

- benefits
- date when employment is to commence
- compliance with HR policies, such as equal employment opportunity policies
- hours of work
- standards of performance
- termination procedures
- overtime
- pay
- probationary periods.

## The negotiation process

Effective managers will understand that negotiation is a process, such as the one shown in the figure on the right. The negotiator must understand not only *what* they want to achieve but *how* they want to achieve it.

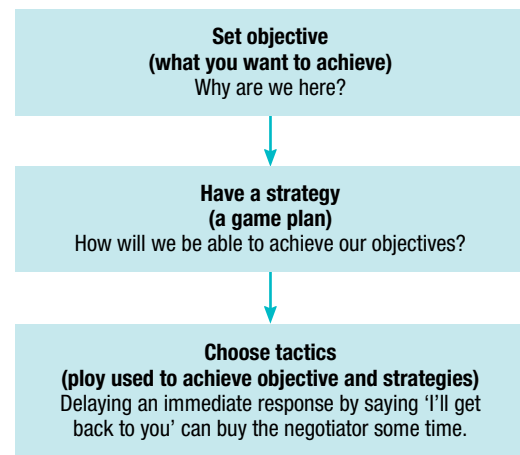
### Effective negotiators

Research suggests that the skills required to be an effective negotiator include:

- *Communication* — listening and asking questions, providing information and demonstrating empathy.
- *Preparation* — knowing that negotiation is a process and preparing and anticipating how a meeting might proceed puts the negotiator in a strong position.
- *Problem solving* — creatively looking for the most effective ways to solve problems. In today's economic climate, some creative solutions are being negotiated to find deals that are right for both the employer and employee (such as the one in the following article).

Research has also found that the following attributes are important when negotiating:

- *Trustworthiness* — the negotiator must try to build trust and maintain goodwill towards the person or persons they are negotiating with.
- *Adaptability and flexibility* — a willingness to listen to the opinions and ideas of others, change previously held views, and look for new approaches and solutions to help reach agreement.



Approaching negotiation from the right angle



## Preparing for enterprise agreement negotiations

A successful enterprise agreement is like a well-constructed building. It is essential to lay firm foundations before the bargaining process begins. The following steps provide a useful guide:

- 1 Be aware of when the current agreement expires, so that you allow an adequate period of time to prepare for a new round of negotiations. Remember that you may need to consult with other stakeholders and model a variety of different proposals during the negotiation process.
- 2 Ensure that you have a clear grasp of the strategic plan for the business over the period of the next agreement and beyond.
- 3 Use the strategic plan as a measuring stick for any proposed inclusions in the agreement. Your agreement must be consistent with your plan, or flexible enough to allow for future change.
- 4 How well do you understand the priorities of your employees? A successful negotiation will recognise the issues of greatest importance to them.
- 5 The financial implications of all proposed inclusions need to be tested against budget expectations to ensure they are feasible.
- 6 All stakeholders need to be fully aware of the process and comfortable with the business strategy.
- 7 A strategy that clearly separates the non-negotiable items from the negotiable items is essential.
- 8 All those involved in the process should be well-versed in the legislative requirements, and have the necessary negotiating skills.
- 9 Communication is fundamental at all stages to maximise employee confidence in both the process and the final outcomes.
- 10 Bargaining should be seen as part of an ongoing employee engagement process. At the conclusion of negotiations seek feedback from all participants to determine their successes and lessons for the future. Ensure all details of the final agreement are thoroughly communicated to all stakeholders. Setting clear priorities, thorough planning and maintaining clear lines of communication are the keys to a successful bargaining process.

• Communication is fundamental at all stages to maximise employee confidence . . . •



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



### TEST your understanding

- 1 Why is being able to negotiate even more important considering we have moved to a more decentralised employee relations system?
- 2 Define 'negotiation'.
- 3 To be an effective negotiator, what skills are important?
- 4 Give four examples of the types of things that may be negotiated between an employer and an employee.

### EXTEND your understanding

- 5 Read the following scenario. Role play the negotiations that take place between management and the union regarding Mark's work. Remember to prepare well for your negotiation and know your objectives, strategies and tactics.

Mark worked for a large supermarket chain, packing shelves. In the past, he could always be relied on to turn up to work on time and put in a good day's work. However, over the last two months he has had a lot of time off. His coworkers have had to make up the work that he has not completed and there have been several occasions when Mark has lost concentration on the job and has said that he feels ill and needs to go home. It's getting to a point where the other workers are fed up and their employer feels he is paying a wage but no work is being done in return.

- 6 In what way can each of the 10 tips above contribute to a win-win for both parties in a negotiation process?
- 7 Why is a win-win attitude important for negotiation in today's workplace?

# CHAPTER 4 REVIEW

## eBook *plus*

### Digital document Glossary

Download a glossary of key terms from this chapter.

**Searchlight ID: doc-19082**

## SUMMARY

### The establishment phase of the employment cycle — human resource planning, job analysis and job design

- The three phases of the employment cycle are establishment, maintenance and termination.
- A business strategy will dictate what human resources are needed to ensure business objectives are met.
- Job analysis involves defining what duties must be performed as well as factors such as the time that will be required to complete the job and working conditions required.
- A job description outlines the duties involved in performing a particular job and a job specification focuses on who is needed to do the job in terms of their knowledge, skills and qualifications.

### The maintenance phase of the employment cycle — training and development

- Training involves learning how to do a job more effectively. The aim is to increase the person's knowledge and skills.
- Development focuses on preparing the employee to take on more responsibility in the future and can involve training.

### The maintenance phase of the employment cycle — performance management

- Performance management is about managing the performance of individual employees and the business as a whole to ensure objectives are met. It involves good job design and hiring the right people to perform well for the business, as well as performance appraisal (monitoring the performance of the employee).

### The termination phase of the employment cycle

- Termination of employment is the final phase of the employment cycle. An employee may leave the business voluntarily through resignation, retirement or accepting redundancy. Sometimes an employee will be forced to leave the business because they have been made redundant or have been dismissed.

### Workplace relations: participants in the internal environment

- Employers and employees are the major stakeholders in employee relations processes.
- As human resource managers negotiate employment agreements, they need to be aware of relevant Awards, ensure that all parties are kept informed, check that a completed agreement meets legislative requirements, and arrange lodgement with the Fair Work Commission.
- Implementation of employment agreements may involve regular monitoring, training of fellow managers and other employees, and dealing with any disputes that may arise.

### Workplace relations: participants in the external environment

- Unions, employer organisations, peak bodies and government are all key stakeholders that strongly influence the relationship between employers and employees.
- The Fair Work Commission is a body set up by government to deal with the resolution of industrial disputes

### Awards and agreements

- Modernised Awards now provide only a safety net of minimum conditions.
- Collective agreements are now the key instruments for employees to gain improved pay and conditions in return for improvements in productivity.
- Individual agreements apply in only a minority of workplace situations, and must conform to Award standards.

## Disputes in workplace relations

- Even with the most positive employee relations environment, conflict between employers and employees can still occur, leading to industrial action by either employees or employers.
- Decentralisation of employee relations has led to a general decrease in the number of days lost to industrial disputation in Australia.
- For industrial action to be protected, a number of legal requirements must be met prior to the action occurring.

## Resolution of disputes

- A variety of avenues are available for the resolution of conflict in the workplace.
- The successful resolution of conflict will often depend on the management styles and skills of management, particularly human resource managers.

## REVIEW QUESTIONS

### TEST your understanding

- 1 Name the three stages of the employment cycle.
- 2 A performance appraisal of a worker indicates a lack of computer competency. What should the business do about this?
- 3 How would becoming a training organisation save the business money?
- 4 Group the various stakeholders in employee relations according to whether they are part of the internal, operating or macro environment of a business.
- 5 Explain how the Award modernisation process has changed the nature of industry-wide Awards.
- 6 List and explain the 10 National Employment Standards.
- 7 Give three examples of additional matters that can be included in workplace agreements.
- 8 Under what circumstances might the Fair Work Commission not approve an enterprise agreement?
- 9 List and explain the key steps that should be followed by a human resource manager in the negotiation of an enterprise agreement.
- 10 Outline the matters that must be considered by a human resource manager in implementing an enterprise agreement.
- 11 Explain the difference between protected industrial action and unprotected industrial action.

### APPLY your understanding

- 12 Compare 'voluntary' and 'involuntary' departures in terms of:
  - how difficult each is for the business to manage
  - effects on the company
  - effects on the staff leaving
  - effects on the staff remaining.
- 13 Read the following hypothetical case study and explain in one paragraph why Natasha's termination was handled inappropriately.

Natasha had been employed by Top Line Printers Ltd for 12 years. During this time, she had worked at a number of different jobs in the factory. In her last position as a clerk, she received a very poor assessment from her supervisor. He complained about her performance and warned her that if it did not improve she might be dismissed.

Prior to her job as a clerk, she worked in the graphic design section of the business. Because she is a creative person, she enjoyed this work and received many favourable comments from her customers. However, for economic reasons, the graphic design section was closed and all the employees were given other jobs within the company. Natasha was given the clerk's job in the personnel records section.

One Friday afternoon, she was called in to her supervisor's office. She was told that another supervisor had complained to him about her poor performance and that her services were no longer required. Natasha was not aware of any other complaint about her. She had never been given any written advice that her service was unsatisfactory. However, the supervisor's decision was final. She was dismissed.

## eBook plus

### Digital documents

#### Missing word glossary quiz

Test your knowledge of key terms from this chapter.

**Searchlight ID: doc-19083**

#### Crossword

Check your understanding by completing this crossword on key concepts from this chapter.

**Searchlight ID: doc-19084**

14 Read the Gippsland Water case study and answer the questions that follow.

## Gippsland Water

In the mid-1990s five small water authorities were amalgamated to create Gippsland Water. It was not a very happy marriage. There was very little communication between management and staff, and any decision was greeted with suspicion. When he took over as CEO in 1997, John Mitchell saw an urgent need for change. Staff turnover was running at 43 per cent — a sure sign of an unhealthy business. Within 18 months, the turnover had dropped to 1.7 per cent. A five-year strategic plan was developed with input from a cross-section of employees; there was better teamwork and opportunities for training, and new lines of communication across all levels of the business. Management, employees and the unions established an ongoing commitment to productivity improvement, with a genuine partnership approach in the negotiation of enterprise agreements.

**Source:** Adapted from Business Victoria 2005, 'Gippsland Water', Workplace Excellence Awards fact sheet.



Gippsland Water employees benefit from a partnership between management, employees and unions.

### study on



Sit VCAA exam

### eBook plus

#### Digital document

#### School-assessed coursework

Complete your end-of-chapter school-assessed coursework in Microsoft Word.

**Searchlight ID: doc-19085**

- Describe the key features of the workplace relations environment at Gippsland Water.
- Describe the relationship that exists between three different stakeholders at Gippsland Water.
- Identify the sources of conflict and potential dispute at Gippsland Water.
- Which methods of conflict resolution would you expect to be most commonly used at Gippsland Water? Justify your choice.

## School-assessed coursework

### OUTCOME 2

- Define, describe and apply relevant business management concepts and terms
- Apply knowledge about managing employees to practical and/or simulated business situations



## ASSESSMENT task — structured questions

**Time allowed:** 50 minutes

**Marks allocated:** 32 marks (the marks for each question are indicated at the end of each question)

**Conditions:** closed book (no notes or textbooks may be used when completing this task)

- 1 Explain the link between 'performance appraisal' and 'training and development' of staff. 2 marks
- 2 What are three possible outcomes of a performance appraisal? 3 marks
- 3 Distinguish between the following terms:
  - (a) Dismissal and retrenchment
  - (b) Performance management and performance appraisal. 4 marks
- 4 List two examples of 'on-the-job' training and two examples of 'off-the-job' training.  
On-the-job:  
Off-the-job: 4 marks

Read the case study and answer the questions that follow.

### Impending strike action

Members of the Manufacturing Workers Union employed at Supa Dupa Foods Ltd yesterday voted to take strike action, if they have received no response to their log of claims for a new enterprise agreement by the end of the work week.

A union spokesman claimed that although an offer had been received from the company in June, company representatives had not been prepared to enter into negotiations to develop a new agreement, and the current agreement was due to expire at the end of this month.

'The company's offer is completely unacceptable to our members employed at the Dandenong factory,' the spokesman said. 'They have only offered a 2 per cent pay rise for each of the next three years, and have not responded to our superannuation claims.'

The union spokesman went on to claim that the workforce had achieved productivity gains of over 6 per cent per year over the last two years, and that the company had made record profits over the last three years.

It is understood that the union is seeking a 5 per cent pay rise per year over the next three years and an increase of employer contributions to the employees' superannuation from 9 per cent to 12 per cent.

Mr James Moore, HR Manager for Supa Dupa Foods, described the union's claim as excessive. He claimed that the company could not afford to meet the union demands.

Spokespeople for both Coles and Woolworths last night expressed concern at the possible impact of the proposed industrial action on the supply of a variety of food lines to their supermarkets.

- 5 Which type of industrial dispute is occurring at Supa Dupa Foods? 1 mark
- 6 Outline two matters, other than those mentioned above in the Supa Dupa Foods dispute, that are permitted to be included in an enterprise agreement. 4 marks
- 7 What must the union do to ensure that any strike action taken by the workers at Supa Dupa Foods is protected action? 3 marks
- 8 Identify and explain two possible means of resolving the dispute that have not yet been used by the parties. 4 marks
- 9 If the parties cannot reach agreement, name the organisation that could become involved, and explain the processes that organisation could use to arrive at a resolution. 3 marks
- 10 Assuming a level of trust could be established, identify and explain a step-by-step process the human resource manager could use to negotiate a new enterprise agreement. 4 marks

# CHAPTER 5

## Operations management

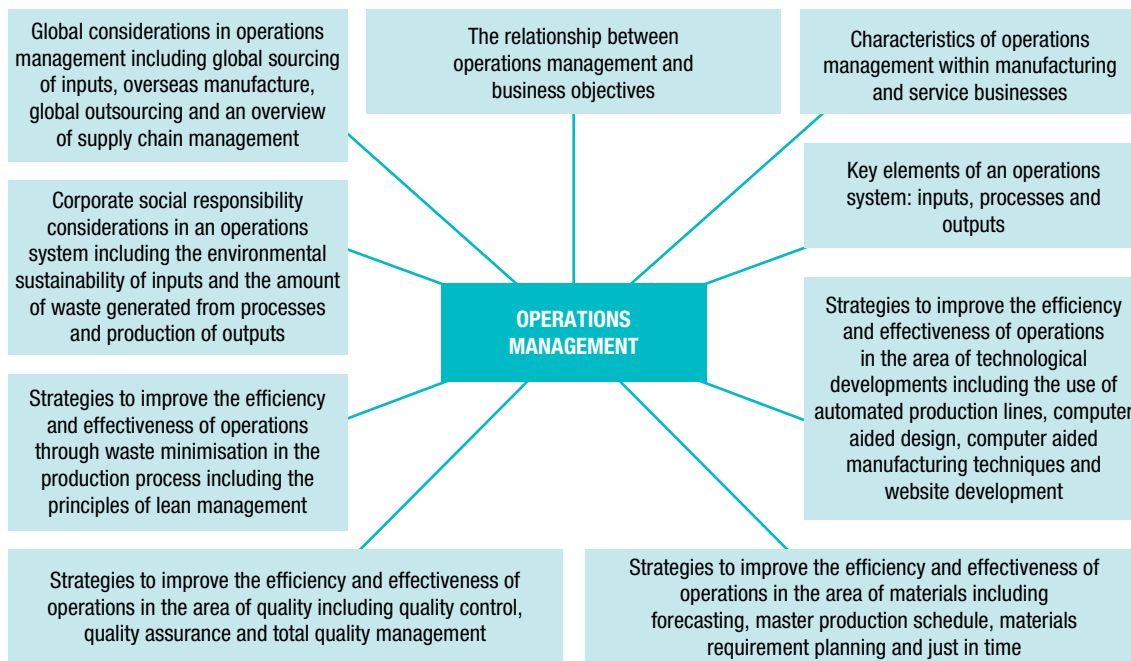
### WHY IT IS IMPORTANT

An operations system is used to transform inputs into outputs. In a chocolate factory, this means using labour and raw resources, such as cocoa beans, to make chocolate. The Mars chocolate factory in Ballarat manufactures well-known brands including Mars and Snickers bars, Maltesers and M&Ms, and the plant has the capacity to produce 1 million Mars bars in just 8 hours. Mars Australia sources its cocoa beans from Rainforest Alliance certified farms. Most of the process of chocolate making is automated (done by machines) — just picture huge vats of melting chocolate and caramel with lots of workers in white coats. When you learn about operations management in this chapter, you will be studying how businesses actually make their good or service and the processes they use to optimise production.

### WHAT YOU WILL LEARN

#### Key knowledge

Use each of the points below from the Business Management study design as a heading in your summary notes.



#### Key skills

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

- define, describe and apply relevant business management terms
- research and analyse case studies and contemporary examples of management applicable to managing production in a business
- interpret business information and ideas
- apply operations management knowledge to practical and/or simulated business situations
- compare and evaluate the various strategies used in operations management
- propose and justify strategies for improving the efficiency and effectiveness of operations.

VCE Business Management Study Design extracts © VCAA; reproduced by permission.



## Toyota's operations system

Operations is the part of the business that 'gets the job done'. At Toyota, that means producing more than 10 million vehicles each year, of which approximately 14 000 are manufactured each day in Japan. The process of producing vehicles at Toyota's many manufacturing plants around the world is similar to producing a cake (or any other product for that matter). You need inputs (resources used in the production process, such as labour and raw materials). The next step is to transform those raw materials into output (finished products). Many of the components used to build an engine, such as pistons and cylinder head covers, are produced in-house by Toyota. Some parts are sourced from local suppliers. What else is needed to make a car? Lots of steel panels that are welded, painted and undergo a multitude of processes to finally reach the assembly line.

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

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

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

Operations is not just about making products or producing services.



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



# 5.1 The relationship between operations management and business objectives



**KEY CONCEPTS** Operations management is about producing goods and/or services based on business objectives.

**Operations management** consists of all the activities in which managers engage to produce goods or services.

If you have ever attempted to prepare a meal, you will know that you need ingredients and a recipe, or a method, to create a final product. Just like you, businesses will follow a recipe when they are producing their good or service. The area of management that is responsible for this is known as operations.

In some way, all businesses must consider the challenges of **operations management**. This area of management is concerned with the strategies that are used to create, operate and control the transformation of inputs from a variety of resources into output, or goods and services, to satisfy the demands of customers. Operations managers make use of strategies including management of materials, quality, waste and use of technology.

A restaurant will make use of operations management. Inputs such as ingredients, labour and equipment are combined through a production process to produce a meal, which hopefully exceeds customer expectations.



## How important is operations to a business?

Operations is vital to any business, because this area of management produces the good or service. Without a product to sell there would be no business.

South32 is a global mining and metals company that operates in Australia, Southern Africa and South America. The area of operations is vital to its performance. In a statement to the ASX in 2016, South32 Chief Executive Officer, Graham Kerr, said, 'We will continue to focus on the things that we can control; safety, volume, costs and capital expenditure, as we seek to optimise the performance of our operations. This strategy to maximise value rather than volume, our high quality operations and well-defined financial policies underpin our resilience at current commodity prices and we remain exceptionally well positioned for any improvement in industry fundamentals.'

Australia Post is another business that highly values operations. Australia Post is the government-owned corporation that is responsible for postal services in Australia. In a business briefing by Australia Post's managing director and CEO, Ahmed Fahou said, 'We have also streamlined our operations through automation and process improvement, which has delivered productivity improvements of 5 to 6%, per annum. We have 3000 less people and run a very lean and efficient operation, handling 20 million items, 11 million addresses and 1 million customers in our shops every business day. These changes are necessary to provide the contemporary services and solutions that Australian government, businesses and citizens need.'



## Relationship between operations and business objectives

The core objective of all businesses is to maximise profit. This aim therefore requires businesses to maximise efficiency and effectively use resources to produce goods or services at the lowest possible price. Operations management is responsible for achieving this objective. Businesses such as South32 and Australia Post are successful in achieving their objectives because they focus on the management of quality, customer service, productivity, technological development, management of materials, waste minimisation and speed of delivery. Efficient and effective operations should lead to satisfied customers, sales, and consequently, the achievement of business objectives. Besides profit, these objectives include increasing market share, fulfilling a social need and providing a reasonable return for investors.

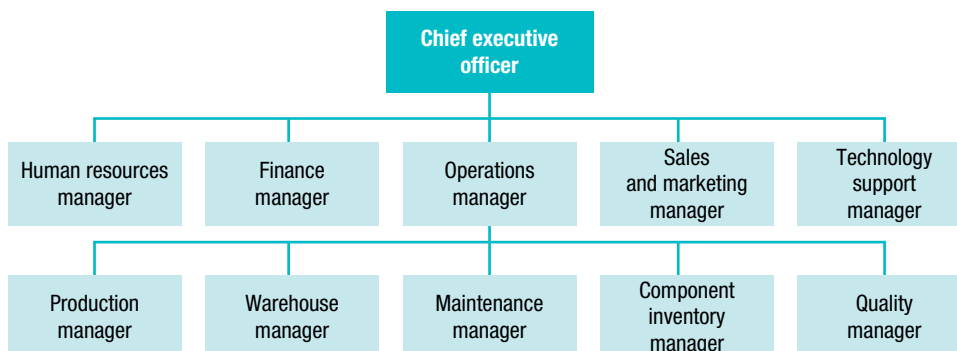
The nature and type of operations vary considerably from one type of good or service to another and from one type of business to another. The responsibility for the operations area in small businesses tends to be held by the owner-operator or one or more employees. Larger-sized businesses will usually establish an operations department (see the business structure diagram below). The manager responsible for operations will be involved in determining business objectives, along with the other senior managers. This manager will also need to ensure that the strategies being used within operations align with the objectives and strategies of the entire business.

The operations department will work closely with other areas in the business. Operations may, for example, work closely with the Human Resource Management department to recruit and select new staff to work in the area of operations. Additionally, operations strategies can be used to achieve objectives by supporting strategies in other areas of the business (see the table below for more examples of how operations strategies can be used to help the business achieve its objectives).

### How operations strategies can support business objectives

Business objectives	Operations objectives	Operations strategies
To make a profit	Reduce costs	Through just in time
Increase market share	Improve quality	Quality control
Provide a return for shareholders	Increase productivity	Introduce automated production lines
Contribute to the wellbeing of the community	Minimise waste	Establishment of lean management

Operations management differs from other areas of management, because it applies specifically to the productive or transformational process. It is important to note, however, that operations managers should no longer be considered as simply engineers of a manufacturing process (production managers), as was the case before the 1970s. Today, operations managers carry out a wide range of tasks.



### study on

Unit 3

AOS 3

Topic 1

Concept 1

**Relationship between business objective and operational strategy**

Summary screen and practice questions

### 🗨 DID YOU KNOW?

Businesses can become more competitive by looking at their production processes. For example, the 'better mango project' identified why so many mangoes were arriving at retail outlets bruised or overripe. Better handling techniques and temperature control have resulted in more consistent fruit quality and better profits.

### 🗨 DID YOU KNOW?

In 1913, Henry Ford developed an approach to car assembly that involved a chassis moving down an assembly line on a conveyor belt. A small team of workers would move with the car, fitting the various components that had been carefully set out along the production line. The end result was a reduction of the hours spent on the assembly of a car, from 728 to just 1.5.

An operations manager in a large business is likely to be part of the senior management team. A large business is also likely to have many managers who report to the operations manager, such as a production manager, warehouse manager and quality manager.

# 5.1 The relationship between operations management and business objectives

## Interview with an operations manager

‘I am responsible for the operational side of the business . . .’

**Harry Souris:** National operations manager  
**Company:** M&J Chickens  
**Studied:** Business Management, University Of Western Sydney

### What are your primary roles and responsibilities in your job?

I am responsible for the operational side of the business on a national level; I liaise with our teams across Australia on a daily basis to maintain stock control and to generally make sure that things are running smoothly. In doing so I'm also required to travel regularly and conduct meetings and training for our management teams to then pass onto their staff.



### How did you get to where you are today?

Together with my siblings I have been actively involved with the business since we were old enough to walk and talk; I remember packing product into boxes at the tender age of eight years old. These days we all play an active part in the running of the business on a national level, being based and having worked in the Sydney head office we endeavour to maintain all of our warehouses at the level of quality and service that is synonymous with the M&J Chickens name which is ultimately our family's reputation.

### What tools and/or software do you use on a daily basis?

We operate using a software system called Clear Objective; this system processes all our sales orders and purchase orders, I refer to this system as the 'brains' behind our business because it allows us to maintain stock control and forecast stock moving forward to ensure we are not caught off guard.

### What is your biggest frustration in your job?

If I were to get frustrated it would be on the rare occasion when something goes wrong that it is out of my control, for example a supplier not being able to fulfil our product needs in order for us to

produce product for a client is the ultimate frustration for me because letting down our clients is always the worst case scenario. I would exercise every possible option before letting down the client.

Source: *Food Magazine*, 9 April 2013, <https://foodmag.com.au/24-hours-with-mj-chickens/>

**Tangibles** are goods, which can be touched.

**Intangibles** include services, which cannot be touched.

## Characteristics of operations management within both manufacturing and service businesses

A manufacturer will transform inputs into tangible products. **Tangibles** are physical products that can be handled and stored before they are sold to the consumer, such as bread, clothing or a car. The production process and consumption are not linked. That is, there is little customer involvement in production.

A service business will transform inputs into services. Services are **intangible**, which means that they cannot be touched. For example, if you attend a training course, you cannot physically touch it, but you benefit from gaining knowledge and learning new skills. Services cannot be stored and the customer may actually need to be present when the service is being delivered. For example, the customer must be present when receiving a haircut.

In reality, many businesses today produce a combination of both manufactured goods and services. Products such as cars or electronic equipment often come with a warranty and other services. When a customer enters a contract with an Internet

### study on

Unit 3

AOS 3

Topic 1

Concept 3



**See more**  
Operations in large manufacturing businesses

Training courses are an example of a service, as they are not a physical product.



### **DID YOU KNOW?**

An operations manager can select strategies from four areas to achieve optimal operations: use of technology, materials management, management of quality and waste minimisation.

### **study on**

- Unit 3** **Operations in large service businesses**
- AOS 3**
- Topic 1** Summary screen and practice questions
- Concept 4**

provider, they will receive a service (their broadband connection), a modem and other goods necessary to enable the connection.

Regardless of whether a business manufactures a good or produces a service, most large businesses will have an operations function or department. Sometimes, it may be referred to by other names, such as production or supply. The strategies that the operations area uses will differ according to whether the business manufactures a good or provides a service. A bank, for example, would not be as concerned with the management of materials as a car manufacturer would be.



### **TEST your understanding**

- 1 Define what you understand by the term 'operations management'.
- 2 'Operations management is the part of the business that actually gets the job done.' Demonstrate this concept on a smaller scale by describing the materials you would need and the process you would undertake to bake a cake (your finished product).
- 3 Outline some of the tasks that Harry Souris carries out as national operations manager.
- 4 Explain the main differences between goods and services.
- 5 In your own words, describe the relationship between operations management and business objectives.
- 6 Compare the main characteristics of a manufacturer with those of a service business.
- 7 Why do modern businesses combine goods and services?

### **APPLY your understanding**

- 8 One strategy to produce goods more quickly is to use better technology. For example, using a hand beater to mix

a cake batter might not be as efficient as using an electric beater. Fill in the table below and list some strategies that an operations manager might use to achieve the listed business objectives. The first entry has been completed for you.

- 9 Pick a business like BHP Billiton or Coles Supermarkets Australia Pty Ltd (part of Wesfarmers), and list at least three of their business objectives. This information can be found on their website, in their annual report or in speeches made by the company CEO. For each objective, state what strategies the operations manager might employ to help achieve the objective at the operational level.
- 10 Use the Internet, or look at the employment section of the newspaper, to find a job advertisement for an operations manager (sometimes called a production manager or a factory manager). The advertisement will most probably outline responsibilities involved in the position. List the skills required to fulfill these responsibilities.

Business objective	Operations strategy
Increase the quality of service provided	Introduce total quality management
Increase the quality of the product	
Reduce production costs	
Minimise impact on the environment	
Increase profit	

# 5.2 Key elements of an operations system



**KEY CONCEPTS** The elements of an operations system are inputs, transformation processes and outputs.

The operations system used in a manufacturing business will be different to the operations system used in a service business.

**Inputs** are resources used in the process of production.

## study on

Unit 3

AOS 3

Topic 1

Concept 2



**See more**  
Key elements of  
an operations  
system

## Inputs

**Inputs** are the resources used in the process of production. Some resources are owned by the business, while others are from suppliers. There are six categories of inputs:

- 1 Materials** includes raw materials, components and parts consumed or converted by the transformation process.
- 2 Capital equipment** includes the plant, machinery, equipment and property necessary to conduct operations.
- 3 Labour** refers to people involved in the operations function.
- 4 Information from a variety of sources** contributes to the transformation process. Businesses do not always account for the value of this resource, because it cannot be easily quantified as an asset.
- 5 Time** and its efficient use are critical to all businesses. Coordinating resources within appropriate time frames limits costs and wastage. Operational planning may involve achieving production tasks ranging in duration from one year to merely hours.
- 6 Money** is generally considered to be the most flexible of all resources, because it can easily be converted into any quantity or combination of materials, capital or labour.

Inputs differ between manufacturing businesses and service businesses. Manufacturers tend to make more use of capital equipment and materials and use less labour and information. A hospital is an example of a business that provides medical services. The inputs to provide these services involve medical equipment and products such as tape, injections, sheets, towels and hand-wash solutions. Labour, in the form of medical supervision by nurses and doctors, is also required. For a service provider such as a hospital, information is a very important input. For example, information about medical practices and patients are combined with the other inputs in the transformation process to improve patient health.

In a hospital the inputs include labour, such as the doctors and nurses who work there, the equipment and materials they use to care for patients, as well as the hospital facilities themselves.





## Processes/transformation

The main concept of operations management is **transformation** — conversion of inputs (resources) into outputs (goods or services). Sony, for example, takes plastic, metal, glass and electronic parts, and transforms them through design, manufacturing and assembly into numerous electronic products.

The term ‘transformation’ implies physical changes, but, today, it also includes the conversion of resources into services. Your school takes its main inputs — students, the syllabus, staff and buildings — and produces educated, employable graduates.

---

**Transformation** is the conversion of inputs (resources) into outputs (goods or services).



The production of yoghurt goes through a transformation process, where inputs such as labour, raw materials and machinery are combined and converted into output.

It is important to understand that the transformation process differs between manufacturing businesses and service providers. A manufacturer transforms inputs into tangible products (goods which can be touched). A service business transforms inputs into intangible products (services which cannot be touched). The operations system of a manufacturer tends to be highly automated or mechanised. Manufacturers use machinery, robots and computers to transform inputs into outputs. Service providers rely heavily on interaction with the customer and their processes tend to be more labour-intensive; that is, staff are crucial to the operations.

The transformation process involves using resources to produce the final goods or services. Many businesses continually work to improve the way they transform resources into finished products.

## 5.2 Key elements of an operations system

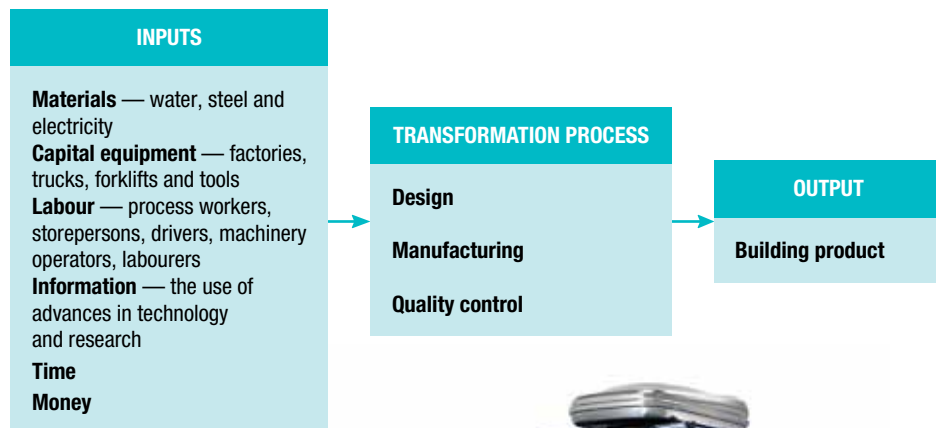
### Outputs

**Outputs** refer to the end result of a business's efforts — the service or product that is delivered or provided to the consumer.

Essentially, **outputs** are the result of a business's efforts — the final good or service that is delivered or provided to the consumer. Goods tend to be homogenous, which means that they are basically all the same or similar. Services tend to be differentiated, that is, they are provided to individual customers and are modified to suit each customer.

So far, we have drawn a distinction between service and manufacturing operations, but, in many cases, businesses carry out both types of operation. Toyota, for example, separates its vehicle manufacturing operation from its customer service operation, although both elements are critical to the business's overall success. All businesses carry out many activities that can be isolated from direct involvement with the customer. Insurance companies employ mathematicians called actuaries who use formulas to determine risk and probability in setting the level of insurance premiums.

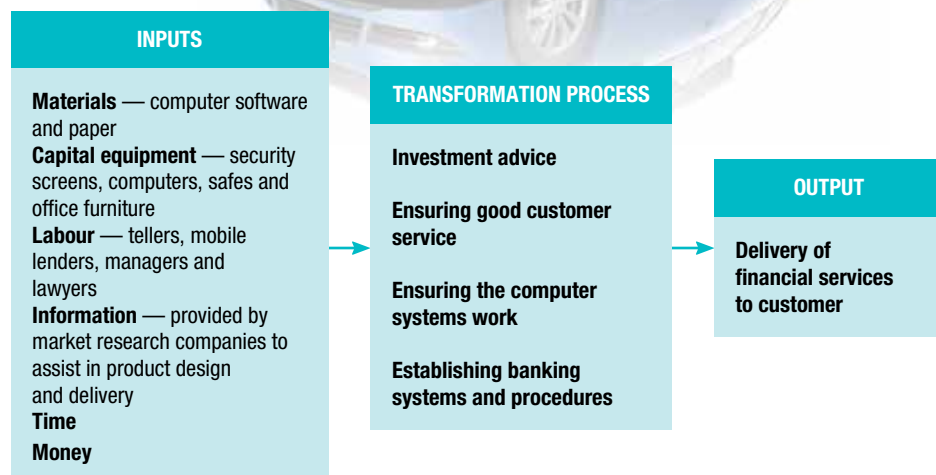
An operations system for a manufacturing company producing building products



A car is an output that requires many individual processes. There may be several thousand inputs, such as nuts and bolts, supplied by hundreds of businesses.



An operations system for a bank



Actuaries never deal directly with the public, but are instrumental in forming parameters or boundaries in which operations will occur.

The operations manager must be able to link transformation processes to the activities performed by other areas of the business. Output must always be responsive to customer demands. Issues of quality, efficiency and flexibility must be balanced against the resources and strategic plan of the business.



A delicate balancing act



### TEST your understanding

- 1 Identify the three key elements of an operations system.
- 2 Distinguish between 'input', 'process' and 'output'.
- 3 Using the process of completing homework as an example, draw a diagram that describes the operations component (that is, the transformation from no homework done to *all* homework completed).
- 4 Identify the inputs, processes and outputs of the following businesses:
  - (a) Coles supermarkets
  - (b) Four 'n' Twenty pies
  - (c) RACV.
- 5 Miriam's Interior Decorating Service is a business specialising in home redecorating. Outline the range of operations activities offered in such a business.
- 6 Construct a mind map to illustrate the six categories of inputs. The mind map at right has been started for you.

### APPLY your understanding

- 7 The Rio Tinto Group is an international mining company. Rio Tinto finds, mines and processes mineral resources, which are then converted to products such as coal, copper, gold

and silver. Use the **Rio Tinto** weblink in your eBookPLUS to identify the inputs, transformation processes and outputs that Rio Tinto would use to produce its products.

**eBookplus**

**Weblink**  
**Rio Tinto**

- 8 Monash Health provides health services through major hospitals and community health facilities across south-eastern Melbourne. Use the **Monash Health** weblink in your eBookPLUS to identify the inputs, transformation processes and outputs that Monash Health would use to provide its services.

**eBookplus**

**Weblink**  
**Monash Health**

Materials: consumed/  
converted by  
the process



# 5.3 Technological developments



**KEY CONCEPT** The use of up-to-date technology is one strategy which operations managers use to improve the efficiency and effectiveness of operations.

## study on

- Unit 3
- AOS 3
- Topic 2 **See more**
- Concept 3 Technological development



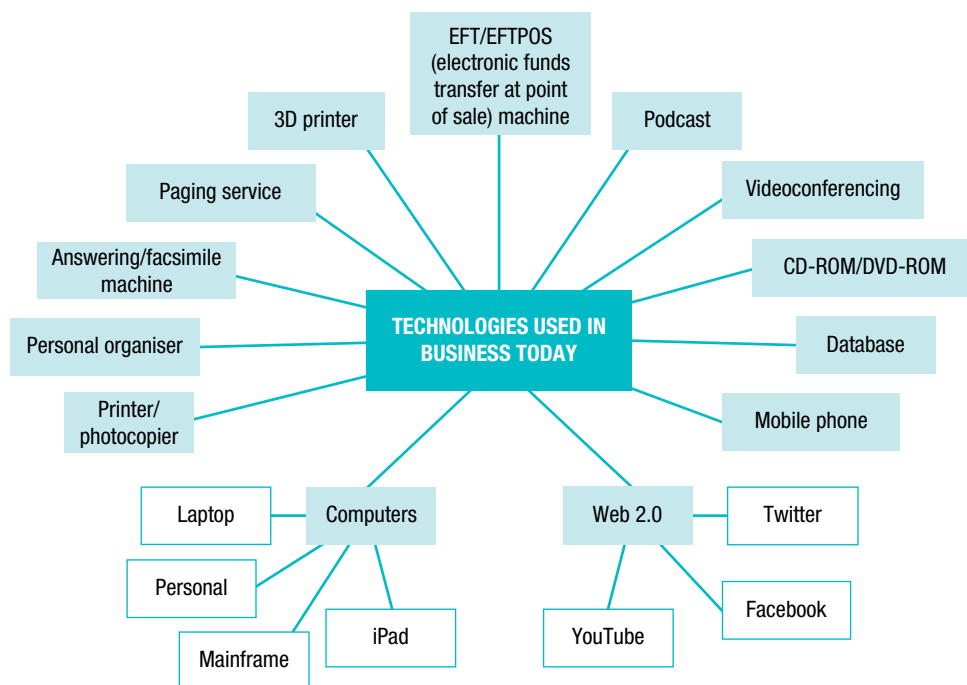
### DID YOU KNOW?

World Vision Australia, an overseas aid and humanitarian organisation, uses CRM software to track major donations and client accounts. CRM software allows regional offices and global teams to collaborate and communicate more easily. World Vision can now manage its transactions throughout every stage, whether viewing customers' histories or rolling out and monitoring donation programs.

Imagine if Toyota tried to produce all of its cars with absolutely no technology, or if Telstra attempted to maintain customer records without the assistance of computers. It just could not be done. Businesses need to utilise up-to-date technology in order to compete effectively. In both the service and manufacturing sectors, technology can be used to speed up (or shorten) processes and maximise the use of materials. The use of technology means that goods and services can be produced using less labour. These factors make the operations process more cost effective. Technology can improve quality, leading to increased profitability.

## Office technology

Both service and manufacturing operations use office technology, but businesses providing a service are likely to make greater use of it. Office and communication technologies have enabled whole markets to open up as businesses can reach more customers around the world. Developments in business technologies have created the opportunity for people to do more work in less time, which means a greater range of tasks can be completed in work time. These technologies have also enabled office workers to work from locations outside the office. Some technologies used in business are shown in the diagram below:



## Customer relationship management

Customer relationship management (CRM) refers to the systems that businesses make use of to maintain customer contact. CRM software can be used to improve customer service and increase competitiveness, because it stores information about existing and potential customers.

The information can be retrieved and entered by employees from different functions within the business, such as sales, marketing and operations. Because this



approach improves services, which are now provided directly to customers, costs will be cut and productivity can improve.

## Website development

Most modern businesses require a website. A website can be used for marketing but it can also be developed for operations purposes. The operations department may work with technology support to develop ways to make it easier for customers to purchase goods or services online or to share information. Online sales functions may be added to the website or upgraded. For example, an upgrade might involve improving a shopping cart or a checkout process. A business will need to ensure that a website that will handle private and sensitive personal information provided by customers can effectively protect this information. Additionally, a business may develop its website to increase the amount of information it gets from its customers and analyse this information.

A business may also develop its website to provide information to employees, customers and suppliers. A section for policies, such as a privacy policy or a returns policy, and an FAQ section for addressing the most frequently asked questions of a support team could be included on a website for customers.

A website can provide detailed information to suppliers. For example, it can make **procurement** activities available to potential suppliers. Furthermore, a portal for suppliers might be established to identify and obtain qualified suppliers.



## Automated production lines

An **automated production line** is comprised of machinery and equipment arranged in a sequence with components added to the good as it proceeds through each step. The good usually moves along the line on a conveyer belt. An automated production line does not need employees directly involved in its operation as all or part of the process is controlled by automation; that is, it is self-operating or controlling. Computers manage the process and humans are likely to be given the task of monitoring the operations system.

A typical key feature of an automated production line is the use of **robotics** — a form of technology that is capable of complex tasks (as shown in the figure on the next page). Robots are used in engineering and specialised areas of research,

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**Procurement** refers to the process of researching and selecting suppliers, establishing payment terms, negotiating contracts, and the actual purchasing of resources that are vital to the operations of the business.

A website can be used by a business to enable customers to purchase products online or communicate with the business. It can also be used to improve communication with employees and suppliers.

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An **automated production line** is comprised of machinery and equipment arranged in a sequence with components added to the good as it proceeds through each step, with the process controlled by computers.

---

**Robotics** is a highly specialised form of technology capable of complex tasks.

## 5.3 Technological developments

### study on

Unit 3

AOS 3

Topic 2

Concept 1

**Automated production lines and computer aided design**

Summary screen and practice questions

### ! DID YOU KNOW?

Australian Waterslides and Leisure Pty Ltd uses the latest computer aided design programs to provide quality and safety in its waterslide projects. The information can be collated quickly for a very accurate presentation of ideas and information.

**Computer aided design** is a computerised design tool that allows a business to create product possibilities from a series of input parameters.

### study on

Unit 3

AOS 3

Topic 2

Concept 2

**Computer aided manufacturing techniques and website development**

Summary screen and practice questions

**Computer aided manufacturing** is software that designs and controls manufacturing processes.

**Computer integrated manufacturing** is a method of manufacturing in which the entire production process is controlled by a computer.

as well as on automated production lines, where a programmable machine capable of doing several different tasks is required. Robotics allows for a degree of precision and accuracy generally unmatched by human labour. In addition, robots work without complaint or demands for wage rises, in conditions that would be soul destroying and often dangerous for employees. Robotics is a high cost form of technology that can be unaffordable for many small and medium-scale manufacturers.

Robotics used in the car manufacturing industry



### CAD/CAM/CIM

**Computer aided design** (CAD) software generates three-dimensional diagrams from a set of given input data (parameters). Once the design has been created, it can be viewed from multiple angles, assisting both the designer and the end user to visualise what will be produced. It is used in a range of businesses.

From the design, material use can be calculated, as can time for the task to be completed. This enables costings of the project to be quantified. If the cost is too high, or if the design is too limited, the input parameters can be altered to reflect these requirements. CAD software can customise a series of options that meets the client's or customer's needs. Normal drafting processes would cost much more, take longer and be less accurate. CAD software can also design the sequence of steps that would need to be taken to create the desired product in the shortest possible lead time using the least material.

**Computer aided manufacturing** (CAM) is software used to allow the manufacturing process to become computer directed by designing and controlling the process. The CAD software can be linked to CAM software to manufacture designs that are accepted by clients. CAM can also be used more broadly to calculate how much of each input would be required.

**Computer integrated manufacturing** (CIM) uses a computerised system to combine CAD and CAM to manage the entire production process. Product design, analysis, planning, purchasing, costing, inventory control and distribution can be controlled by computer.



Computer aided design allows more scope to design complex structures, such as giant waterslides.



### TEST your understanding

- 1 How can technology improve operations?
- 2 Explain the impact of technology on service businesses.
- 3 In what ways can the development of a website be beneficial to the operations area?
- 4 What is an automated production line?
- 5 Explain the impact of technology on manufacturing businesses.
- 6 State two benefits and two costs of manufacturing technology.
- 7 Match the following terms with their definition:

### APPLY your understanding

- 8 Explain how technology can be used to optimise operations in a business. Include the terms 'computer aided design', 'computer aided manufacturing', and 'automated production lines' in your answer.
- 9 Use both the **Telstra** and **Toyota** weblinks in your eBookPLUS to list the types of technology these companies use and then make a comparison. Explain how the technologies used differed.

**eBookplus**

**Weblinks**  
**Telstra**  
**Toyota**

Term	Definition
Customer relationship management (CRM)	(a) a computerised design tool that allows business to create product possibilities from a series of input parameters
Automated production line	(b) software program that LSOs are introducing to maintain customer contact
Computer aided design (CAD)	(c) software that designs and controls the manufacturing process
Computer integrated manufacturing (CIM)	(d) machinery and equipment arranged in a sequence with components added to the product as it proceeds through each step, with the process controlled by computers
Computer aided manufacturing (CAM)	(e) a method of manufacturing in which the entire production process is controlled by a computer

# 5.4 Materials management



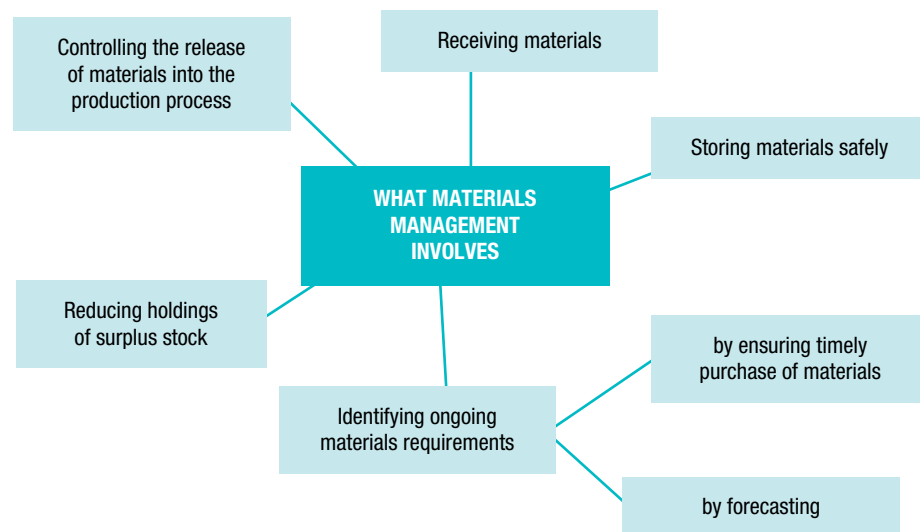
**KEY CONCEPTS** Materials management is used by operations managers to improve the efficiency and effectiveness of operations.

Materials management involves managing the use, storage and delivery of materials to ensure the right amount of inputs are available when required.

## DID YOU KNOW?

When Navitaire, the supplier of Virgin Blue's reservations and check-in systems, experienced a computer hardware failure in 2010, Virgin Blue was forced to switch to slower manual check-in arrangements, causing extensive delays and cancellations of flights. Hundreds of passengers were left stranded.

Vehicle manufacturer Toyota uses just in time production — a strategy where assembly plants keep small supplies of parts on hand, and materials are delivered from nearby facilities when needed. A delay in delivery can shut down the entire manufacturing process. In 2016, Toyota was forced to suspend production of Japanese vehicles for a week after an explosion stopped work at the factory of one of its key suppliers, Aichi Steel Corporation. Managing materials so that they arrive in the right places, in the right quantities and at the right time is an important area of operations management.



Materials management is an intricate strategy. It involves several critical activities.

**Materials management** is the strategy that manages the use, storage and delivery of materials to ensure the right amount of inputs is available when required in the operations system.

**Inventory** is the goods and materials held as stock by a business.

Huge warehouses holding a large inventory represent a cost to a large business.



**Materials management** is all about managing the way that materials are received and stored, and ensuring that the materials are available in the operations system when required. Many businesses have large amounts of materials on hand to complete production. This is referred to as stock or **inventory**. A large inventory may be held by the business to ensure that materials do not run out; however, this represents a cost to the business. Stock taking up storage space for lengthy periods can mean that the business misses the opportunity to invest money in other places. Materials can also have a 'use-by date', which means that they could become unusable after a period.

Some businesses, such as Toyota, reduce costs by having fewer materials held as inventory. Its efficient handling of materials keeps costs down, but when



materials don't arrive on time (as in the case of the explosion at the supplier's factory) the consequences can be devastating.



One of the most important activities of materials management is **materials handling**. It refers to the handling of goods in warehouses and at distribution points. Adequate materials handling procedures and techniques can result in a more efficient production process and cost savings. Proper handling can also reduce accidents, breakage and spoilage.

## Forecasting

One of the initial stages of the management of materials involves **forecasting**. The operations area will use forecasting to develop a production plan and reduce the uncertainty of future events. A business needs to forecast the quantity and timing of demand for its good or service and then match supply with demand. This will allow the business to decide what goods or services to produce, how to produce it and in what quantity. In this way, it can estimate or predict what materials are needed, and in what quantities. A business may also forecast the costs of materials and transportation.

A business will use forecasting to ensure that it maintains an appropriate level of materials for the operations system without overproducing. This would result in the business carrying too much inventory and stock would remain in storage, representing a cost to the business. At the same time, a business does not want to find itself in the situation where it does not have enough inventory for the operations to function. This could lead to underproduction.

Forecasts can be for the short term, for example for the next hour, day, a week, month or year; or for the longer term, for example for the next three to five years or for the life of a product.

Forecasting methods fall into two broad categories: qualitative and quantitative. Qualitative forecasting is subjective, that is, it gathers information that is usually based on the opinions of people, such as through market research and open-ended questions on questionnaires. Quantitative forecasting makes use of data in numerical form. For example, a business might develop a forecasting model where it would

### ! DID YOU KNOW?

Boeing had over 900 orders for its new plane, the 787 Dreamliner and was expecting to deliver the new plane to its customers before the end of 2008. This did not happen. Delays were caused by production problems, strikes and a shortage of fasteners. The shortage of fasteners occurred because the fastener industry was not able to keep up with Boeing, and Boeing's competitors, boosting plane production rates to record levels. Boeing actually made the first delivery in 2011, but the delays cost the company billions of dollars.

It is important that materials such as these huge steel rolls are handled efficiently at Toyota to keep costs down.

**Materials handling** is the physical handling of goods in warehouses and at distribution points.

**Forecasting** is a materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events.

### study on

Unit 3

AOS 3

Topic 3

Concept 1



**See more**  
Forecasting and master production schedule

### ! DID YOU KNOW?

Forecasting future conditions is vital for the success of business and materials planning. By the end of World War II, Curtiss-Wright was the largest aircraft manufacturer in the United States. Unfortunately, the management of the company failed to accurately forecast the market for jet aircraft and instead invested in improved piston engines. This eventually led to the closure of its entire aeroplane division.

## 5.4 Materials management

A **production plan** is an outline of the activities undertaken to combine resources (inputs) to create goods or services (outputs).

A **master production schedule** is a plan that details what is to be produced and when.

**Materials requirement planning** involves developing an itemised list of all materials involved in production to meet the specified orders.

### 🗨️ DID YOU KNOW?

Although the just in time approach was first used by the Ford Motor Company, it was adopted and publicised by Toyota as part of its production system. In the 1950s, Toyota did not have enough money to buy huge amounts of materials, and had little physical space for inventory. It reacted by reducing the amount of its inventory, holding a small amount of materials that would sustain production for a short period of time, and then reordering new materials.

**Inventory control** ensures that costs are minimised and that the operations system has access to the right amounts of inputs when required.

### study on

Unit 3

AOS 3

Topic 3

Concept 2

**Materials requirement planning and just in time**

Summary screen and practice questions

**Just in time** is a materials management strategy that ensures that the exact amount of material inputs will arrive only as they are needed in the operations process.

try to predict future demand for its good based on an analysis of numerical facts or historical patterns in statistics from the previous five years.

While forecasting will allow a business to predict its materials needs, making use of historical data does not necessarily guarantee that past events will continue into the future. It is always possible that unforeseen or unexpected events will occur. Forecasting, to some degree, will always be inaccurate. This strategy provides a 'guesstimate' — a mixture of a 'guess' and an 'estimate'.

## Materials planning

The **production plan** provides the basic information necessary for detailed materials management planning. Modern businesses typically complete materials planning by using software. Such planning includes master production schedule (MPS) and materials requirements planning (MRP).

A **master production schedule** (MPS) is a plan that describes what is to be produced, in what quantities, how and when. The plan is linked to specific delivery dates or contracts for delivery in the future. Inability to meet this schedule may have serious business implications. It is important, therefore, that the productive capacity of the business has been correctly assessed. A business cannot increase its rate of production without increasing the amount of necessary inputs, as Boeing found (see the 'Did you know?' feature). Decisions such as upgrading plant and equipment or employing additional staff may be related to ongoing problems in meeting this schedule.

**Materials requirement planning** (MRP) is completed after the business has a clear understanding of the quantities to be produced and the time frame involved. It is an itemised list of all materials involved in production to meet the specified orders. Such planning must consider:

- lead times required by suppliers; that is, whether items need to be ordered weeks or months in advance
- the exact number of inputs to complete the task
- the amount of stock (inventory) on hand
- purchasing procedures; for example, whether the business wishes to take advantage of bulk purchasing discounts offered by suppliers.

## Inventory control

**Inventory control** is a system used to ensure that costs associated with maintaining an inventory of materials are kept to a minimum. Costs can be minimised by not allowing materials to remain idle and by making sure that inputs are available for the operations system when needed. An operations system that runs out of materials will not perform at optimal level.

Modern businesses use bar coding and computerised stock records to control inventory. Computerisation can help to minimise loss or theft of stock and it provides precise, up-to-date information about stock levels. Signals can alert management when it is time to order new materials, and how much to order. Businesses also conduct stocktakes, physically counting stock and then comparing the count against what was expected to be available. Any differences would indicate problems with stock control.

A common strategy used by many businesses in Australia is the **just in time** (JIT) system of inventory control already mentioned on page 150. This approach makes sure that the right amount of materials arrive just as they are needed for production. It can reduce storage costs and reduce the risk of any waste occurring in storage, thus increasing competitiveness. However, supplier deliveries must be reliable, and materials must be received at the appropriate time.



Inventory control software provides managers with precise knowledge of quantities and locations of stock.



### TEST your understanding

- 1 Explain, in your own words, what materials 'management' is about.
- 2 List the benefits of efficient materials handling.
- 3 Explain the purpose of forecasting.
- 4 List the benefits and any possible limitations of using forecasting.
- 5 Briefly outline the two key steps involved in materials planning.
- 6 (a) Identify the benefits of MPS and MRP.  
(b) Suggest any possible limitations for a business using MPS and MRP.
- 7 What is inventory?
- 8 What is the main benefit of inventory control?
- 9 Explain how the just in time approach can improve productivity and reduce costs.
- 10 List potential problems that you can see with the just in time approach.
- 11 Match the following terms with their definition.

Term	Definition
forecasting	(a) an inventory control approach that ensures that the exact amount of material inputs will arrive only as they are needed
materials requirements planning (MRP)	(b) a materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events
master production schedule (MPS)	(c) details what is to be produced and when
just in time	(d) developing an itemised list of all materials involved in production to meet the specified orders

### APPLY your understanding

- 12 Chan is the operations manager of a small clothing manufacturer. Recently, the business has been experiencing financial troubles as retail customers begin to recognise it as being a very poor supplier. The clothes are rarely delivered on time, and are always delivered in the wrong quantities. The main problem is that materials for the popular clothing lines keep running out, while the storage areas are filled with materials for the unpopular clothing lines.
  - (a) What are the costs of having too many materials in storage?
  - (b) What problems can occur when there are not enough materials on hand?
  - (c) Explain how Chan could use MPS and MRP to improve materials management.
  - (d) Suggest any other materials management approaches you think would help Chan optimise clothing operations. Explain your answer.
- 13 Explain how can materials management can be used to optimise operations.
- 14 To find out how a business might deal with forecasting use the **role of forecasting** weblink in your eBookPLUS. Why do businesses need to forecast? How can a business create a forecast and what should be done with it?

#### eBook plus

**Weblink**  
**Role of forecasting**



# 5.5 The management of quality



**KEY CONCEPT** Businesses use quality management to make sure that their products meet customer expectations. Three quality strategies are quality control, quality assurance and total quality management (including employee empowerment, continuous improvement and improved customer focus).

**Quality** refers to the degree of excellence of goods or services and their fitness for a stated purpose.

## study on

Unit 3

AOS 3

Topic 4

Concept 1



**See more**  
Quality  
management

To ensure the health of Victorians, Ambulance Victoria uses high-quality ambulances.

## eBookplus

### eLesson

#### Quality control – Capilano

Watch this video featuring Capilano and complete the attached worksheet.

**Searchlight ID: eles-1050**

**Quality control** involves the use of inspections at various points in the production process to check for problems and defects.

## study on

Unit 3

AOS 3

Topic 4

Concept 2



**See more**  
Quality control

**Quality** basically means that the customer gets what they wanted. A quality product has a high degree of excellence and achieves the purpose for which it was designed. A quality product should be reliable, easy to use, durable, well designed, and delivered on time. It should include after-sales services and have an agreeable appearance. Quality is very important to Ambulance Victoria. As a government business enterprise that provides medical transport and pre-hospital care for patients, any mistakes or faults in its services can be life-threatening. As you continue reading this section, we will examine how Ambulance Victoria manages quality.



When managing quality, a business will:

- minimise waste and defects
- strictly conform to standards
- reduce variance in final output.

Operations managers use a variety of strategies to maintain or improve quality. Ambulance Victoria makes use of quality control and quality assurance. Many businesses use an approach called total quality management.

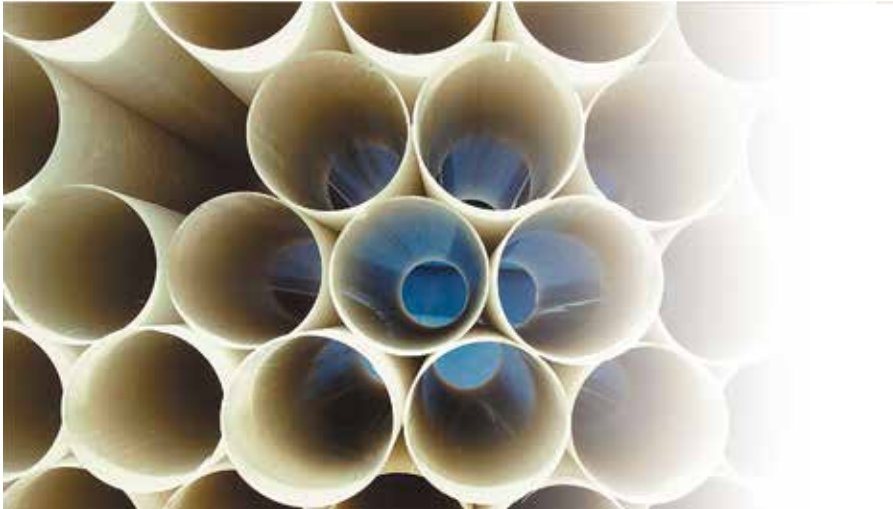
## Quality control

Ambulance Victoria uses **quality control** to optimise its production process. Quality control reduces problems and defects in the product, using inspections at various points in the production process. Many businesses and enterprises such as Ambulance Victoria minimise errors and waste by ensuring that standards are met. Specifications or benchmarks are set before the physical checks are completed. Actual performance is then compared to the established criteria. If the established standards are met, it is likely that the business will be meeting customer expectations. Competitiveness increases as the costs associated with waste and faulty products are reduced.

As a service enterprise, Ambulance Victoria monitors quality and response times. It uses a cardiac arrest registry to collect data on cardiac arrest patients who have used its ambulance service. Another service business such as a bank might use teller accuracy, speed and courtesy, as quality-control measures. While quality control is able to



reduce problems and defects in a business's product, using this quality strategy does represent a cost. Rejected products will end up as waste, unless they can be reworked, and more time needs to be added to the production process to inspect products.



### **DID YOU KNOW?**

Beneath the green grass of the MCG lies 5 kilometres of PVC drainage pipe that stops the surface from becoming waterlogged. This pipe is made by Vinidex Pty Limited, Australia's leading manufacturer of thermoplastic pipe systems for the transportation of fluid, data and energy. The high-quality pipes produced are also used to pump gas through vast pipelines in New South Wales and South Australia — a leaking pipe would be a disaster.

Vinidex uses meticulous quality control as well as quality inputs to maintain excellent customer service. New materials, as well as the processing technology and manufacturing equipment, are carefully examined to make sure that Vinidex continues to achieve high standards in the pipes and fittings industry.

## Quality assurance

**Quality assurance** is an integral part of Ambulance Victoria's operations. A quality system is in place to ensure that set standards are achieved. Ambulance Victoria's quality systems are certified to the ISO 9001:2008 standard. The ISO 9000 series of quality certifications is a widely used international standard. 'ISO' stands for International Organization for Standardization. Meeting these international standards is voluntary, but many businesses comply with ISO requirements to remain competitive locally and internationally. The ISO provides guidelines on how businesses should establish quality assurance systems by adopting specific procedures, controls, and recording and documentation measures. Ambulance Victoria's effective quality system provides reassurance to customers that it is able to provide safe and reliable service. While quality assurance is able to improve business competitiveness and customer satisfaction, introducing a quality assurance system can be expensive, particularly for smaller businesses. There may also be heavy emphasis on documentation, making the process a time consuming one. Large contributions could possibly be required from those employees who are involved in introducing and maintaining the standards.

## Total quality management

**Total quality management** (TQM) is a commitment to excellence that emphasises continuous improvement in all aspects of a business's operation by sharing responsibility among all the members of the business. Quality becomes both a commitment and the responsibility of every employee in the business. The aim of TQM is to create a defect-free production process, and maintain a customer focus in operations. The adoption of TQM can improve the price competitiveness of a business and can also improve product quality, allowing the business to attain competitive advantage. However, introducing total quality management can be expensive and time-consuming. This strategy relies on the full participation of all employees, but it is possible that its introduction may be resisted as employees are required to change their way of thinking and attitude. Staff will need to be trained in customer service and problem solving, and it will take time for improvements to be seen across the business.

**Quality assurance** involves the use of a system so that a business achieves set standards in production.

### **study on**

Unit 3

AOS 3

Topic 4

Concept 3



**See more**

Quality assurance (QA)

### **DID YOU KNOW?**

Northrop, a US company involved in the production of B-2 aircraft, required each employee to sign a giant scroll that was then hung over the plant assembly line. The inscription reads: 'Total quality control on the B-2 begins with me'.

**Total quality management** is an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation.

### **study on**

Unit 3

AOS 3

Topic 4

Concept 4

**Total quality management (TQM)**

Summary screen and practice questions

# 5.5 The management of quality

## DID YOU KNOW?

Australian Arrow Pty Ltd, a designer and manufacturer of automotive products, uses quality circles as a method of problem solving. Issues such as product quality, employee performance and costs are discussed by team members who meet regularly under a 'Circle facilitator'.

**Quality circles** are groups of workers who meet to solve problems relating to quality.

**Continuous improvement** involves an ongoing commitment to achieving perfection.

## DID YOU KNOW?

Brambles Limited is a leading supply-chain logistics company with global headquarters in Sydney. One of its businesses, CHEP, moves 300 million pallets and containers for manufacturers, distributors and retailers in 45 countries. Brambles is committed to continuous improvement and this has led to increases in its cash flow. Continuous improvement is done by monitoring best practice, minimising its environmental impact and supporting local communities.

## Deming's quality philosophy

To achieve TQM objectives, a number of approaches may be used. For example, employee empowerment, continuous improvement and improved customer focus.

W Edwards Deming is known as the 'founder of the quality movement'. His 'total quality management' concept focuses on managing the total business to deliver quality to customers. He argued that if employees tried to build a product in the right way in the first place, then businesses would avoid the expense of inspection and the waste of rejected products. Improving quality, said Deming, can also help businesses increase their market share (as a result of better quality and lower priced products), ensure their future and provide more jobs.



Quality circles improve the quality of production.

## Employee empowerment

Deming believed that quality problems would be best solved with an emphasis on employee involvement. Many businesses use **quality circles** as a means of achieving employee empowerment. Under this approach, teams of up to 10 workers meet regularly to solve problems related to process, design or quality. The groups often make presentations to management with their ideas, in order to improve the performance of the business. Such programs have resulted in substantial cost savings for businesses. For example, at the Northrop Aircraft division that produces Boeing 747s, 55 individual quality circles halved the cost of parts within two years. At Chrysler, a quality circle discovered that heating rubber seals before installation could prevent car door leaks.



Brambles Limited is a logistics company committed to continuous improvement.

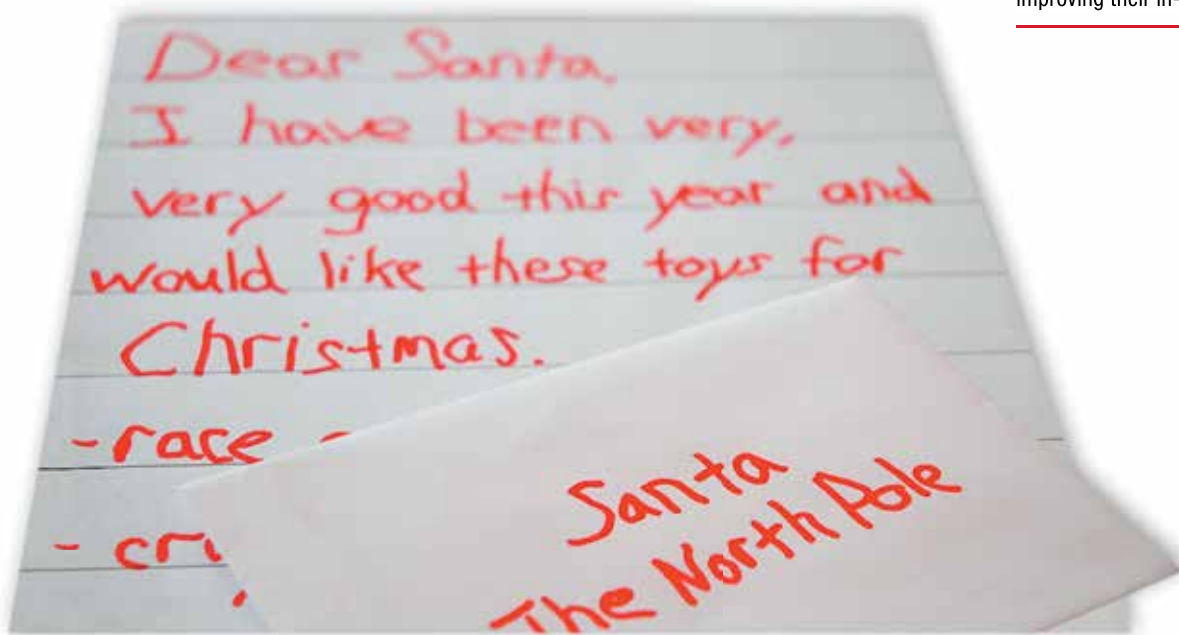
## Continuous improvement

**Continuous improvement** is a process that involves a constant evaluation of, and improvement in, the way things are done in a business. Higher and higher standards are set in the continual pursuit of improvement. *Kaizen* (Japanese for 'improvement') emphasises continuous improvement in

all facets of a business, from the way the CEO manages to the way assembly line workers perform their jobs. Although perfection is practically impossible to achieve, it is the 'striving' which is important to a business's corporate culture.

## Customer focus

Deming believed that quality should be the responsibility of every employee. The TQM approach considers one of the most important questions a business should ask: 'What does the customer require?' All teams need to realise that they are serving a customer. This is as true for the employees that deal directly with external customers as for those that simply pass work on to other employees within the business.



Australia Post receives over 100 000 letters for Santa each year reflecting a strong commitment to its younger customers.

### **DID YOU KNOW?**

Australia Post receives over 100 000 letters for Santa each year. Australia Post has a strong commitment to customer service and this includes its younger customers. Australia Post Retail Customer Experience Program (Retail CX) conducted more than 480 000 surveys with customers in 2013 and 2014 with the aim of improving their in-store experience.



### TEST your understanding

- 1 Outline the main features of quality management.
- 2 Explain why quality control is important to businesses.
- 3 Briefly outline the benefits and limitations of quality control.
- 4 In what ways can businesses offer quality assurance to customers?
- 5 List the benefits and limitations for a business using quality assurance.
- 6 Explain what is meant by total quality management.
- 7 Outline the three approaches that make up total quality management.
- 8 Suggest possible benefits and limitations for a business making use of total quality management.
- 9 Read the following definitions. If a definition is false, write out the correct definition.
  - (a) Quality control involves the use of inspections at various points in the production process.
  - (b) Quality assurance involves the use of a system where a business achieves set standards in production.
  - (c) Total quality management is a commitment to quality that is applied to the business's operations department.

- (d) Continuous improvement involves an ongoing commitment to the use of inspections.

### APPLY your understanding

- 10 Kevin is the production manager for IBX technology, a manufacturer of Internet security software. Recently, the level of product defects has increased, although the production process has not changed.
  - (a) Advise Kevin on strategies that he should use to determine the cause(s) of the defects.
  - (b) Explain to Kevin the value of introducing a TQM approach.
- 11 The name of the Reject Shop suggests that it could not possibly sell quality products. Is this true? Use the **Reject Shop** weblink in your eBookPLUS to search its website and see how many references to quality you can find. How does the Reject Shop ensure that it receives quality products from suppliers?

**eBookplus**

**Reject Shop**



# 5.6 Waste minimisation



**KEY CONCEPTS** Operations managers make use of waste minimisation in the production process to improve the efficiency and effectiveness of operations. One waste minimisation strategy is lean management.

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

## study on

**Unit 3** Waste minimisation  
**AOS 3** Summary screen and practice questions  
**Topic 5**  
**Concept 1**

**Lean management** is an approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality.

## study on

**Unit 3** Lean production  
**AOS 3** Summary screen and practice questions  
**Topic 5**  
**Concept 2**

Minimising waste is a win-win situation — it reduces costs and cares for the environment. Woolworths launched a tracking system for finding the thousands of trolleys that go 'feral' each year. The Trolley Tracker system targets the 15 000 shopping trolleys that go missing from Woolworths and Big W stores nationally each year. Abandoned trolleys cost the company \$50 million each year; it costs more than \$150 to replace a broken or lost trolley.

Dumped shopping trolleys also damage the environment; they end up in creeks and backyards. Residents who see abandoned trolleys can use a Trolley Tracker App or website, or call a national toll-free number and enter a draw to win a \$1000 monthly reward.

**Waste minimisation** is a process that involves reducing the amount of unwanted or unusable resources created by the business's production process in an attempt to improve the efficiency and effectiveness of operations. Waste minimisation strategies include:

- redesigning products and packaging
- procurement of materials made from recycled materials
- reusing scrap material
- improving quality control
- exchanging waste with other businesses
- introducing all systems approaches, such as lean production.

Minimising waste reduces the costs of production of the business, such as the costs of waste removal, and also improves productivity across the operations area. Furthermore, minimising waste demonstrates concern for the natural environment; this can contribute to improving the reputation of the business.

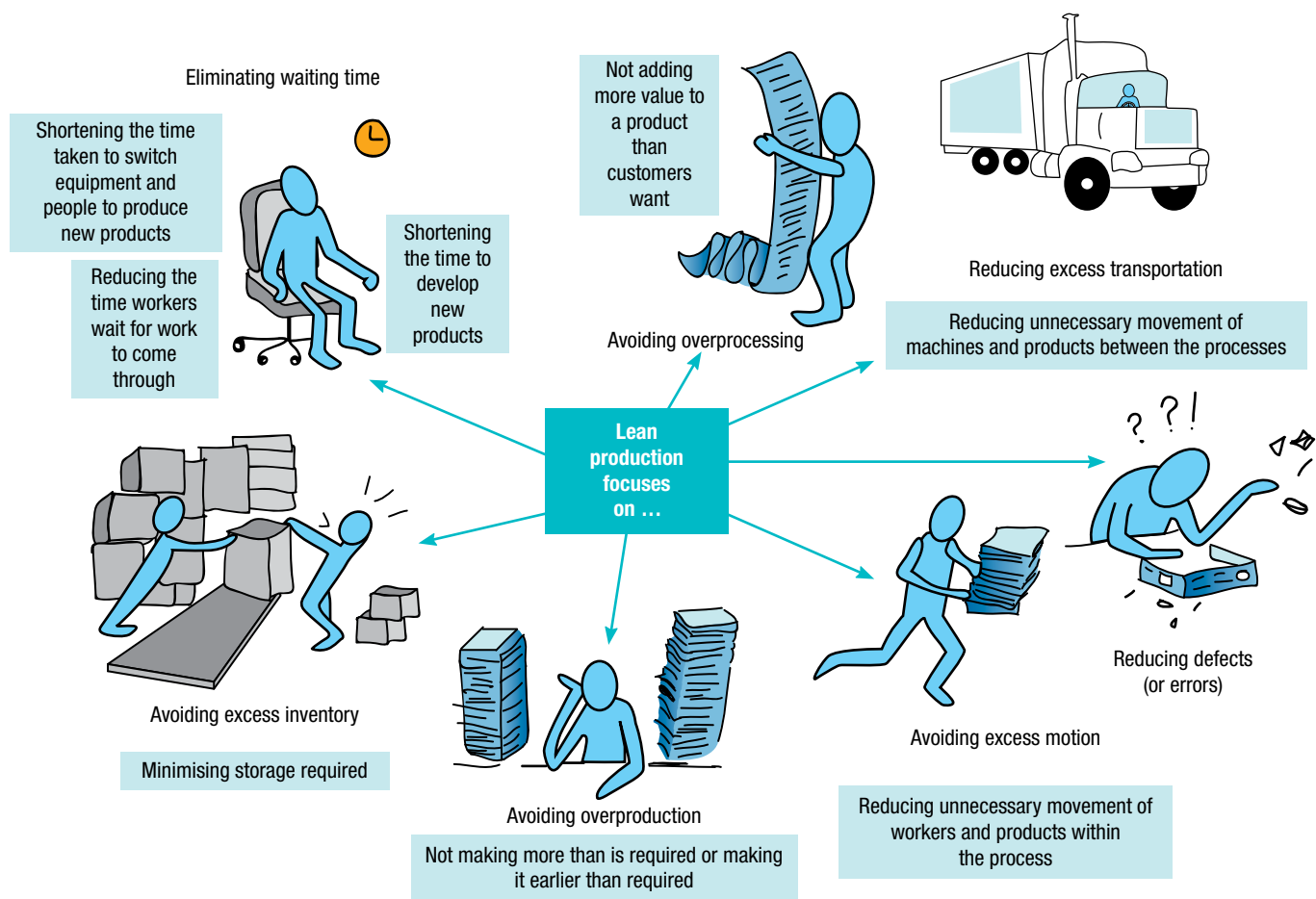
## Lean management

The concept of lean management derived from the Toyota production system. Lean production, or lean manufacturing as it is also known, was originally developed in post-war Japan for Toyota and the manufacturing of automobiles. **Lean management** is an approach to operations management that attempts to improve efficiency and effectiveness



by eliminating waste and improving quality — 'lean' in this case means no excess, just as lean meat has as little fat as possible. A business using this approach would carefully analyse each stage of the operations system and remove any inefficiencies that do not add value to the product. According to the principles of lean management, waste is anything that reduces the speed of production or stops production occurring at the lowest possible cost. As waste is reduced, production times and costs are cut. Today, the approach is used widely in the automobile industry as well as many other industries, both in manufacturing and in the production of services.





Lean management identifies seven wastes that a business should work towards eliminating: excess transport, defects (or errors), excess motion, overproduction, excess inventory, waiting and overprocessing.

## A lean history

A good understanding of lean management can be gained by understanding its history. Given that lean manufacturing has its origins in the automobile industry, it is necessary to consider the development of the car, which was invented in 1880.

Early in the twentieth century, mass production became an important focus for businesses. In 1910, Henry Ford developed an assembly line approach to automobile manufacturing that involved employees, components, machines and tools arranged along a production line called a conveyor belt system. This approach reduced the hours spent on the assembly of a car from 728 to just 1.5.

The assembly line approach to manufacturing emphasised efficiency. For the following 50 years it was assisted by developments in technology such as automation and computers. The United States became the largest producer of goods and services in the world, but after World War II, Japan began to compete with the Americans by developing a new manufacturing approach. This new approach arose out of necessity.

The development of lean manufacturing was based on the needs of Japan's economy. Demand was low and there was little point in focusing on economies of scale (mass production at the lowest cost per item). Toyota realised that production should be driven by actual sales of vehicles and that over-production should be avoided. The company could not afford to have resources locked up in excess equipment or materials in production. Originally named just in time production (JIT), the Toyota production system was developed with the aim of minimising waste and fully utilising the capabilities of employees so that only minimal inventory was needed. Part of Toyota's philosophy

*continued*

## 5.6 Waste minimisation

of waste minimisation was the use of cellular manufacturing — efficiencies were gained through grouping machines and people into separate 'cells' that produce similar items or require a similar process of production.



Workers constructing a Model-T car on an assembly line in a Ford Motor Company factory, circa 1914.

There are three main lean management practices involved in Toyota's production system:

- 1 Kaizen — a practice focused on making positive changes on a regular basis, often referred to as continuous improvement.
- 2 JIT — the right amounts of materials are delivered to the operations system just as they are needed for production, in the exact amount needed and where they are needed.
- 3 Jidoka — a Japanese word that means automation. However, Toyota interprets the word as meaning 'automation with a human touch'. This basically means that quality is embedded in the company's operations system. If, for example, a Toyota employee sees an abnormality such as a defect, they are able to intervene and bring production to a halt. This allows the defect to be corrected before more problems can occur, and can prevent further damage or even injury.

Cochlear, a medical device manufacturer, employs the 'lean' philosophy in its manufacturing process. Systematically eliminating waste enables Cochlear to reduce overproduction, reprocessing and defects, and increase recycling and paperless operation documentation. Redesigned packaging and flexible printing have also reduced packaging waste. Cochlear adopts continuous improvement programs, which incorporate lean manufacturing principles and ongoing investment in new manufacturing technologies.



### Strengths

- Reduced energy and resource consumption
- Reduced delays
- Increased worker productivity
- Reduced uncertainty
- Increased customer satisfaction



- Requires committed and experienced employees
- Employees may resent the change to lean or may prefer not to provide any input
- The constant focus on improvement and elimination of waste can result in workplace stress
- Requires good relationships with suppliers
- Can involve high implementation costs

### Weaknesses

The strengths and weaknesses of lean management

## Hallmark goes lean

Hallmark Cards adopted lean management with great results. In the 1980s, the company took two years to produce a greeting card. Card designs were shifted from building to building in its Kansas complex in the United States. Hallmark's president was asked to dismiss 20 per cent of the staff to reduce costs. Instead, he reorganised production and maintained faith with his employees.

Managers came together from all sections of the business to solve the problem. The company's 'shoe box' card line was chosen for a new cellular manufacturing approach, and artists and writers were grouped on one floor into work cells, with production directly below them. Production time of a new card was reduced from two years to about three months!

Hallmark produces several billion cards globally per year. Hallmark Australasia, which has approximately 700 employees, has in recent years transferred its manufacturing operations to China in order to increase efficiency.



### TEST your understanding

- 1 What is waste minimisation and how can it be performed by a business?
- 2 Define the term 'lean management'.
- 3 List the seven wastes according to the principles of lean management.
- 4 Briefly outline where the idea of lean management originated.
- 5 What are the benefits or strengths of lean manufacturing and what are its limitations or weaknesses?
- 6 Explain how Hallmark was able to reduce the time it took to make a greeting card just by changing the design and layout of its facilities.
- 7 How did Hallmark develop this solution?

### APPLY your understanding

- 8 The work cell approach relies on workers being able to do a variety of tasks, not just one task. Give one advantage and one disadvantage associated with workers becoming multiskilled.
- 9 Why do you think work cells would rely more heavily on teamwork than individual achievement?
- 10 Imagine that you are the president of Hallmark in the early 1980s, and you have just been asked to make redundant almost one-quarter of your staff. Evaluate the issues involved in making this decision. What would be your final solution?
- 11 Use the **Lean manufacturing** weblink in your eBookPLUS to describe how creating brilliant processes for producing goods or delivering services is just as important as finding brilliant workers.

**eBookplus**

**Weblink**  
**Lean manufacturing**

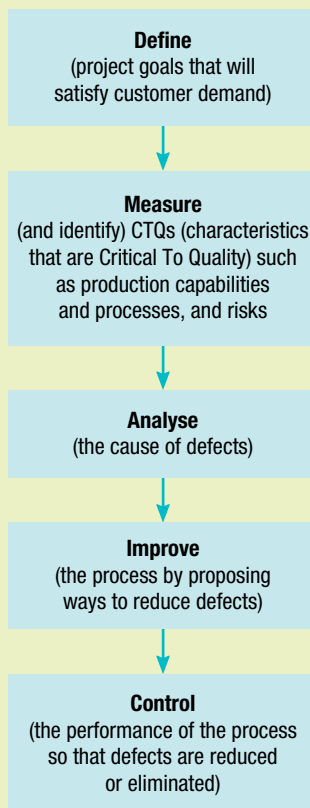
## PRACTISE YOUR SKILLS

- define, describe and apply relevant business management terms
- research and analyse case studies and contemporary examples of management applicable to managing production in a business
- interpret business information and ideas
- apply operations management knowledge to practical and/or simulated business situations
- compare and evaluate the various strategies used in operations management
- propose and justify strategies for improving the efficiency and effectiveness of operations.

### Six Sigma

**Six Sigma** is a quality management approach that seeks to identify and remove the causes of problems in the operations process, achieving virtually defect-free production.

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



The Six Sigma DMAIC problem-solving process



The fur seals and sea lions at the Great Southern Oceans exhibit at Taronga Zoo put on a spectacular show for up to 950 people in their new home. Boral supplied substantial quantities of concrete to the project. Boral is a company that has successfully implemented Six Sigma.

A special team of people within the business is established. This is composed of staff who have been given Six Sigma training, and are able to coordinate others in adopting methods to improve quality. A five-step process to problem solving applies to Six Sigma, commonly referred to as DMAIC. This is shown in the figure at left.

Boral Limited produces and distributes construction materials and building products. With almost \$5 billion worth of sales, Boral has more than 14 000 employees working across 700 operating sites. In 2007, Boral introduced Six Sigma throughout its construction materials division in Victoria, New South Wales, ACT and Tasmania.

Regional General Manager of Boral Australian Construction Materials (ACM) NSW/ACT, Tony Charnock, claimed that in its first year, Six Sigma helped the New South Wales business achieve a profit of \$5 million. In 2009, Boral announced that the implementation of Six Sigma led to the construction materials division identifying \$45 million of cost reduction initiatives and predicted that these would deliver three years of benefits. Boral continues to make use of Six Sigma, as well as lean management and continuous improvement.

Boral has a strong focus on continuous improvement, and Six Sigma gave it a structured way to make cost savings and improvements. Tony Charnock regarded Boral's improvement program as a never-ending process. 'Once you start making improvements, new ones keep presenting themselves. That is the experience of major companies elsewhere with Six Sigma.'



At Boral, Six Sigma training is available to staff. Staff trained as Six Sigma project leaders are known as 'black belts' and 'green belts'. Yellow belt training provides workplace team leaders with basic problem-solving skills. For projects to succeed, staff with belts must have the support of managers ('project champions').

Boral's 'black belts' started to investigate the company's processes, looking for problems with or variations to the usual processes. This followed several months of compiling and validating data from the business. Then they came up with solutions to the problems.

One problem concerned unplanned stoppages because of products becoming trapped on conveyor systems and causing blockages. The team installed equipment, giving early warning of blockages. Maintenance and operational employees were trained in how to deal with the problem. The solution substantially cut the amount of down time caused by the unplanned stoppages.

On another project, Six Sigma's statistical analysis was applied to a problem that involved concrete being poured from trucks. By analysing variations in strengths of concrete after it was poured, changes were made to the process used in order to achieve more consistency.

John Worden, Boral ACM's Six Sigma champion in New South Wales, said, 'That is how Six Sigma works. We look for sources of variation and identify ways to eliminate them or, if that is not possible, bring them under control.'

• Once you start making improvements, new ones keep presenting themselves. That is the experience of major companies elsewhere with Six Sigma. •



In Six Sigma, people trained as project leaders are known as black belts and green belts. Some businesses use other belt colours as well, such as yellow belts for employees that have basic training in Six Sigma.



### TEST your understanding

- 1 Explain what is involved in the Six Sigma approach.
- 2 What aspects of Six Sigma make it a quality management approach?
- 3 Outline how Boral used Six Sigma to improve its operations and achieve its business objectives.

### APPLY your understanding

- 4 Does Six Sigma seem like an original approach to you? Is it just another form of TQM? Is there anything about Six Sigma that makes it different to other quality approaches?
- 5 Critics of Six Sigma claim that it has had mostly negative effects on the businesses that have used it. In 2006, *Fortune* magazine stated that most of the 58 large-scale

US companies that announced Six Sigma programs had experienced a deterioration in business performance. Can you think of any reason why?

- 6 Use the **Six Sigma** weblink in your eBookPLUS and the case study provided, or find another example of a business that has adopted

**eBook plus**

**Weblink  
Six Sigma**

Six Sigma, to answer the following questions:

- (a) Why did the business decide to adopt the Six Sigma approach?
- (b) Describe how the business used the Six Sigma approach.
- (c) Explain the benefits to the business as a result of using Six Sigma.

## High-quality paper envelopes business

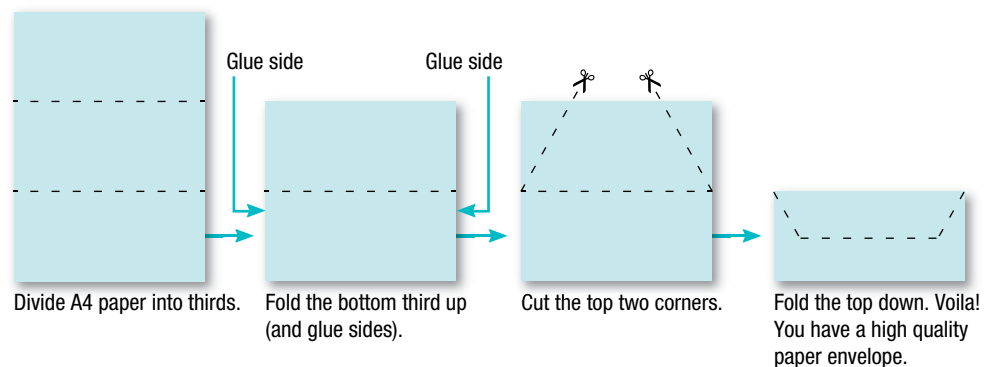
Ask your teacher if you can complete this activity during class. The aim of this activity is to put your theoretical understanding of business management into practical use, as you solve problems and make operations management decisions.

### Instructions

#### Materials required

A4 paper  
scissors  
glue

- 1 Arrange your class into groups of three or four. Each of these teams will become a business.
- 2 Your business has 10 minutes to produce as many 'high-quality paper envelopes' as possible. The following diagram shows you how to construct a simple envelope from A4 paper. You are welcome to develop your own design, add colour or individual flair, but remember . . . time is critical.
- 3 Before you begin, allocate responsibilities to the members in your team/business. It might be good if someone becomes the CEO. You might also need a quality manager and a materials manager. Make sure each team member's role is clear.
- 4 Start producing the envelopes. Hurry, you have only 15 minutes.
- 5 The winner is the business with the most envelopes. Alternatively, the winner could be the team with the highest quality envelopes. After finishing the activity, complete the questions.



How to make high-quality paper envelopes



### TEST your understanding

- 1 List the elements of your operations system.
- 2 Was your business offering a service or manufacturing a product?
- 3 What responsibility did each team member in your group have?
- 4 How did your group manage the materials required?
- 5 How did your group make sure that quality was maintained in each envelope produced?
- 6 (a) What were the objectives for your business?  
(b) Did you achieve those objectives? How can you tell?

### APPLY your understanding

- 7 Your business probably produced a lot of waste. Identify some waste minimisation strategies that you could implement in order to reduce production costs and operate in a sustainable manner.
- 8 To improve the efficiency and effectiveness of your operations, one strategy you could introduce would be the use of technology. What types of technology could you use in your business?
- 9 Can you think of any other ways to improve the operations of your business? How could you make improvements to productivity?

# 5.7 Corporate social responsibility considerations in an operations system



**KEY CONCEPT** Operations managers must be aware of socially responsible management when pursuing business objectives.

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

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

### 1 *Managing inputs appropriately*

An operations manager should attempt to use inputs that do not have a serious impact on the environment. The inputs used in a production process also create waste. In the desire to keep down the costs of production, businesses should not be tempted to use cheaper, illegal waste disposal methods.

### 2 *Managing suppliers appropriately*

Many businesses work with their suppliers to ensure that they follow guidelines on socially responsible behaviour. Suppliers can be expected to provide materials that come from socially responsible sources, such as environmentally sustainable supplies and workplaces that are free of exploitation. It is also not appropriate for businesses to provide preferential treatment to suppliers that offer gifts such as free meals, trips or entertainment, or to select suppliers based on personal friendships.

### 3 *Managing staff appropriately*

Operations managers must make sure that the business's facilities and technology contribute to the health and welfare of staff, above and beyond what is required by legislation. Irregular or incomplete maintenance of production facilities can result in detrimental consequences. For example, toxic production processes can threaten the health of employees, as has been the case with asbestos mining and manufacturing.

### 4 *Managing the customer relationship appropriately*

An operations manager needs to make sure that the goods produced are of the required quality, that they are safe and reliable. Dangerously defective or harmful products can result in the injury or death of consumers. The delivery of a product can raise issues around the socially responsible behaviour of managers, such as fair and equitable treatment of customers.

It may appear that the socially responsible decisions that an operations manager needs to make are straightforward. In reality, however, the choice between what is best for the business and what is best for society and the environment is not always simple.



### **DID YOU KNOW?**

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

### study on

- Unit 3 **Environmental sustainability of inputs**
- AOS 3
- Topic 6 Summary screen and practice questions
- Concept 1

### study on

- Unit 3 **The amount of waste generated by processes**
- AOS 3
- Topic 6
- Concept 2 Summary screen and practice questions

### **DID YOU KNOW?**

Downer Group is an Australian company that provides infrastructure management and engineering services to the transport, energy, infrastructure, communications and resources sectors. Its Supplier Requirements outline how it expects suppliers to be socially responsible corporate citizens. Downer will deal only with suppliers who have high standards of ethical business behaviour.

### study on

- Unit 3 **The production of outputs**
- AOS 3
- Topic 6 Summary screen and practice questions
- Concept 3

Most retailers are serious about providing safe and reliable products.

## 5.7 Corporate social responsibility considerations in an operations system

### 🗨️ DID YOU KNOW?

Commonwealth Bank was accused of not managing the customer relationship appropriately when its insurance division was accused of unethical behaviour in 2016. ABC's *Four Corners* and Fairfax Media uncovered several cases where claims assessors rejected payouts to terminally ill customers. It was also alleged that the insurance division, CommInsure, removed medical files and forced doctors to change their diagnoses so that claims could be refused. The bank's chief executive officer, Ian Narev, was forced to apologise and said that ethics are a core value of the Commonwealth Bank.

### 🗨️ DID YOU KNOW?

James Hardie Industries manufactured and sold asbestos-related products for a large part of the twentieth century. It established a trust in 2001 to provide financial compensation for victims of asbestos-related diseases caused by its products, but the company has been criticised for not providing sufficient funds to settle claims.

At times, the pressure to make profit for the business can be overwhelming. Some of the solutions may involve the use of technology, which can result in job losses. Running a socially responsible business can actually be very challenging.

In an attempt to cover the four main aspects social responsibility, NAB substantially reduced its greenhouse emissions from its buildings, air travel and vehicle fleets. Improving the design and operation of its buildings was one strategy. Replacing six cylinder cars with four cylinder cars and adding hybrid cars was another. NAB introduced Supplier Sustainability Principles to new contracts with key suppliers, stating its corporate responsibility requirements, which include environmental management, health and safety, and supply chain management.



National Australia Bank manages its operations system in a socially responsible manner. It manages customer relationships appropriately, as seen in its provision of audio-enabled ATMs with multilingual options. It also manages inputs, suppliers and staff appropriately.

NAB takes a preventative approach to health and safety, aiming to provide a safe and secure workplace through a positive health and safety culture. It introduced new online health and safety training programs for all of its Australian employees. To improve its relationship with customers, NAB ensures that customers have access to fair and affordable banking. The StepUP loan program, for example, is available for individuals and families living on a low income and offers personal, unsecured loans at low rates of interest. NAB ATMs in Australia are audio-enabled to assist visually impaired customers and feature multilingual options. Accessibility to branches has been improved for customers, including installation of automatic entrance doors and wheelchair accessible counters.



### TEST your understanding

- 1 Outline the main reasons why operations managers must take socially responsible decisions very seriously.
- 2 What are the benefits and costs of managing an operations system in a socially responsible manner?
- 3 Should a business be concerned about the likely impact of new technology on employees and the community? Give reasons for your answer.
- 4 Outline how NAB covers the four aspects of corporate social responsibility as it applies to operations management.

### APPLY your understanding

- 5 If you were the manager of a waste management company, what factors would you consider in selecting a new facility site?
- 6 Discuss whether or not it is socially responsible to do business with suppliers who employ child labour in overseas countries.
- 7 Use the **BSR** weblink in your eBookPLUS to select a report that interests you. Read the article and outline the social responsibility issues involved. (Business for Social Responsibility provides information about the social responsibilities of businesses.)

**eBookplus**

**Weblink  
BSR**





**KEY CONCEPT** An operations system should be managed with corporate social responsibility in mind.

## Sustainable operations at Cadbury

Cadbury's Claremont factory is located on the bank of the Derwent River, north of Hobart. The materials that go into making Cadbury chocolate include cocoa, sugar and milk, and are combined with other inputs, such as the staff working there, the machinery and the factory itself, through the manufacturing process. The output is high quality, satisfying and delicious chocolate.

The factory, however, also produces greenhouse gas emissions. The main source of Australia's greenhouse gas emissions is from the burning of fossil fuels for energy, including for electricity and transport. When fossil fuels, such as gas, coal and petroleum, are burned the carbon stored inside the fuel bonds with oxygen to form carbon dioxide (CO<sub>2</sub>), which is then released into the atmosphere. CO<sub>2</sub> is a greenhouse gas. It is a natural part of the atmosphere but too much CO<sub>2</sub> causes the overall temperature of the planet to increase. This results in global warming.

The Cadbury factory generates a relatively low level of greenhouse gas emissions by Australian standards. This is because almost 90 per cent of Tasmania's electricity is sourced from wind power and hydroelectric power stations.

Hydroelectricity is the production of electrical power through the use of flowing water.

Most of the emissions are generated through transport. Cadbury's inputs must be brought to the factory and some of these inputs make long journeys. The sugar comes from Mackay in Queensland and the cocoa comes from Ghana in western Africa. Other materials, including cardboard and plastic, also need to be transported. All of the trucks and ships carrying these inputs produce carbon emissions.

However, Cadbury is aware of its impact on the environment. Teams work to make continuous improvements to the efficiency and sustainability of the factory. For example, an eco-efficiency team arranged for steam from an early stage in production to be captured and then re-used in later stages. This saves coal and water and produces fewer greenhouse gas emissions and waste. A project that collects gas from the factory's waste-water treatment plant and uses it as an energy source for a steam boiler reduced the amount of natural gas used by 3900 gigajoules, reducing CO<sub>2</sub> emissions by 200 tonnes. Cadbury now also uses biodegradable plastic material in its product packaging. The material is made from corn starch and, unlike other plastics, breaks down completely.

• Teams work to make continuous improvements to the efficiency and sustainability of the factory. •



Cadbury's chocolate operations in Tasmania does produce greenhouse emissions, but is taking steps to reduce those emissions.

## Cadbury and fair trade chocolate

When you see the Fairtrade logo on the shelves in Woolworths, Coles and Aldi, you know that consumers are voting with their dollar. Recent research reveals that more than two-thirds of Australia's consumers think it is important to choose products that support fair trade. While this is true, it is important to note that less than 15 per cent of shoppers routinely seek out fair trade goods.

What exactly does fair trade mean? Fair trade refers to a social movement that aims to help producers in developing countries create fairer trading conditions for themselves. Fair trade is about better, more reasonable payment to producers, decent working conditions for workers, and sustainable farming practices. Fair trading is governed by the standards set by the international certification body Fairtrade International. Products that display the Fairtrade label must meet international Fairtrade standards.

• Fairtrade certification . . . places responsibilities on member businesses, particularly in the area of operations management. •

*continued*



The Fairtrade logo on Cadbury chocolate assures customers that the business has used Fairtrade-certified cocoa beans.

You might see the label on items such as coffee, cocoa, sugar, tea, cotton, wine and chocolate. Cadbury is a familiar brand that received Fairtrade certification in 2009. Cadbury's Dairy Milk chocolate bar is Australia's biggest selling chocolate bar, and it now sports the green and blue Fairtrade logo. Cadbury is not the first chocolate maker to support fair trade though, with brands such as Alter Eco, Chocolatier, Cocolo and Green & Black's Maya Gold also supporting the fair trade movement.

Cadbury's move towards fair trade was significant for the movement. Fairtrade Australia & New Zealand continues to grow rapidly, with sales of Fairtrade Certified products increasing from \$50 million in 2008–09 to \$300 million in 2014–15. Chocolate made up 55 per cent of sales, followed by coffee at 34 per cent.

While obtaining Fairtrade certification may bring many benefits, it also places responsibilities on member businesses, particularly in the area of operations management. The criteria that businesses must comply with involve adherence to International Labour Organization (ILO) agreements, such as prohibiting child and slave labour, ensuring workers have a right to join unions, and conservation and protection of the environment.

There is a responsibility to ensure that what is being sold as a Fairtrade product really upholds the principles of fair trade. In the case of chocolate, if the claim is that chocolate is made entirely from Fairtrade-certified cocoa beans, it is important that uncertified cocoa beans do not make their way into the supply chain.



### TEST your understanding

- 1 Read the article 'Sustainable operations at Cadbury'. Explain how Cadbury's operations produces greenhouse gas emissions.
- 2 List the ways that Cadbury has made an effort to reduce its greenhouse gas emissions.
- 3 Read the article 'Cadbury and fair trade chocolate'. Explain what fair trade is and why Cadbury has opted to use the Fairtrade logo.
- 4 Explain the responsibilities that may impact on operations management when a business gains Fairtrade certification.

### EXTEND your understanding

- 5 Use the **Chocolate: the bitter truth** weblink in your eBookPLUS to read about the 2010 British Broadcasting Corporation (BBC) broadcast that investigates the chocolate supply chain. Follow the links to various media

reports and a response to the program from Fairtrade. After reading all of the information, how socially responsible do you think Cadbury's operations are?

- 6 Explain how optimising the operations of a business can contribute to the objectives of that business, in terms of bottom line and social responsibility.

- 7 Use the **EY Climate Change and Sustainability**

**Services** weblink in your eBookPLUS to find any articles related to operations management. What do they tell you about issues that relate to operations, such as efficiency, supply chain and workplace safety?

#### eBookplus

**Weblink**  
**Chocolate: the bitter truth**

#### eBookplus

**Weblink**  
**EY Climate Change and Sustainability Services**

# 5.8 Global issues in operations management



**KEY CONCEPTS** Businesses may need to contend with global issues in operations management including global sourcing of inputs, overseas manufacture, outsourcing and supply chain management.

## Global sourcing of inputs

Just as you might purchase products from overseas, businesses can also buy inputs from markets in other countries. This is referred to as **global sourcing**. Many businesses today do this to exploit efficiencies that can be gained from the global delivery of products, including low-cost skilled labour, low-cost raw materials and other economic factors such as lower taxes and low trade tariffs due to free trade agreements.

Global sourcing initiatives form an integral part of the materials planning strategy of many businesses. SunRice, one of Australia's largest exporters of processed rice, rice-based and other snack foods, adds to its locally produced inventory of rice by purchasing rice from global sources in order to meet the demand for its rice products. Businesses such as ANZ, Telstra and EnergyAustralia make use of call centres staffed with low-wage English speaking workers in countries including India and the Philippines. Australian clothing and footwear businesses such as Rip Curl, Triangl and Holster purchase products manufactured in China using low-cost labour.



**Global sourcing** is the practice of seeking the most cost efficient materials and other inputs, including from countries overseas.

### study on

**Unit 3** Global sourcing of inputs

**AOS 3** Summary screen and practice questions

**Topic 7**

**Concept 1**

Many businesses source inputs from low-cost manufacturers in China.

### Strengths

- Reduces costs
- The opportunity to learn how to do business in a potential market
- Accessing skills or resources that are unavailable domestically
- Developing alternative suppliers/sources of inputs
- Increasing capacity of total supply



- Hidden costs associated with different cultures and time zones
- Exposure to potential high risk, both financial and political
- Long lead times (for manufactured goods)
- The risk of ports shutting down and interrupting supply
- Difficult to monitor the quality of inputs

### Weaknesses

### 🗨 DID YOU KNOW?

In 2016 surf wear company Rip Curl was 'caught out' sourcing products from North Korea with 'made in China' labels. Employees at a factory near Pyongyang, North Korea's capital city, were photographed by Fairfax Media making some of Rip Curl's winter range of clothing. Workers in North Korea often endure harsh conditions. Rip Curl blamed a supplier who diverted production orders to an unauthorised subcontractor for the practice. Rip Curl said that when it found out it immediately took steps to investigate and resolve the issue.

The strengths and weaknesses of global sourcing



**Overseas manufacture** refers to the production of a good in a country that is different to the location of the business's headquarters.

## study on

- Unit 3 **Overseas manufacture**
- AOS 3 Summary screen and practice questions
- Topic 7
- Concept 2

## Overseas manufacture

**Overseas manufacture** is also referred to as offshoring, meaning a good is produced in a country that is different to the location of the business's headquarters. Determining how and where to complete manufacturing is an important problem for the operations area. Many businesses successfully manufacture their goods locally, but manufacturing in countries outside Australia can enable a business to get its product to the market more quickly, reduce the cost of production and reduce delivery costs.



Dexion is a storage solutions manufacturer that moved its manufacturing to Malaysia in 2014 to reduce costs and make the business more competitive. Dexion did this to increase profit through the development of new products and new markets. Dexion's sales, design and installation, and customer support teams remain in Australia.

A businesses may choose to manufacture overseas to reduce labour, overhead and component costs, while keeping research and development, design and short-run manufacturing in Australia. This allows the business to focus on what they do best.

Some businesses will gradually increase their commitment to overseas manufacturing and may initially move into this strategy by outsourcing their manufacturing (see the section below). In this case, it is important that the business finds a way to contract the work or go into a partnership with an overseas manufacturer without losing control of the product. As a business expands it may move from outsourcing its manufacturing through to ownership of overseas factories.

## Global outsourcing

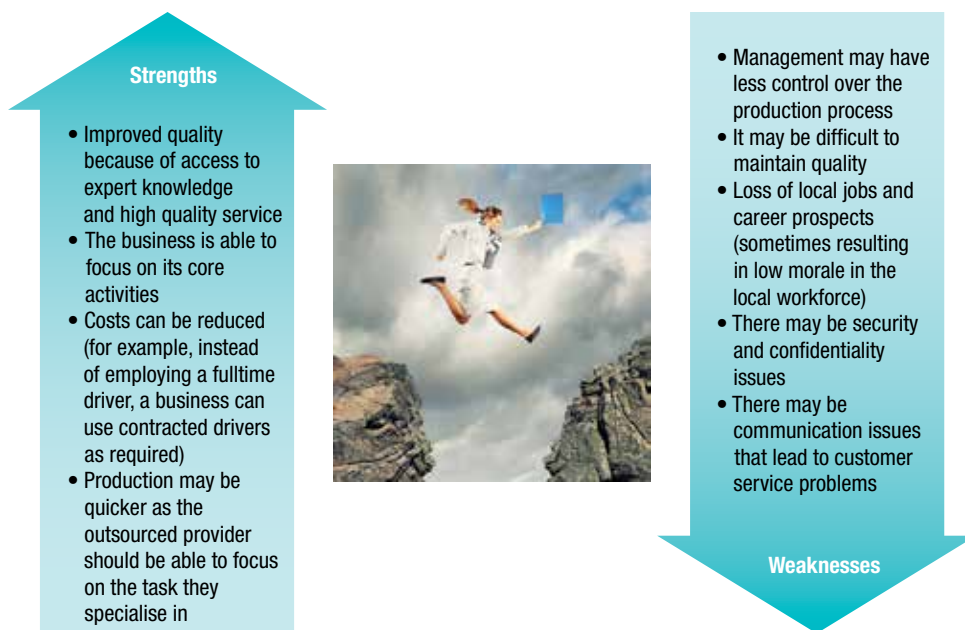
The term **outsourcing** is a common one these days. Outsourcing means that some part of a business's operations is transferred to an external person or business. For some time, tasks that are not part of a business's core activities, such as accounting or customer service, have been contracted to another business. For example, Qantas contracts its information technology, including customer management, to several external businesses, both in Australia and overseas. More recently, many businesses have decided to even outsource the production and delivery of goods and services that are considered to be their core business. For a business, this outsourcing is carried out

**Outsourcing** is the contracting of a specific business operation to an external person or business.

## study on

- Unit 3 **Global outsourcing**
- AOS 3 Summary screen and practice questions
- Topic 7
- Concept 3





The strengths and weaknesses of global outsourcing

because it can bring positive benefits such as cost savings, improvements to quality and access to operational expertise (an external person or business may have expertise in managing a task that the business does not have).

Global outsourcing means that business operations can be contracted out to countries all around the world. Many people disapprove of the practice of sending tasks to overseas countries, because of its impact on local jobs and local suppliers. Rossi Boots, an Adelaide-based footwear company, was rejected in 2014 for a Department of Defence contract to supply non-combat boots. Instead, another Australian company manufactured the boots in Indonesia, at a lower cost.

## Supply chain management

A typical **supply chain** starts with the sourcing of natural resources, followed by manufacturing activities such as component construction and assembly. The supply chain moves on to storage facilities before reaching the consumer. It is from this range of suppliers that the business purchases materials and resources. The supply chain needs to be well managed because an operations system depends on the inputs. Supply chain management is critical for the following reasons:

- If materials are not on hand, nothing can be produced.
- If materials are of inferior quality, it is difficult or costly to produce quality products.
- If the right quantity of materials is not available, the business cannot meet demand.

Supply chain management involves not only assessing the location in terms of distance to suppliers, but also considering the efficiency of delivery, the stock use rate, the uniformity of quality, and pricing and comparisons with other suppliers of similar product, to identify whether they can better meet the business's needs. In recent years, many businesses have had to come to terms with developing more sustainable supply chains or 'greener supply chains'. For example, Australian road freight company Linfox uses aerodynamic trucks and trailers to maximise efficiency, has reduced power consumption at its offices and warehouses, and uses smarter vehicle routes to reduce its greenhouse gas emissions.

A **supply chain** is the range of suppliers from which the business purchases materials and resources.

### study on

- Unit 3** An overview of supply chain management
- AOS 3**
- Topic 7** Summary screen and practice questions
- Concept 4**

### ! DID YOU KNOW?

Many businesses today realise that their supply chain contributes to their social and environmental performance. McDonald's uses Socially Responsible Supply Guidelines for its suppliers.



## TEST your understanding

- 1 Suggest why businesses obtain inputs from global sources.
- 2 Define the term 'overseas manufacture'.
- 3 Briefly outline the benefits and costs of outsourcing.
- 4 Why is it vital that the supply chain be well coordinated?
- 5 Complete the following sentences by filling in the blanks:
  - (a) Global sourcing is the practice of seeking the most \_\_\_\_\_ efficient materials and other inputs, including from countries \_\_\_\_\_.
  - (b) Overseas manufacture refers to the production of a good in a \_\_\_\_\_ that is different to the location of the business's \_\_\_\_\_.
  - (c) Outsourcing is when a specific business operation is contracted to an \_\_\_\_\_ person or business.
  - (d) A supply chain is the range of \_\_\_\_\_ from which the business purchases \_\_\_\_\_ and \_\_\_\_\_.

## APPLY your understanding

- 6 Bridie is planning a new business that will sell swimwear online. She believes that manufacturing in Australia is too expensive and therefore will need to organise the manufacture of her products with an overseas business. Evaluate the use of overseas manufacture and global outsourcing as strategies that Bridie could use for the manufacturing of her swimwear. Suggest to her which strategy would be most useful in her situation.
- 7 To find out how a large business deals with supply chain management use the **ANZ supply chain** weblink in your eBookPLUS. How many suppliers does the ANZ have? How does the company develop supply chain relationships with these suppliers? Does ANZ expect its suppliers to meet certain standards and, if so, what are the standards?

### eBookplus

Weblink  
**ANZ supply chain**

# CHAPTER 5 REVIEW

## SUMMARY

### The relationship between operations management and business objectives

- Operations management is the area of management that is concerned with the activities used to produce goods and services.
- Operations management is responsible for transforming inputs into outputs.

### Characteristics of operations management within manufacturing and service businesses

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

### Key elements of an operations system

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

### Technological developments

- Technology can improve operations. Businesses need to acquire up-to-date technology in order to compete effectively.
- Technology is used in the manufacturing sector to speed up processes and enable better utilisation of raw materials. This improves productivity and makes the operations process more cost effective. Office and communications technology have enabled new markets to open up, costs to be cut and productivity to be improved.
- A website can be developed for operations purposes. A website can make it easier for customers to purchase products or to find information online. A business may develop its website to increase the amount of information it gets from its customers and analyse the information. A business may also develop its website to provide information to employees and to communicate with suppliers.
- Customer relationship management (CRM) refers to the systems that businesses make use of to maintain customer contact. CRM software stores information about existing and potential customers.
- An automated production line is comprised of machinery and equipment arranged in a sequence with components added to the product as it proceeds through each step. The product usually moves along the line on a conveyer belt and computers control the process.
- Computer aided design (CAD) is a computerised design tool that allows business to create products and modify them. Computer aided manufacturing (CAM) is software that designs and controls the process of producing a product.

### Materials management

- Materials management is the strategy involved with managing the use, storage and delivery of materials, to ensure the right amount of inputs is available when required in the operations system.
- Materials planning is completed using forecasting, a master production schedule (MPS) and materials requirements planning (MRP).
- Inventory control ensures that costs are minimised and that the operations system has access to the right amounts of inputs when required. A common approach used by many businesses in Australia is the just in time (JIT) system of inventory control.

### The management of quality

- Quality management is the strategy that a business uses to make sure that its product meets customer expectations. Three quality approaches are quality control, quality assurance and total quality management.
- Quality control involves the use of inspections at various points in the production process to check for problems and defects. Performance is measured in relation to set standards or benchmarks. If the

## eBook plus

### Digital document

#### Glossary

Download a glossary of key terms from this chapter.

**Searchlight ID: doc-19086**

established standards are met, it is then likely that the business will meet customer expectations and will compete effectively with competitors.

- Quality assurance involves the use of a system where a business achieves set standards in production. A widely used international standard is the ISO 9000 series of quality certifications.
- Total quality management (TQM) is an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation. Total quality management can improve product quality, making the business more competitive. A number of approaches may be used, such as employee empowerment, continuous improvement and improved customer focus.

## Waste minimisation

- Waste minimisation is a process involving the reduction of the amount of unwanted or unusable resources produced by a business in an attempt to improve the efficiency and effectiveness of operations.
- One strategy for minimising waste is lean management. This approach improves the efficiency and effectiveness of operations by eliminating waste and improving quality.

## Corporate social responsibility considerations in an operations system

- Operations managers must be aware of corporate social responsibility when pursuing business objectives. Businesses that do so will benefit from improved performance.
- An operations manager needs to consider the use of environmentally sustainable inputs and the amount of waste that is generated by the business's operations.

## Global issues in operations management including global sourcing of inputs, overseas manufacture, global outsourcing and an overview of supply chain management

- Global sourcing of inputs refers to the practice of businesses seeking the most cost efficient materials and other inputs, including from countries overseas.
- Overseas manufacture refers to the production of goods in a country that is different to the location of the business's headquarters.
- Global outsourcing is the contracting of a specific business operation to an external person or business, in an overseas country.
- A supply chain is the range of suppliers from which the business purchases materials and resources. A well-managed supply chain guarantees the supply of quality inputs. Businesses will work with suppliers to make sure that materials are delivered efficiently and in the right quantities.

### eBookplus

#### Digital documents

##### Missing word glossary quiz

Test your knowledge of key terms from this chapter.

**Searchlight ID: doc-19087**

##### Crossword

Check your understanding by completing this crossword on key concepts from this chapter.

**Searchlight ID: doc-19088**

## REVIEW QUESTIONS

### TEST your understanding

- 1 Explain how the operations management area supports the business in achieving its objectives.
- 2 Compare the operations of a manufacturer and a service business.
- 3 List the four strategies used by an operations manager.
- 4 Explain the three elements of an operations system, using examples.
- 5 Outline how technology can be used to improve operations.
- 6 Suggest the benefits for operations in a business developing a website.
- 7 Explain what is meant by the term 'automated production line'.
- 8 Differentiate between computer aided design (CAD) and computer aided manufacturing (CAM).
- 9 Why is materials management such an important strategy for optimising operations?
- 10 Why do businesses use forecasting in the area of materials management?
- 11 Differentiate between the master production schedule (MPS) and materials requirements planning (MRP).
- 12 Outline the importance of inventory control, using examples.
- 13 Identify the benefits and costs of using just in time as an inventory system.



- 14 How can quality management make a business more competitive?
- 15 Describe the main differences between quality control and quality assurance.
- 16 Explain what is meant by total quality management (TQM).
- 17 Identify five waste minimisation strategies.
- 18 Outline the main principles of lean management.
- 19 What are the benefits and costs of operations managers acting in a socially responsible manner?
- 20 Give three examples of issues related to corporate social responsibility that may arise in operations management.
- 21 Explain what the term 'global sourcing of inputs' means.
- 22 Distinguish between overseas manufacture and global outsourcing.
- 23 What is supply chain management?

### APPLY your understanding

- 24 Choose a real-life example of a manufacturer and a service business. For each example, outline the inputs, processes and outputs of their operations.
- 25 One strategy used to improve operations is the use of technology. For example, if a business used labour-intensive operations (making extensive use of people to do the work) to manufacture cars, it may not be as efficient as another business using automated equipment. Fill in the following table by listing (and explaining where necessary) strategies that an operations manager could use to achieve the stated business objectives. The first answer has been completed for you.

Business objective	Operations strategy
Increase the quality of customer service	Technology — introduce customer relationship management system
Increase the quality of the product	
Reduce production costs	
Improve domestic and international competitiveness	
Reduce waste	
Improve productivity	
Reduce the number of accidents	
Improve work flow	

- 26 Pick a large-scale business such as Australia Post or Coca-Cola Amatil Limited and list three of its business objectives. You could find this information on its website, in its annual report or in speeches made by one of its executive managers. For each objective, state what strategy the operations manager could use to help achieve the goal.

## SCHOOL-ASSESSED COURSEWORK

### OUTCOME 3

Analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations.

### ASSESSMENT task — case study

- Time allowed:** 75 minutes
- Marks allocated:** 40 marks (the marks for each question are indicated at the end of each question)
- Conditions:** closed book (no notes or textbooks may be used when completing this task)

#### study on



Sit VCAA exam

#### eBook plus

**Digital document**  
**School-assessed coursework**  
 Complete your end-of-chapter school-assessed coursework in Microsoft Word.  
**Searchlight ID: doc-19089**

Yakult Australia Pty Ltd commenced production in 1994. In Australia, it manufactures and sells Yakult Original and Yakult LIGHT, which are fermented milk drinks. Yakult contains probiotic bacteria known as the *Lactobacillus casei* Shirota strain, which can help the digestive system to remain healthy. Yakult's objective is reflected in its global corporate philosophy, which is to 'contribute to the health and happiness of people around the world through pursuit of excellence in life sciences in general and our research and experience in microorganisms in particular'.

Yakult's purpose-built factory and office complex in Dandenong was constructed in 1993. It cost \$30 million. The factory now produces more than 300 000 bottles daily, supplying Yakult to Australian and New Zealand markets.

Inside the automated factory, raw ingredients (skim milk powder, sugar and dextrose) are mixed together with filtered water and undergo sterilisation. Live *Lactobacillus casei* Shirota strain is added to the milk to begin the fermentation process. Citrus flavour is added to the mixture. During fermentation, the bacteria rapidly multiply. The mixture is homogenised, so that it has a smooth consistency and then it is diluted with filtered water to produce the final product.

Yakult's unique plastic bottles (they are very small — 65 mL) are created on-site and manufacturing staff monitor the quality of the product to ensure it meets the highest standards. A filling machine that has the capacity to fill 36 000 bottles per hour fills the bottles with Yakult. They are then capped with a foil lid, printed with a use-by date, sealed and transferred along the conveyor belt to the packaging facility. Yakult needs to be stored and distributed at temperatures below 4°C.

### Quality at Yakult

Yakult's quality management system (QMS) complies with the International Organization for Standardisation's relevant Standard (ISO 9001:2008). This means that Yakult meets the highest international food manufacturing standards. All company procedures are documented and are regularly audited. In terms of quality control, individual bottles are randomly inspected for incorrect printing and lid sealing. Product samples are collected and assessed for quality, composition and taste in Yakult's on-site quality control area.

### Waste management

Yakult Australia is very much aware of the need to minimise its environmental impact. Its waste management strategies, such as recycling of paper products and plastic waste, have resulted in more than 99 per cent of raw ingredients being used. Cleaning waste goes into a holding tank in the on-site water treatment facility.



Yakult's small bottles appeal to children, while the consistent quality of the product appeals to their parents.

- |   |                 |
|---|-----------------|
| 1 Define the following terms using examples from the Yakult case study:   |                 |
| • automated production line   |                 |
| • waste minimisation.   | 2 × 2 = 4 marks |
| 2 Outline the inputs used by Yakult.  | 2 marks         |
| 3 Describe the output of Yakult.  | 2 marks         |
| 4 Outline the relationship between Yakult's business objectives and operations management.  | 4 marks         |
| 5 Distinguish between the operations of a manufacturer and a service provider. Under which category does Yakult fit?  | 5 marks         |
| 6 Explain what materials management is. In your response refer to the terms 'forecasting', 'master production schedule' and 'materials requirement planning'. | 4 marks         |
| 7 Compare the use of quality control and quality assurance at Yakult.   | 6 marks         |
| 8 Discuss the use of total quality management and suggest whether or not you believe it would be suitable for Yakult's operations.                            | 5 marks         |
| 9 Identify and describe two ways in which Yakult has incorporated corporate social responsibility considerations into its operations system.                  | 4 marks         |
| 10 Explain two reasons why Yakult would need to manage its supply chain.  | 4 marks         |

# UNIT 4

# TRANSFORMING A BUSINESS

## Forced to change

Holden is an iconic Australian business, but it has been struggling for some time and will undergo changes in coming years. In December 2013 General Motors (the parent company of Holden) announced that Holden would cease manufacturing motor vehicles in Australia in 2017. This change would result in 2900 people across Victoria and South Australia losing their jobs. While manufacturing jobs would be lost, industry officials and Holden itself were confident that the brand and the company would survive as the focus of the business turns to importing vehicles and providing services such as vehicle sales and vehicle servicing.

The close of the manufacturing plants in 2017 is not the end of the transformation of Holden in Australia.

In October 2015 General Motors Holden announced the company and its 223-strong dealer network will invest \$200 million to update its showrooms around the country, as the company transitions into its new role as a full-line importer from the last quarter of 2017. This change was announced as Holden launched its new Commodore VF Series II range, the final model of the iconic Commodore to be produced in Australia before the shutdown of the manufacturing plants announced in 2013. Holden executive director of sales Peter Keley announced the initiative, identifying that Holden needed to maintain a very fresh and contemporary look in the market place. 'The current program has served us exceptionally well but it's time to move on.'



AREA OF STUDY	OUTCOME
<b>1 Reviewing performance — the need for change</b>	Explain the way business change may come about, use key performance indicators to evaluate the performance of the business, and discuss the driving and restraining forces for change and management strategies to position the business for the future.
<b>2 Implementing change</b>	Evaluate the effectiveness of a variety of strategies used by managers to implement change and discuss the effect of change on the stakeholders of the business.

# CHAPTER 6

## Reviewing performance — the need for change

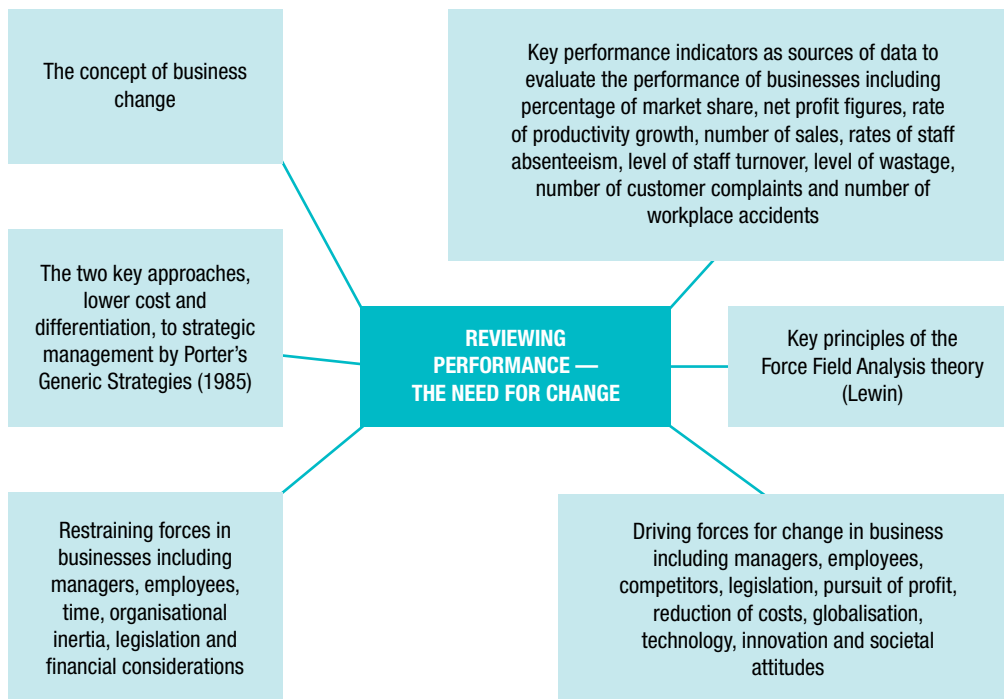
### WHY IT IS IMPORTANT

Businesses are established for a variety of reasons. Once established it is important for those businesses to maintain a suitable level of performance to ensure they continue to operate. Businesses need to consider sales, profits, cash flow and market share as factors that assess performance. If the performance isn't acceptable the business needs to change so performance improves and the level of performance returns to an acceptable level.

### WHAT YOU WILL LEARN

#### Key knowledge

Use each of the points below from the Business Management study design as a heading in your summary notes.



#### Key skills

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

- define, describe and apply relevant business management terms
- research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- interpret key performance indicators to analyse business performance
- apply business management knowledge to practical and/or simulated business situations
- compare and evaluate relevant management strategies.

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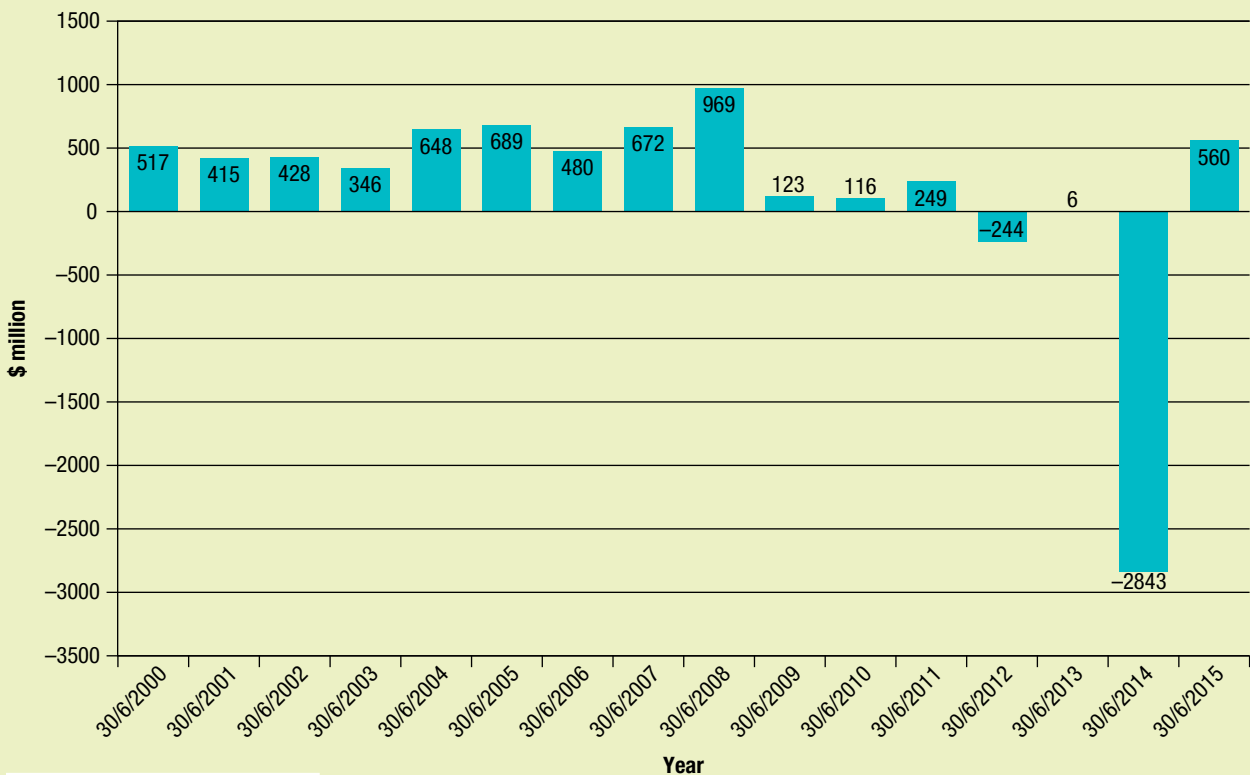


## Qantas — a change for good

Qantas is an iconic Australian-owned business. The 'flying kangaroo' has been a staple provider of air services for more than 90 years, but the last few years have not been kind. After fluctuating profits over the last 15 years, 2012 saw the business suffer a loss of \$244 million. This result was followed by a minimal profit of \$6 million in 2013 and a much larger loss of \$2843 million in 2014.

The result in 2012 prompted CEO Alan Joyce to announce 5000 job cuts across all areas of the business, including the closure of Qantas Courier's Australian operations. The changes were deemed necessary to return Qantas to a sustainable profit position and maintain returns to shareholders. Qantas reviewed all aspects of its performance over successive periods and devised strategies that would turn their performance around. Recognising that change would not bring immediate results, the business was aware the poor result of 2014 was inevitable. Sticking with its strategies was identified as the key to renewed success.

It was successful — the business returned to a profit position for the first 6 months of 2015 with a profit of \$350 million returned and an overall profit of \$560 announced at the end of 2015. The half-year result allowed Qantas to return a dividend to shareholders of \$0.23c per share in August 2015.



Qantas yearly profit 2000–2015

# 6.1 The concept of business change



**KEY CONCEPT** Businesses must constantly change in order to survive in today's volatile business environment.

**Change** is any alteration in the internal or external environments.

**Business change** is the adoption of a new idea or behaviour by a business.

### **DID YOU KNOW?**

People always ask, 'Is the change over? Can we stop now?' You've got to tell them, 'No, it's just begun.'

Jack Welch, former CEO of General Electric Company

To be **proactive** is to initiate change rather than simply to react to events.

To be **reactive** is to wait for a change to occur and then respond to it.

### **study on**

Unit 4

AOS 1

Topic 1

Concept 1



**See more**

The concept of business change

## What is business change?

There is every indication that the pace of change confronting Australian businesses will intensify during this decade. **Change** is any alteration in internal or external environments; for example, change in consumer tastes or change in employee expectations. It could also be a change to the way things are perceived, or a new way of dealing with problems. In response to these changes, many businesses have undergone **business change**: the adoption of a new idea or behaviour resulting in a difference in the form or operation of a business over time. The business may have modified its corporate culture, implemented new management structures, recruited employees with new skills or developed different work practices.

## Managing change

All businesses face change. Some changes are forced on a business, while others are carefully planned. The ability to manage and, in many cases, embrace and adapt to change will increasingly determine a business's competitive advantage and survival. Successful managers are the ones who anticipate and adjust to changing circumstances rather than ones that get swept along passively or, worse, get caught unprepared. Such people are **proactive** rather than **reactive**.

To be constructive, changes must occur at a pace that allows businesses to absorb and integrate them into their operations. Also, all changes should be evaluated thoroughly to assess their overall impact. Poorly managed changes normally result in employee resistance, tension, anxiety, lost productivity and ultimately, unmet objectives.

Change entails risk and requires sound leadership skills and responsive management structures. The long-term survival of any business depends on the ability of its managers to scan the environment, predict future trends and exploit change. While change may be the most daunting challenge confronting management, the rewards are great for those who are prepared to accept the challenge.



"What if we don't change at all ... and something magical just happens?"

Effective managers will be proactive in dealing with change

## Skills in managing change

To ensure that the change will be effective, managers will need to apply their management skills. Management skills were discussed in chapter 1.

### Communication skills

Managers must be able to communicate with stakeholders regarding the need for change and the progress of the change. Without clear communication regarding the change there may be resistance to the change, delaying the change and causing problems for management and other stakeholders. Effective managers understand the importance of communication.

## Delegation skills

Managers can't oversee all aspects of the change. Passing authority for specific tasks or appointing a change agent will allow managers to focus on other tasks while the change is managed effectively.

## Planning skills

All changes need to be planned. Change can be long-term or short-term and so management must develop a 'plan of action' for dealing with change.

## Leading skills

Leading is the ability to influence others to achieve objectives. Managers need to influence staff to accept any change and work towards the successful implementation of the change. Their influence determines how effectively the change is implemented and how quickly and successfully any resistance is overcome.

## Decision-making skills

During the change process decisions will need to be made. During a change process the ability to select the best course of action from a range of options will allow the process to be completed effectively. Some of these decisions will be difficult as change often leads to job losses.

## Interpersonal skills

Change can have a negative impact on employees. Managers need to relate and empathise with employees and any other stakeholder impacted by the change.



In 2016 Dick Smith stores closed their doors due to poor financial performance.



### TEST your understanding

- 1 What does the term 'business change' mean?
- 2 Explain the meaning of the phrase, 'There is only one constant in life and that is change'.
- 3 Explain the difference between proactive and reactive management.
- 4 Define management skills.
- 5 Explain why communication skills are important during a period of change.
- 6 Outline the importance of leading during a period of change.

- 7 Explain how using interpersonal skills can assist managers implement change.

### APPLY your understanding

- 8 Search the web to find information regarding a business that has been in the media in recent times. Prepare a brief report summarising:
  - type of business
  - recent financial performance
  - other issues impacting the business.

# 6.2 Key performance indicators as sources of data to evaluate the performance of businesses



**KEY CONCEPT** Businesses measure performance through the use of key performance indicators. Poor results in one or more of these indicators can be a source of information leading to the need for change.

## Efficiency and effectiveness

Toyota Australia's mission is to 'deliver outstanding automotive products and services to customers, and enrich the community, partners and environment'. After determining the business's objectives and strategies, management at Toyota will ask, 'How well did we do?' They evaluate performance by determining whether the objectives have been achieved. Evaluation is done by constantly asking:

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

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

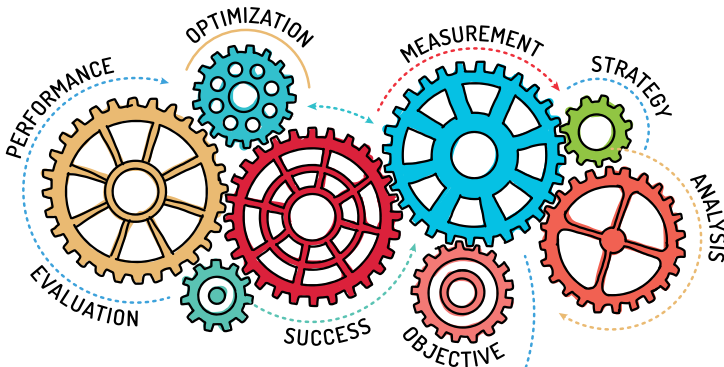
**Effectiveness** indicates to what degree a business has accomplished the objectives it set out to achieve. In other words, the business is 'doing the right things'. If a business's goal was to make profit, then improving profit from one year to the next would be seen as effective. A large business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

Large businesses use **key performance indicators** (KPIs) to evaluate performance. KPIs are criteria used as a measure of the success, or the efficiency and effectiveness, of a particular area of the business's performance. They can also provide data that drive change for a business.

**Effectiveness** is the degree to which a business has achieved its stated objectives.

**Efficiency** refers to how well a business uses resources to achieve objectives.

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



## Key Performance Indicator

KPIs measure performance, success and the achievement of objectives. They also lead to strategies that seek to optimise and improve performance.

Establish objectives  
• What do we want to achieve?

Develop strategies  
• How will we achieve the objectives?

Evaluate performance  
• Did we achieve the objective — KPIs?

Businesses evaluate their objectives using KPIs.



KPIs draw on information taken from a variety of sources, such as accounting reports, marketing statistics, data gathered from customer or employee feedback, or from observation. Let us have a look at some typical KPIs.

## Percentage of market share

**Percentage of market share** refers to the business's share of the total industry sales for a particular good or service, expressed as a percentage. It is calculated by dividing a business's sales (from that market) by the total sales of all businesses in that market and expressing this as a percentage. An increase in market share suggests that the business is performing successfully. For example, Toyota sold 218 176 vehicles in the 2012 calendar year. It had market share of 19.6 per cent in 2012, an increase of 1.6 per cent compared with its market share in 2011. As at 30 April 2015 Toyota Australia remained the top-selling car company in Australia with a market share of 18 per cent, selling 64 285 vehicles out of a total of 359 250 vehicles sold in Australia up to that point (*source: <http://www.caradvice.com.au/352631/car-sales-april-2015-winners-and-losers/>*).

## Net profit figures

**Net profit** is what remains when expenses related to operating the business are deducted from the revenue earned. Net profit is often referred to as 'the bottom line'. This is a reference to the line at the bottom of the income statement that shows the profit of the business. Investors will look at the bottom line very closely because for the owners, or shareholders, of a business, it is the source of their return on their investment. A business that makes a profit is considered to have performed successfully. Conversely, a low profit or a negative profit, referred to as a loss, suggests that a business could be experiencing several problems, including reduced sales, poor customer service or inadequate management of expenses.

## Rate of productivity growth

**Productivity** is a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services). Productivity is a measure of efficiency that is used by the operations and human resources functions. An indicator of productivity is the **rate of productivity growth**. This is the change in productivity in one year compared to that of the previous year. Growth in the rate of productivity indicates that the business is using resources more efficiently. Productivity will improve if a business uses fewer inputs to obtain the same level of output, or if more output is produced from the same input.

Toyota Australia has improved productivity using what it calls the Toyota Production System, which reduces waste and costs. As well as reducing costs, Toyota works with its suppliers to ensure that it improves productivity. Businesses such as Toyota would expect that by reducing input costs, or by producing more output at the same cost, an improvement in productivity would result in increasing profits.

## Number of sales

The **number of sales** of a product is a measure of the number of goods or services (products) sold. Measuring the number of sales helps a business evaluate its performance, especially its marketing strategies.

Usually, a business will be satisfied with its performance when the number of sales increases over a period of time, even if it means lower profits in the short term due to higher marketing costs. The assumption is that such a strategy will lead to higher profits in the long term.

**Percentage of market share** refers to the business's share of the total industry sales for a particular good or service, expressed as a percentage.

### study on

Unit 4

AOS 1

Topic 1

Concept 2

**KPIs: percentage of market share and net profit figures**

Summary screen and practice questions

**Net profit** is what remains when expenses are deducted from the revenue earned.

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

The **rate of productivity growth** measures the change in productivity in one year compared to the previous year.

### study on

Unit 4

AOS 1

Topic 1

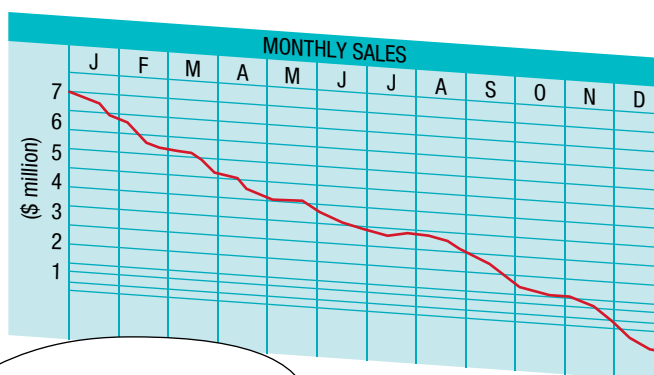
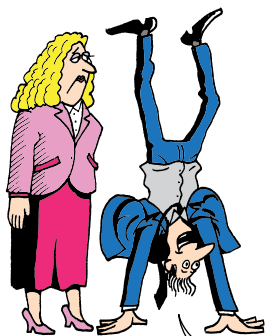
Concept 3

**KPIs: rate of productivity growth and number of sales**

Summary screen and practice questions

The **number of sales** of a product is a measure of the number of good or services (products) sold.

## 6.2 Key performance indicators as sources of data to evaluate the performance of businesses



I don't know why you are so worried . . . it looks fine from this angle!

### 🗨️ DID YOU KNOW?

The use of computerised sales has made the collection, storage, retrieval and analysis of sales data much easier.

Sales records indicate whether the business is achieving its objectives.

In April 2015 Toyota (15 299) outsold the combined efforts of Mazda (second with 8068) and Hyundai (third, 7210), while Holden (7072) was fourth (*source: <http://www.caradvice.com.au/352631/car-sales-april-2015-winners-and-losers>*). Holden and Ford (5th in sales) have both announced they will cease production in Australia in 2017, leaving Toyota as the only local producer. Maintaining healthy sales figures has allowed Toyota to keep producing cars in Australia. The ability to develop new products, such as concept cars, can assist a business such as Toyota increase its sales figures.



One of the ways Toyota (and other companies) is able to maintain strong sales is by producing concept cars that show a strong future direction in design development.

**Rate of staff absenteeism** measures the number of workers who neglect to turn up for work when they are scheduled to do so.

### study on

Unit 4 **KPIs: rates of staff absenteeism and level of staff turnover**  
 AOS 1  
 Topic 1  
 Concept 4

Summary screen and practice questions

## Rate of staff absenteeism

It is not uncommon for staff to have days of work — they get sick, they have family commitments and other circumstances may lead to them not attending work on occasions. This is sometimes a sign of a positive relationship between the employer and the employee — support and trust exist. However, on occasions employees may be absent from work because they are dissatisfied. The **rate of staff absenteeism** measures the number of workers who neglect to turn up for work when they are scheduled to do so. This can suggest that employees are at interviews at other businesses, taking a 'sickie' or using up their allotted days off rather than be at work. A rising rate of absenteeism may indicate problems at work between the employer and the employees.

## Level of staff turnover

The level of **staff turnover** can also be used as an indicator of the degree of staff satisfaction. It measures the number of staff who are leaving the business, for whatever reason. This is an important indicator for the human resources function. A decrease in staff turnover suggests that fewer employees are leaving, because they are more satisfied with their work conditions. Staff turnover means that staff will need to be replaced, resulting in recruiting and training costs and the loss of productivity and knowledge. Some level of staff turnover is considered healthy in business, as new ideas are brought in and often stimulate innovation in work practices. However, a major change or significant increase in turnover is a major warning sign.

**Staff turnover** measures the number of staff leaving the business

## Level of wastage

All businesses have a production process that generates a certain amount of waste. This can be measured by the **level of wastage**. This performance indicator is used by the operations function. A business manages resources more efficiently by reducing waste, which can cut production costs.

The **level of wastage** measures the amount of waste created by the production process.



Waste is a cost to the economy as well as to businesses and society in general.

Unilever's Surf and Omo brands launched their 'Small & Mighty' detergent products in 2008. These concentrated laundry liquids, packaged in smaller containers, reduce waste and cut costs through the reduction in plastic used and the savings in transport.

## Number of customer complaints

The number of complaints that customers make can also indicate whether customers are satisfied with the way the business performs. A successful business, aiming to maximise customer satisfaction, would receive a small number of **customer complaints**. Some businesses understand that one customer complaint represents the 'tip of the iceberg', because for every customer who complains to the business, there are several customers who don't.



**Customer complaints** indicate whether or not customers are satisfied with the performance of the business.

Customer complaints can lead to a loss of customers (sales) and profits and can impact business performance.

## Number of workplace accidents

An unsafe workplace impacts on the productivity of the business for several reasons. Staff members who feel unsafe may not be motivated to work efficiently while accidents can actually stop production. If the **number of workplace accidents** falls then

The **number of workplace accidents** indicates how safe the workplace is for employees.

Unit 4  
AOS 1  
Topic 1  
Concept 5

**KPIs: level of wastage, number of customer complaints and number of workplace accidents**

Summary screen and practice questions

## 6.2 Key performance indicators as sources of data to evaluate the performance of businesses

### eBookplus

#### eLesson

#### Workplace accidents – Australia Post

Watch this video featuring Australia Post and complete the attached worksheet.

Searchlight ID: eles-1047

**Benchmarking** occurs when a business measures its performance against that of other leading businesses known for their excellence.

the workplace is most likely safer for employees. This is a performance indicator that is important to both the human resources and the operations function.

Certain industries have higher levels of workplace accidents than others. Farms are an area of concern for governments and Worksafe Victoria as farms have a higher proportion of workplace deaths than other industries. WorkSafe Victoria, the state's work safety watchdog, said almost 30 per cent of all workplace deaths occurred on farms, despite less than 3 per cent of Victorians being employed in agriculture.

## Benchmarking

Many businesses adopt the practice of **benchmarking**. This is not a performance indicator; it is a process (methodology) that can be used to assess performance between internal sections of a business or between businesses known for their excellence. This is then used as a basis for improvements. A business might compare its performance with another business in the same industry or with a business in another industry with similar objectives.



### TEST your understanding

- 1 Why should businesses evaluate their performance?
- 2 Outline the differences between effectiveness and efficiency.
- 3 What are key performance indicators and what are they used for?
- 4 List four key performance indicators.
- 5 Outline how market share is calculated.
- 6 Explain why net profit is an important performance indicator.
- 7 Why is productivity an important key performance indicator?
- 8 Explain why staff turnover rates are significant indicators of the effectiveness of workplace practices.
- 9 Outline how reducing waste can cut costs.
- 10 Briefly explain the problems that might arise from an unsafe workplace.
- 11 Explain why benchmarking is a useful tool for managers.

### APPLY your understanding

- 12 In groups of three or four, brainstorm what is likely to happen when a business's performance:
  - (a) does not meet customer expectations
  - (b) meets customer expectations
  - (c) exceeds customer expectations.
 Choose a spokesperson to share your group's comments with the rest of the class.
- 13 In groups of three or four, recall a situation where you evaluated your performance. An example could be an assessment task, part-time job or sports event.
  - (a) What was your objective for this activity?
  - (b) Did you achieve your objective? Give a reason for your answer.
  - (c) What corrective action, if any, were you required to take following your evaluation?

- 14 Key performance indicators are used to measure whether or not an objective has been achieved. Using the table below outline how the indicators you have learned about can be used to evaluate performance. The first entry has been completed for you.

Business objective	Key performance indicator	How the KPI can be used to evaluate performance
Maximise profit	Net profit	An improvement in net profit means that the business has improved its productivity, either by earning more revenue or by reducing expenses and costs.
Increase sales		
Improve productivity		
Increase market share		
Meet safety standards		
Improve retention of employees		
Reduce workplace waste		



# 6.3 Key principles of the Force Field Analysis theory (Lewin)



**KEY CONCEPT** Psychologist Kurt Lewin developed a theory that allows businesses to determine the forces that drive and restrain change.

## Force Field Analysis

Psychologist Kurt Lewin developed a useful model for understanding the change process. Known as **Force Field Analysis**, the model describes how you can determine which forces drive and which resist a proposed change.

**Driving forces** are those forces that initiate, encourage and support the change — they work to assist the business in achieving its goal. The main driving forces for business change are outlined in section 6.4. **Restraining forces** are those that work against the change, creating resistance — in other words, they hinder the achievement of the goal. The main restraining forces impacting business change are outlined in section 6.5.

The current conditions, or status quo, result from these two forces ‘pulling’ in opposite directions. Managers who are trying to implement a change must conduct a force-field analysis to identify and balance the driving and restraining forces. For example, when MicroForte Technologies introduced changes to its operations in response to increasing competition from cheap imports, some employees were initially reluctant to adopt the teamwork approach and four employees resigned as a consequence. They found it difficult to accept the higher level of accountability and responsibility the restructure called for. However, other employees responded positively and were instrumental in driving the change process. They liked the autonomy they were given and enjoyed the supportive nature of work teams.

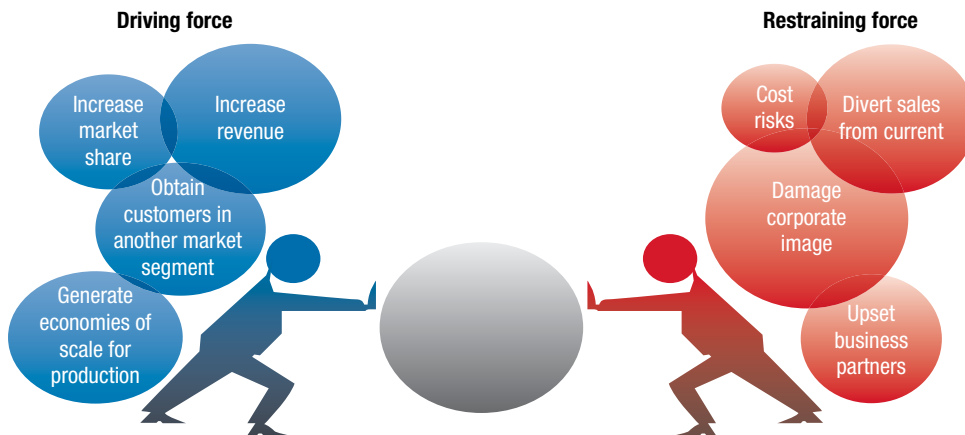
**Force Field Analysis** outlines the process of determining which forces drive and which resist a proposed change.

**Driving forces** are those forces that support the change.

**Restraining forces** are those forces that work against the change.

### study on

- Unit 4** The Force Field Analysis Theory (Lewin)
- AOS 1**
- Topic 4** Summary screen and practice questions
- Concept 1**



Driving and restraining forces work against each other, making it difficult for a business to change.

## How does it work?

Any business considering undertaking a new project or implementing change can consider the forces that are exerting pressure at this time. The first area to consider are the aspects of the business; the people of influence or the decision-makers and the systems and processes that are driving the project. Once considered, the next step is to consider who and what are restraining the project.

Some stakeholders of the business will want the status quo to be maintained; that is, they will not want the business to undertake any change. These stakeholders are restraining the change and will not consider any improvements or benefits that might result from the change.

To counter these restraining forces, other stakeholders will push or drive the business to change. While these drivers are a positive influence for a business,

## 6.3 Key principles of the Force Field Analysis theory (Lewin)

when confronted with the restraining forces a negative situation for the business will result — the two forces work against each other, resulting in the change not being undertaken at all or implemented in a manner that results in a less than effective situation for the business. These drivers seek to reduce or eliminate the restraining forces so the drivers can continue to strengthen the change and bring more drivers to the forefront of the change process. Lewin's Force Field Analysis is a change management tool that can be used to overcome the restraining forces.

### Force Field Analysis Diagram — an action plan

#### 🗨️ DID YOU KNOW?

Lewin was born in Germany but fled to the United States when Hitler took over Germany in the 1930s.

An important aspect of Lewin's Force Field Analysis is an action plan. Using the following template, driving forces are listed on the left side of the 'T' diagram and restraining forces are listed on the right. Once the forces are listed they are allocated a numerical score. This score is a means of ranking the forces. Those forces that are important are given a score of 4 or 5, with less important or less influential forces given a lower score. This allows the forces to be prioritised, so it can be decided which restraining forces to remove first and which driving forces to promote and encourage.

Driving forces		Restraining forces																					
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Template for a Force Field Analysis diagram

## How to do a Force Field Analysis

Assume your school is considering changing its uniform for next year. How would a Force Field Analysis assist in this change? Following is a simple process for completing a Force Field Analysis.

- 1 Form a guiding group of people driving or enabling the change.
- 2 Using the Force Field Analysis diagram at the beginning of this section, identify the change proposal.
- 3 As a group, identify the forces that are currently driving or restraining the change. For each force, assign a score relative to the perceived strength of the force. Low scores (1) suggests the force is weak while a high score (5) suggests a strong force.
- 4 Prioritise the top 3 to 5 most restraining forces and driving forces. These are the forces the business and the guiding group need to either eliminate or strengthen to allow the change to occur.
- 5 Using the action plan template, list the actions that are required to be completed to meet the proposed change and assign responsibility for each action.

## Benefits of a Force Field Analysis

Any process or model for implementing change must result in benefits to the business and lead to a successful change. Benefits of the Force Field Analysis include:

- Businesses are able to weigh up the 'for's and against' and whether the change is worth undertaking.
- It allows a business to identify and strengthen the driving forces supporting the change and to take action to reduce or eliminate the restraining forces.
- Force Field Analysis allows stakeholders to identify the change as a positive or negative change from their perspective.
- It allows a timeline to be developed and additional resource requirements to be identified
- Force Field Analysis can identify if skills are restraining change and therefore what training may be required.
- It can identify inadequate systems so a re-design of systems can be undertaken.
- The Force Field Analysis diagram is a visual aid that can support communication and reduce communication barriers.
- It allows the business to identify those people within the business who are supportive of the change and those restraining the change.



### TEST your understanding

- 1 Explain what is meant by Force Field Analysis.
- 2 What are the benefits of developing an action plan?
- 3 Outline the purpose of an action plan template.
- 4 Briefly outline the steps involved in developing a Force Field Analysis.
- 5 Define driving and restraining forces.
- 6 List three driving forces for change.
- 7 List three restraining forces for change.

### APPLY your understanding

- 8 Using the Action Plan template, complete a Force Field Analysis on yourself and your VCE studies this year.
- 9 Evaluate the importance of adopting a theory to assist a business undertake change.
- 10 Discuss how a Force Field Analysis could be used by a small shop owner considering opening a second store.

# 6.4 Driving forces for change in business



**KEY CONCEPT** As change is an ongoing, dynamic concept, there will always be forces driving a business to undergo change.

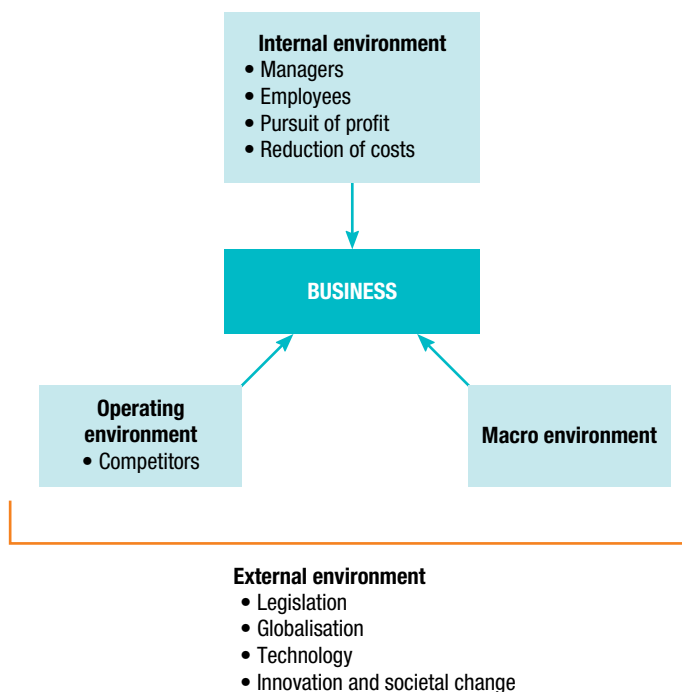
The **internal environment** refers to the factors inside the business.

The **external environment** includes those things over which the business has little control. It may be divided into an operating environment and a macro environment.

A business's **operating environment** refers to the outside factors with which the business directly interacts in the course of conducting its business.

The **macro environment** is made up of the broad factors in the economy and society within which the business operates.

Driving forces work to encourage, foster and initiate change. The sources of these driving forces are varied — each environment in which a business operates places pressure on a business to change. These environments are the **internal environment** and the **external environment**, comprising the **operating** and **macro environments**.



Businesses face pressure from all environments to change.

## study on

**Unit 4** Internal driving forces for change

**AOS 1**

**Topic 2** Summary screen

and practice questions

**Concept 1**

## Managers

Managers have the responsibility of operating a profitable or successful business. The poor financial performance of a business would result in management reviewing processes, staff and systems. For example, when Wesfarmers Limited took over the poorly performing Coles in 2007, management implemented a five-year recovery process. It updated the image of Coles supermarkets, rebuilt the supply chain and improved the freshness of its produce. Keeping costs under control is essential in turning around financial performance. To do this, Coles introduced self-service checkouts in its supermarkets.

Businesses sometimes face a crisis. For example, a product sold by the business may be found to be unsafe or dangerous. Responding to such unplanned changes requires responsive decision-making from management to reduce the disruption to the business.

The role managers play in the operations of a business mean they are key driving forces for change. In a small business, the manager may also be the owner and so the livelihood of the owner is tied very much to the ability of the business to change and maintain sales, profit, market share and its customer base. In a large-scale business, shareholders are seeking a return on their investment. Managers must ensure dividends are paid to shareholders and so a healthy profit is needed. Managers will push for changes that will lead to a better outcome and more efficient achievement of business objectives.



## Employees

Employees working for a business expect to be paid fairly, trained properly and treated ethically in return for their vital contribution to production. Employees working in an innovative environment, where ideas are shared and acted on, are likely to recommend changes to policies, production processes or products. Companies such as Panasonic, Samsung, Sony and Toshiba have benefited from employee creativity, enabling them to develop innovative technologies. The development of innovative products within a business can create a need for change in everything from operations to marketing.

## Competitors

Businesses need to monitor the activities of their competition and determine what effect they may be having in the marketplace. Knowledge of such changes enables a business to make modifications to its existing business activities and to plan new ones.

Competitors can drive a business to change through a number of different actions:

- The opening of a new business that will compete with an existing business may cause the existing business to undergo change to stay current and relevant to their customers.
- Pricing policies by a competitor may lead a business to adopt a similar strategy. In recent years both Coles and Woolworths have sold bread, milk and other staple items at greatly reduced costs in an effort to increase customer numbers. Once one business lowered prices the other business quickly followed suit.
- The adoption of new technologies, both in production and products, can drive a competitor to change their products or processes. Toyota was the first vehicle manufacturer to introduce a hybrid model car. All major car manufacturers have now released their own version.
- Advertising campaigns, sales and the development of an online presence are other examples of how competitors can drive change within a business.

## Legislation

Whenever new laws are passed, businesses must comply with the new legislative requirements. For example, businesses had to alter their unfair dismissal practices in response to the new industrial relations laws implemented by the Rudd Government in 2009. Businesses in Victoria also had to change their practices in the workplace due to changes to the law regarding smoking. On 23 August 2015, the Victorian Government announced that smoking will be banned in outdoor dining areas from 1 August 2017. The proposed ban will cover all outdoor dining areas at restaurants, cafes, takeaway shops and licenced premises.

Between 2012 and 2014 Australia was subject to a carbon tax. The tax was introduced in November 2011 and established a price on the carbon emissions of businesses in Australia. The pricing mechanism, known generally as the 'carbon tax', was intended as a measure to combat climate change and came into operation on 1 July 2012, but after much opposition, legislation to abolish this tax was passed in July 2014. Businesses had to make changes to respond to the legislation relating to the introduction and removal of this tax in both 2012 and 2014.



There is intense competition within the supermarket industry. While Coles and Woolworths are the 'big two' they must contend with increased competition from Aldi and other businesses.

### study on

- Unit 4 **Competitors driving change**
- AOS 1 Summary screen and practice questions
- Topic 2
- Concept 2

## 6.4 Driving forces for change in business



The carbon tax became a political issue between 2012 and 2014. Businesses regularly have to adapt to legislative changes.

While most of us consider legislation to be a national issue, laws can be made by the State Government (laws relating to smoking in public, the workplace and in cafes and restaurants) and by local councils (parking restrictions, use of the footpath for seating and food service, opening hours for businesses and zoning laws), as well as laws made by statutory bodies such as the Victorian Commission for Gambling and Liquor Regulation and Worksafe Victoria.

Any law or by-law passed by these and other bodies may require a business to change some aspect of the operation of the business and so drive business change.

### Pursuit of profit

All businesses, regardless of size, need to earn a profit, of which they return a portion to owners/shareholders.

If the profit levels of a business are not as high as the management team have identified as their goal it is likely they would need to make changes to either generate more revenue or decrease their costs to earn the profit that allows them to achieve their goals.

As noted above, the pursuit of profit is a driving force for change. If profit is not sufficient to satisfy objectives then the business may undertake a change to assist it in meeting those objectives.

### Reduction of costs

A business will incur a range of costs. Supplies, materials, utility costs, government charges and taxes, interest and other finance costs and wages are all costs associated with operating a business. If costs are rising then profit will be negatively impacted and as such may drive the business to change. In these circumstances businesses will seek to implement strategies to reduce costs. There are a range of cost-reducing strategies available for businesses to implement:

- Source materials and supplies from a cheaper supplier, either locally or from overseas.
- Source a local supplier to avoid paying import duties.
- Reduce wages through downsizing or replacing labour with technology, such as robotics or an assembly line.
- Source a new supplier of utilities (gas, water, electricity and telecommunications).  
Privatisation has led to more options in these areas and so businesses can 'shop around' for better deals.

Profit may be increased in two ways — an increase in revenue, brought about by increasing sales or raising prices, or through a reduction in the costs associated with operating the business.

### Globalisation

**Globalisation** is the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers. Combined with the development of hi-tech communications, lower transport costs and unrestricted trade and financial flows, the whole world can now operate as a single market, producing a more integrated global economic system. Australian businesses therefore operate on the world market, competing not only with businesses in their local area, but businesses nationally and internationally.

This process of operating nationally and internationally has been strengthened by globalisation and so businesses that don't recognise they are competing in a world market may find themselves left behind. Globalisation will drive all businesses to change so they remain viable and competitive.

**Globalisation** is the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers.

#### study on

**Unit 4** External driving forces for change  
**AOS 1**

**Topic 2** Summary screen and practice questions  
**Concept 3**

## Technology

A business that wants to be locally, nationally or globally competitive must adopt the appropriate technology. If it is slow to exploit technology, a business is likely to fail, because its competitors will strive to capture greater market share and develop a sustainable competitive advantage.

Technology allows a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity. As such technology, and any advances in technology, should be considered as a driving force for change.

All businesses, regardless of size, are able to take advantage of technology and so all businesses are driven to change by technology. Local milk bars introducing EFTPOS, couriers using electronic signatures, clothing stores using scanners and electronic security tags, and supermarkets introducing online shopping and self-service checkouts are all examples of technological advances that have driven change.



The assembly line was a great technological advancement when it was invented in the early 1900s. Subsequent advances in technology have improved it further to the point where fewer and fewer human resources are needed. The development of self-serve checkouts has decreased the need for shop assistants.

## Innovation

**Innovation** is a process that occurs when something already established is improved upon. Innovation can be driven by technological advances and by globalisation. Innovation can result from research and development undertaken by businesses or through individuals identifying areas for improvement. Innovation can also result from the identification of a **niche market**. A niche market is a narrowly selected market segment within a larger market. For example, the market for golf clubs is a large market; however, with only a small percentage of golfers being left-handed, a business that sells only to left-handers is working in a small, select market.

Today's generation has already lived through significant innovations in communication — mobile phones and wireless internet, Facebook and Twitter, all of which have also impacted businesses. The creation of Facebook and Twitter (among other apps) have driven businesses to develop their own Facebook pages or Twitter accounts to better keep in touch with customers.

Other examples of innovation that have driven changes in business are the ability to remotely check-in for airline flights, Paywave at stores and ATMs located in areas other than banks, such as shopping centres.



**Innovation** is a process that occurs when something already established is improved upon.

The introduction of contactless payment by debit and credit cards (Paywave) has led to a significant increase in the total spent using these cards.

A **niche market** is a narrowly selected market segment within a larger market.

### **DID YOU KNOW?**

BHP Billiton came under fire for its practices that led to a mine disaster in Brazil in 2015. The collapsing dam wall linked to the mine killed two people and washed away numerous homes. BHP took responsibility and sought to repair the dam, restore the village and pay compensation to victims.



## Societal attitudes

Businesses are constantly confronted by changes in society's attitudes and values. Society's attitudes to what is right and wrong are constantly changing and this affects the ways in which businesses operate. Increased access to rapid communications has made the world's population more acutely aware of what businesses are doing. Pressure from society has forced businesses to implement procedures to preserve and protect the natural environment. One recent example of this is the tough new conditions imposed on suppliers by the biggest general retailer in the United States, Wal-Mart. As part of its sustainability efforts, Wal-Mart insists that suppliers document and reduce their carbon emissions throughout the supply chain.



There is growing pressure for businesses to implement procedures to preserve and protect the natural environment.

Society requires that large businesses sell acceptable products and treat staff with respect. Businesses today are also expected to contribute to society by returning something positive to the communities in which they operate. As part of their 'Energy for Life' community program, AGL Energy helps to pay the winter energy bills for shelters for homeless people in New South Wales, Victoria and South

Australia. This enables the emergency accommodation services to put funds back into the important work of supporting Australia's homeless.



### TEST your understanding

- 1 Explain what is meant by a driving force.
- 2 List three driving forces for change.
- 3 Distinguish between the internal and external environments of a business.
- 4 Explain how the pursuit of profit and cost reduction are both driving forces and how they could be seen as linked.
- 5 Copy and complete the following table.

Example of force	How it may impact a business
New laws passed to protect young workers	
Computerisation of sales data	
Employees	
New export market identified	
Protection of the natural environment	
Globalisation	

- 6 Why is technology so crucial in terms of business success and failure?
- 7 What has been the impact of globalisation on businesses?
- 8 Provide a list of innovations that have led to business change.
- 9 Explain what is meant by a niche market and how identifying a niche market is an example of innovation.

### APPLY your understanding

- 10 Discuss the advantages and disadvantages of accelerating technology on a business's operations.
- 11 'A business must always be aware of the changing nature of competitors.' What does this mean?
- 12 Evaluate the benefits to businesses of globalisation.
- 13 'Technology is expensive and updating technology constantly is of no benefit to businesses.' Discuss this statement.



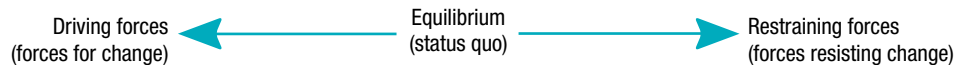
# 6.5 Restraining forces in business



**KEY CONCEPT** At the same time as managers are undertaking change for the best of reasons, there will be restraining forces working against the change, creating resistance.

**Restraining forces** are those that work against change, creating resistance. A range of different forces hinder or restrain change.

**Restraining forces** are those forces that work against the change.



At any given time there will be stakeholders pushing, encouraging or driving the business to undertake change. As identified by Lewin, there will be other stakeholders who like the current situation, the 'status quo'. These stakeholders may overtly or covertly work against the change. These restraining forces are competing with the driving forces, seeking no change to the business.

There are a number of restraining forces including managers, employees, time, organisational inertia, legislation and financial considerations.

## Managers

Some managers may make hasty decisions that are poorly timed and unclear. Other managers may be indecisive and put off making a decision, creating uncertainty. Either of these situations may eventually cause employees to lose confidence in the decision-making abilities of management.

Changes that threaten to eliminate jobs usually face strong resistance. For example, most business restructuring involves the elimination of some middle management positions. Consequently, middle managers may resist restructuring. For example, the packaging company Amcor was forced to cut some management positions when it combined the business's Australasia office with their global headquarters in the Melbourne suburb of Hawthorn.

## Employees

Any change to a business and its operating procedures will eventually impact on the level and type of staffing. The introduction of a major change, such as a merger or acquisition, may result in a complete breakdown of the existing corporate culture. This can create a feeling of mistrust and suspicion among the employees.

Many human resource management consultants argue that staffing considerations are one of the most entrenched reasons for employees to resist change. Employees may also resist change because they are worried that they cannot adapt to the new procedures, which threaten established work routines. This is made worse if training is not provided. No matter how technically or administratively perfect a proposed change may be, staffing issues may make or break it.

### **DID YOU KNOW?**

Ironically, some people enthusiastically support the changes in public, but then ignore the changes in private. Management consultant Michael Hammer calls this deadly form of resistance the 'Kiss of Yes'.

### **study on**

- Unit 4** **Managers and employees**
- AOS 1** Summary screen
- Topic 3** and practice questions
- Concept 1**

# 6.5 Restraining forces in business

## study on

Unit 4

**Time and organisational inertia**

AOS 1

Topic 3

Summary screen and practice questions

Concept 2

## Time

Change is ongoing and as such there is always pressure for change. Some of these pressures occur quickly and so businesses do not have the time to plan the change as efficiently and effectively as they would like.

In some circumstances, not enough time is allowed for people to think about the change, accept it, and implement it. In other situations, the timing is poor. A business may invest years and millions of dollars in a change, only to find the external environment has changed so much that the plan devised for success is no longer applicable.



Poor timing, or lack of time, will result in undue resistance to change.

**Organisational inertia** refers to an unenthusiastic response from management to proposed change.

## Organisational inertia

**Organisational inertia** refers to management's inactivity or lack of response when faced with proposed changes. Some managers resist change because it requires moving outside and away from their 'comfort zones'. Many employees and managers of the typical business desire a safe and predictable status quo. Such an attitude is summed up in the phrase, 'But we don't do things that way here'.

## study on

Unit 4

**Legislation and financial considerations**

AOS 1

Topic 3

Summary screen and practice questions

Concept 3

## Legislation

The past 20 years have seen significant changes in the legal framework within which Australian businesses must work. Legislation must be complied with, and it can act as a restraining force. This occurs when the legislation places restrictions on certain operational practices and procedures. For example, a mining company wanting to exploit a new mineral resource will have to do so within the limitations of current environmental protection legislation.

Other examples of legislation acting as a restraining force include government bodies such as the Australian Competition and Consumer Commission (ACCC) which has the power to prevent a merger from occurring between two businesses. Laws such as occupational health and safety laws can prevent a business from undertaking changes that could potentially cause injury to workers.

## Financial considerations

Financial considerations include cost and revenue issues for a business. The financial cost of its implementation can restrain a change. Even given sufficient finances, a business contemplating change must weigh up the costs and benefits of the change. Well-informed, calculated decisions to proceed will minimise the risk and enhance the long-term viability of the change.

The main financial costs of change include:

- 1 *Purchasing new equipment.* The purchase cost of new technology, buildings or equipment can be considerable. David Jones, for example, recently upgraded its network of stores and spent \$275 million to increase its floor space by over 20 per cent.
- 2 *Redundancy payments.* Employees who lose their jobs as a result of the changes are entitled to financial compensation in the form of a redundancy payment.
- 3 *Retraining the workforce.* As new technology is introduced, employees must be retrained. MicroForte Technologies, for example, allocates 7 per cent of its yearly budget to staff retraining.
- 4 *Reorganising plant layout.* When new equipment is installed, the layout of the plant may require reorganisation to improve efficiency and productivity.

Revenue issues can also affect change. The high costs of change will often affect the profit margin of a business. To maintain profit the business may consider raising prices. This can act as a restraining force as competitors may not be facing the same pressures and businesses don't want to price themselves out of the market in which they operate.

Businesses will often complete a cost benefit analysis to determine if the costs of the change outweigh the benefit to the business.



### TEST your understanding

- 1 Distinguish between 'driving' and 'restraining' forces.
- 2 Explain the link between restraining forces and Lewin's Force-Field Analysis.
- 3 Complete the sentences below by choosing the correct term from the following list:

cost	turbulent	resistance	strategies
common	effectively	analysing	security
fear	routines	managers	inertia

When change is too rapid, or when managers and employees feel they have no control over it, then \_\_\_\_\_ to the change is to be expected. Resistance to change is \_\_\_\_\_ among employees and businesses. The resistance needs to be managed \_\_\_\_\_. Managers can fail to achieve change by not \_\_\_\_\_ the situation properly. Employees may resist change because of \_\_\_\_\_ of the unknown; possible threat to job status or \_\_\_\_\_; or disruption to established work \_\_\_\_\_. Organisational \_\_\_\_\_ and financial \_\_\_\_\_ are two main restraining forces. Rapid, complex and \_\_\_\_\_ change is now commonplace in most Australian businesses. \_\_\_\_\_ for overcoming resistance need to be developed by \_\_\_\_\_.

- 4 Prepare a brief report outlining the main financial costs responsible for some businesses resisting change.
- 5 What types of resistance to change have you observed recently? How could they have been overcome?
- 6 Briefly explain how the following can be a restraining force:
  - lack of time
  - poor timing.
- 7 Provide an example of 'organisational inertia'.
- 8 When the new chief executive officer for Bradley Southport Limited attempted to make some major changes, she encountered resistance among some senior

level managers. Explain why these managers might have resisted the changes.

### APPLY your understanding

- 9 Assume you are the human resource manager for a large financial business. You have been asked by the board of directors to prepare a report on the three main reasons why staff may resist the proposed change. Present your findings as either a written or an oral report.
- 10 Analyse the restraining forces that may impact a proposal at your school to change the start of your school day from 9 am to 7 am.
- 11 Based on the information from this section, explain why there was so much resistance among bank tellers when they were first required to use computers to process customer transactions.
- 12 Describe how you would feel if your classroom was radically changed overnight without your knowledge.
- 13 Evaluate the accuracy of the following quotes concerning change:
  - (a) 'Change for change's sake is not progress.'
  - (b) 'Change is life. Life is change.'
  - (c) 'Change what you can change. Accept what you cannot change.'
- 14 Select a major change in your life, such as moving house, changing schools or starting a new casual job, and complete the following:
  - (a) Reflect on the reasons you liked or disliked the change. Share your thoughts with other class members.
  - (b) List the reasons that were common among the group.
  - (c) What does this tell you about the best strategy that a manager could use to help overcome resistance to change?
- 15 Which restraining force for change do you think is:
  - (a) the most common
  - (b) the most difficult for management to deal with?
 Give reasons for your answers.

# 6.6 The two key approaches — lower cost and differentiation — to strategic management by Porter's Generic Strategies (1985)



**KEY CONCEPT** Change can be managed through the use of Porter's Generic Strategies approach.

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

Michael Porter is an American-born economist, researcher, author, adviser, speaker and teacher known for his theories on competition and competitive advantage.

Michael Porter is a US-born professor at the prestigious Harvard School of Business. In the 1980s he developed a theory that attempted to explain how businesses may manage change as they attempt to gain a **competitive advantage** over other businesses. The objective of gaining a competitive advantage is to improve performance in those areas identified as key performance indicators (see section 6.2) that are a source of change for a business.



Porter theorised that to gain a competitive advantage businesses need to evaluate their strengths and act upon those strengths (a form of SWOT analysis outlined in chapter 1). Porter identified five competitive forces exerting influence on a business. The business needed to react to these competitive forces if they wished to successfully change and gain a competitive advantage.

## The entry of new competitors

Markets that are profitable will always attract new businesses. These new businesses see an opportunity to make sales, earn a profit and expand their own areas of operation. The businesses that currently operate in these markets must be able to survive. Some of the existing businesses are able to survive because they have barriers that make it difficult for new businesses to break down. These barriers include patents, economies of scale and supportive government policies, or the business operates in a market where the financial cost of commencing operations is prohibitive. If the barriers are not durable then new businesses will enter the market and cause profits to fall. Businesses must always be prepared to deal with new competitors entering the market.

## The threat of substitutes

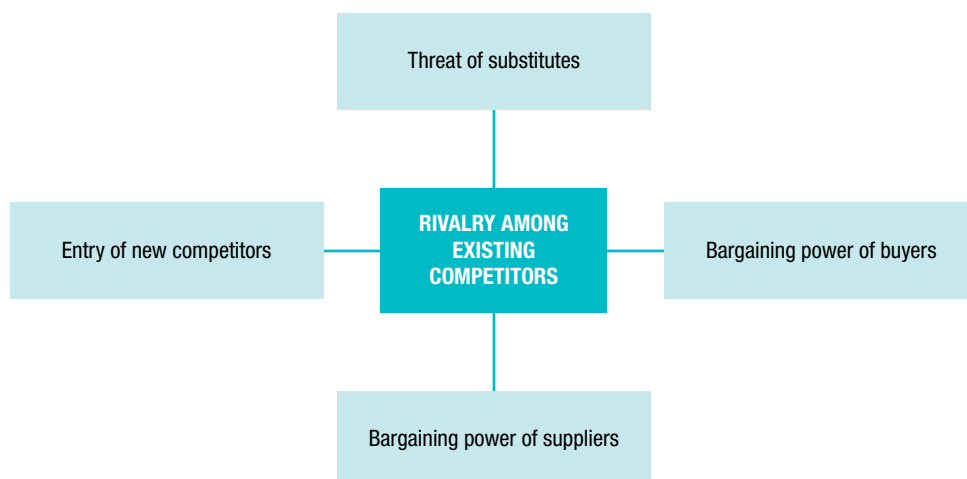
Some businesses operate in a market where close substitute products exist. Coke and Pepsi are often considered close substitutes, as are banks with regards to interest rates on home loans. In markets such as these customers may switch to alternatives in response to price increases or changes to the quality of the good or service offered by the business. This reduces both the power of suppliers and the attractiveness of the market, because if new competitors can easily enter the market businesses may find it difficult to build a solid customer base that will support longevity in the market. This will also frighten suppliers who thrive on guaranteed contracts to supply established businesses.

## The bargaining power of buyers

Businesses need to consider how powerful their buyers or customers may be. They need to conduct an assessment of how easy it is for buyers to drive prices down. This is driven by the number of buyers in the market and the importance of each individual buyer to the business. The business also considers the cost to the buyer of changing their supplier. Businesses with a few, large buyers often find that the



buyers are able to dictate the terms of their buying. Coles and Woolworths are good examples. In recent years both businesses have made efforts to gain customers from each other and their competitors. One of these major supermarkets lowered their prices on essential food items in an attempt to draw buyers away from competitors. The willingness of buyers to switch supermarkets caused the other supermarket to respond with identical price changes.



The five forces identified by Porter that exert pressure on a business

## The bargaining power of suppliers

The bargaining power of suppliers refers to how easy it is for suppliers to drive up the price of the item they supply to a business. This is driven by the number of suppliers of each essential input, the uniqueness of their product or service, the relative size and strength of the supplier, and cost of switching from one supplier to another which can be influenced by existing contracts and the time taken to undertake this change.

## The rivalry among existing competitors

The main driver of competition is the number and capability of competitors in the market. This can be seen in the diagram above. If a business is operating in a market with many competitors, most of whom are offering undifferentiated products and services, then a business may find they have a reduced market attractiveness.

## The Generic Strategies approach

Recognising the competitive forces operating upon businesses, businesses that wish to gain a competitive advantage must concentrate on their strengths — in other words, what competitive advantage(s) does the business have? Porter identified two categories of competitive advantage:

- cost advantage — a competitive advantage is gained through reducing or altering the costs of the business
- differentiation advantage — businesses gain a competitive advantage through differentiating their product or service from others in the market.

**Product differentiation** refers to the use of brand names and advertising to establish differences between substitutable products. An example is Unilever, a multinational company producing a range of cleaning products. Two well-known brands, Surf and Omo, are both produced by Unilever. Both products have a market share, their own advertising and compete with each other, but the business has an overall higher market share and profit because it is marketing two products in the one market.

### study on

Unit 4

AOS 1

Topic 4

Concept 2

**Generic Strategies Approach: Cost advantage**  
Summary screen and practice questions

**Product differentiation** refers to the use of brand names and advertising to establish differences between substitutable products.

## 6.6 The two key approaches — lower cost and differentiation — to strategic management by Porter's Generic Strategies (1985)

Porter's theory then states that there are three generic strategies that can be implemented to achieve the competitive advantage. Porter's generic strategies are ways of gaining competitive advantage — in other words, developing the 'edge' that gets the business the customer and takes it away from your competitors. These generic strategies are:

- lower cost strategies
- differentiation strategies.

### Lower cost strategies

Lower cost strategies involve a business seeking to become the business with the lowest costs in its industry. This will allow the business to become more profitable as it can increase its margin — the difference between its costs and its selling price.

There are three main ways of achieving low costs:

- *use assets efficiently.* Minimise idle stock on shelves; do not stock products that do not sell. In a restaurant, turn over tables quickly — have customers sit, order, eat and leave, then have another group of customers take that table.
- *lower costs of operating.* Source supplies from cheaper suppliers, minimise wage costs, source cheaper utility suppliers and offer minimal packaging.
- *control the supply chain.* Seek contracts with suppliers and delivery businesses that guarantee prices. At the same time, implement stock management systems such as just in time to reduce costs.

### Differentiation strategies

In a differentiation strategy a business will make their product unique in some way to gain a competitive edge and allow the business to market itself as a leader or innovator in that industry. Some strategies include making the product more durable, providing better support for customers, extended warranties or different brands within the same market. Starbucks, Hudson's and Gloria Jeans all became successful as they promoted a brand that was different to other businesses that in reality only sold coffee.

#### 🗨️ DID YOU KNOW?

While squeezing suppliers on cost may be a viable strategy, there is a fine line businesses should not cross. In 2014 Woolworths was accused of bullying suppliers into providing low-priced goods as part of their 'Cheap Cheap' campaign. The accusation was made soon after Coles settled a similar claim made against them by the Australian Competition and Consumer Commission.

#### study on

Unit 4

AOS 1

Topic 4

Concept 3

**Generic Strategies**

**Approach:**

**Differentiation advantage**

Summary screen and practice questions



#### TEST your understanding

- 1 Explain the five competitive forces identified by Porter.
- 2 Select two of the five competitive forces and describe how they may be represented by a key performance indicator.
- 3 Define supply chain.
- 4 Explain why it is important for a business to manage stock levels efficiently to reduce costs.
- 5 List the costs associated with buying and selling stock.
- 6 Explain what is meant by product differentiation.
- 7 Distinguish between a cost strategy and a differentiation strategy.
- 8 Explain what is meant by a niche market and outline how a focus strategy is more likely to be used by a business operating in a niche market.

#### APPLY your understanding

- 9 Divide your page into two columns. Draw up a list of businesses or products that you believe have attempted to gain a competitive advantage by adopting:
  - a cost leadership strategy or
  - a differentiation strategy.
 Explain your reasons for the selections you made.
- 10 Visit a local supermarket and complete the table below, identifying the number of brands in each product area, the names of the brands and the manufacturers of these brands.

Product	Number of brands and brand names	Producer/manufacturer name
Shampoo		
Dishwashing detergent		
Laundry powder		
Toothpaste		

# APPLY YOUR SKILLS

Forces affecting change

## PRACTISE YOUR SKILLS

- define, describe and apply relevant business management terms
- research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- interpret key performance indicators to analyse business performance
- apply business management knowledge to practical and/or simulated business situations
- compare and evaluate relevant management strategies.

## Newspaper portfolio

Select three driving forces for change that can influence a business's environment. Collect 8–10 articles on each driving force from the Internet, newspapers and journals over an 8- to 10-week period.

Paste the articles into a scrapbook under three headings describing the driving forces. Ensure that you date and acknowledge the source of each article.



Change is the only constant in the world of business.



### TEST your understanding

- 1 Write a report of approximately 500 words on one of the driving forces you chose. Use a business report style with subheadings, graphs and diagrams to support your text. In your answer, you could:
  - describe how the driving force has exerted pressure for change
  - discuss the impact of this driving force on the business
  - identify possible sources of resistance
  - outline tactics used to overcome resistance.A major focus within your report should be an analysis of the impact of the driving force on the individual business. Your responses should combine the information obtained from your teacher and textbooks with the information on current business conditions and factors from your Internet, newspaper and journal articles.
- 2 (a) Identify some of the changes you have noticed within your school in the past year.  
(b) In each case, explain the extent to which the forces were internal or external.

### APPLY your understanding

- 3 Arrange to interview someone who has experienced a major change in his or her workplace. Research and report on the impact of this change on the interviewee, his or her colleagues and the business's culture. Make particular reference to:
  - how the change was managed
  - the driving forces
  - the role of leadership in the change process.
- 4 Think about a situation in which you would like to make a change but face some resistance. The situation might involve improving your business management results, changing the arrangement of your timetable or having greater use of the family car.
  - (a) Write a brief outline of the status quo.
  - (b) Write a brief description of the situation as you would like it to be if you could change it.
  - (c) List the main driving forces.

## Managing the impact of change

### Belisa Pharmaceuticals

Peta O'Brian is the managing director of Belisa Pharmaceuticals which employs 300 loyal, long-serving employees. Fierce competition is threatening the long-term viability of her business. Sales and profits are declining due to the lower prices of its competitors.

Belisa Pharmaceuticals could compete if it introduced new technology (it has the finance to purchase and install the machinery). The introduction of the new technology is going to mean changes to the workforce and the current products.

- Only 275 employees are required to work the new technology, so 25 will become redundant.
- Even though sales have declined, Peta has a number of very loyal customers who have expressed satisfaction with the format of the current product.



Pharmaceuticals are one of Australia's main manufacturing exports.



### TEST your understanding

- 1 Why do you think the introduction of new technology will result in:
  - (a) lower production costs?
  - (b) the need for fewer employees?
- 2 What assistance could Belisa Pharmaceuticals offer employees who are made redundant?

### APPLY your understanding

- 3 Suggest an appropriate form of action for each of the following problems Peta O'Brian faces:
  - (a) Dismissing 25 employees; that is, selecting the criteria she might consider in deciding who should stay and who should go.
  - (b) Training the remaining employees to understand and use the new and more complex technology (quite a radical change from the technology currently in use).



## Change and keeping staff on board

Nine2Three Employment Solutions is a boutique recruitment and employment company specialising in flexible workplace practices and the placement of women returning to the workforce, predominantly into accounting and office administration roles. We pride ourselves on being highly professional.

The global financial crisis (GFC) meant we needed to implement strong change to our business model. We needed to ensure that we could navigate the economic climate and keep our staff employed. We needed to reduce our costs and requested staff to reduce hours of work. This was a significant change to the business, and the management and staff had to adapt.

Asking staff to reduce hours in a difficult economy is not an easy thing. We used clear communication to employees, both individually and as a team, to ensure they were not left in the dark as to what was going on, and to see the reasons behind the hard decisions.

Getting our team members on board, committed and connected to our business was, and remains, our number one priority.

New technology can be frightening for team members if they are not on board with the total concept from the beginning. It was very important for us to communicate to them the reasons we wished to change our processes and the positives that would come from change.

Offering training in any new technology or work duty helped us to minimise any negativity surrounding the changes.

We keep our staff motivated in times of change by communicating effectively with each and every employee. We make our team members feel that their input and ideas are valued and that they are an integral part of Nine2Three. Addressing any concerns raised and giving our employees a forum to speak about any concerns was also really important. Communication is the key to great workplaces and managing change.

**Source:** Extracts from 2010, 'Real life stories: Change and keeping staff on board', *NETT*, p. 42–3.



Kathryn MacMillan, managing director of  
Nine2Three Employment Solutions



### TEST your understanding

- 1 Identify the driving forces for change in Nine2Three Employment Solutions.
- 2 Summarise the tactics used by Nine2Three Employment Solutions to manage changes.

### APPLY your understanding

- 3 Suggest appropriate forms of communication that could be used to keep the employees informed of changes.

# EXTEND YOUR KNOWLEDGE Using data to drive change



**KEY CONCEPTS** Businesses must constantly change in order to survive.

The performance of a business as identified through key performance indicators are a source of change.

There are driving and restraining forces for change in businesses.

## Fabulous Fashions (FF)

The business objectives of Fabulous Fashions (FF) include 'increasing market share in the low-cost fashion sector' and the business is currently attaining this goal. Sales and profits reached record levels last year. FF now operates 90 stores across Australia.

The management team of the business have a number of decisions and issues affecting them at this time. At their forthcoming board meeting, senior management will be required to make a number of key decisions, or make recommendations to deal with certain important issues. These issues and decisions are as follows.

### Staff turnover

The human resource manager (HRM) is worried about employee performance within the business. She has summarised FF employee data and compared it to the Australian average. These comparisons are shown in the following table.

Employee performance and other human resources data

All data 2015	FF shop workers	Australian fashion retail workers (average)
<b>Annual staff turnover</b>	22%	16%
<b>Median hourly wage</b>	\$11.35	\$12.83
<b>Staff on part-time contracts</b>	73%	56%
<b>Staff aged 16–24 years old</b>	45%	33%
<b>Customer complaints per 100 transactions</b>	4.6	Data not available
<b>Staff with no formal qualifications</b>	16%	11%

The HRM knows that on average it takes four weeks to fill each vacancy, including the time taken to screen applications, short list, interview and induct the selected staff member. There are advertising costs of around \$120 per vacancy.

Many of the staff leaving the business are part-time. The HRM wants FF to introduce a comprehensive set of objectives and targets at each level of the business: 'I believe that this would give regional managers, shop managers and shop staff a clear focus and incentive they need to stay with the business and work hard to develop their careers with us. A clear set of quantifiable targets for each region and shop within our business will definitely improve employee performance within FF.'

### Location of a new shop

This week the directors are to decide between two locations for a new shop. The Operations Manager has produced the data in the following table and this is to be considered by directors at this week's board meeting.

Financial data for the two locations

	Location X	Location Y
<b>Site</b>	<b>Town centre</b>	<b>Out of town</b>
<b>Capital cost of 5-year lease</b>	\$2.0 m	\$1.0 m
<b>Forecasted annual net cash flows</b>		
<b>Year 1</b>	\$0.3 m	\$0.2 m
<b>Year 2</b>	\$0.35 m	\$0.26 m
<b>Year 3</b>	\$0.42 m	\$0.32 m
<b>Year 4</b>	\$0.58 m	\$0.4 m
<b>Year 5</b>	\$0.85 m	\$0.65 m

Financial data for the two locations (*continued*)

	Location X	Location Y
<b>Site</b>	<b>Town centre</b>	<b>Out of town</b>
<b>Payback period</b>	3 years, 2 months	2 years, 2 months
<b>Forecasted annual average profit (first 5 years)</b>	\$0.08 m	\$0.03 m
<b>Annual average rate of return</b>	24%	38%

### New clothing range

The success of the business is based on ‘fast fashion’ — creating new designs and distributing them to shops quickly – and low prices. ‘Quality is relative — no one expects our clothes to last for years’ is a quote from the managing director that most FF managers recall well. Progress in the first six months of 2016 has slowed; sales are still growing but margins have fallen. Profits are being affected by increasing costs of materials.

The directors have developed a plan to start selling a range of clothes, to be called Top Look, aimed at high income consumers. ‘Demand from consumers with high incomes tends to be less price elastic than the demand of our existing shoppers. If the products are fashionable and well designed they buy them at prices that will give us much higher margins’, said the managing director at the most recent board meeting. The marketing manager suggested that the Top Look range of clothes should be in a separate part of every shop and that promotion could be limited to in-store displays and special offers.



### Legal and corporate social responsibility issues

Business leaders in Australia are increasingly concerned about the impact of the growing number and significance of legal controls on their operations, as well as a growing awareness of operating in a socially responsible manner. Managers of retail businesses are particularly concerned about the following legal changes and corporate social responsibility issues:

- the use of labour in other countries to manufacture most of the clothing range
- minimum wage increases
- improvements in consumer rights to reject or return goods.
- tougher health and safety regulations in shops.

‘With continued slow economic growth, the last thing we need is higher costs forced on us by more legal controls’, said FF’s managing director at last year’s annual general meeting.



### TEST your understanding

Write a report for the managing director to be reviewed at the upcoming board meeting. The report is to comprise four sections, one for each of the areas identified above that require decisions or action by the board.

Each section of the report should provide:

- an identification and explanation of the driving forces for the change in that area

- an identification and description of the relevant key performance indicators (KPIs) that have led to the issue in each area
- a description of possible strategies the business could implement to overcome the issue(s) identified in each area.

The report should be a minimum of 200 words for each section.

# CHAPTER 6 REVIEW

## eBook *plus*

### Digital document Glossary

Download a glossary of key terms from this chapter.

**Searchlight ID: doc-19090**

## SUMMARY

### The concept of business change

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

### Key performance indicators as sources of data to evaluate the performance of a business

- All businesses measure their performance.
- Businesses seek to improve their efficiency and effectiveness.
- Performance is assessed using key performance indicators:
  - percentage of market share
  - net profit figures
  - rate of productivity growth
  - number of sales
  - rates of staff absenteeism
  - level of staff turnover
  - level of wastage
  - number of customer complaints
  - number of workplace accidents.
- A business may benchmark its performance against the performance of a business recognised as a market leader.

### Key principles of the Force Field Analysis theory

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

### Driving forces for change in business

- Driving forces are those forces that initiate, encourage and support the change.
- The main driving forces for change include:
  - managers (want the business to remain profitable and competitive)
  - employees (working in a supportive and innovative environment are free to suggest ideas)
  - competitors (fear of loss to a rival if the changes are unsuccessful)
  - legislation (changes to the law that impact operational practices)
  - pursuit of profit (the greater the profit the greater rewards for business owners)
  - reduction of costs (financial cost of operating a business can affect profit)
  - globalisation (the need to compete with overseas businesses)
  - technology (stay up-to-date or risk falling behind)
  - innovation (the drive and desire to be a market leader)
  - societal attitudes (the need to reflect what society values).

### Restraining forces in business

- Restraining forces work against the change.
- The main reasons for resistance to change include:
  - managers (due to either poor decision making or fear of loss of control or power)
  - employees (fearful of changes that threaten job security or require new work routines)
  - time (either poor timing, or lack of time)
  - organisational inertia (prefer to stay with the safe and predictable status quo)
  - legislation (restrictions placed on certain operational practices)
  - financial considerations (financial cost of implementing major changes can be substantial).



## The key principles of the Generic Strategies approach to strategic management

- Michael Porter developed a Generic Strategies approach to strategic management.
- Porter identified five competitive forces:
  - the entry of new competitors
  - the threat of substitutes
  - the bargaining power of buyers
  - the bargaining power of suppliers
  - the rivalry among existing competitors.
- Change can be managed utilising generic strategies:
  - cost leadership strategies
  - differentiation strategies.

### REVIEW QUESTIONS

#### TEST your understanding

- 1 What is meant by the term 'transforming a business'?
- 2 Distinguish between a proactive and a reactive manager when dealing with change.
- 3 Outline two skills a manager should utilise when managing change.
- 4 Define the term 'key performance indicators'.
- 5 List and briefly outline three of each of the following:
  - (a) driving forces for change
  - (b) restraining forces for change.
- 6 Distinguish, using an example, the difference between driving and restraining forces.
- 7 Outline why resistance to change in management and employees is common.
- 8 Distinguish between efficiency and effectiveness.
- 9 List the key performance indicators that may lead to change.
- 10 Outline why resistance to change in management and employees is common.
- 11 Explain why setting achievable goals can help managers implement change more successfully.
- 12 Explain what is meant by a Force Field Analysis.
- 13 Outline the benefits of preparing an action plan as part of a Force Field Analysis.
- 14 List the 5 steps in a Force Field Analysis.
- 15 Define innovation as a force for change.
- 16 Outline three of the five competitive forces.
- 17 Explain a niche market and how a focus strategy will assist a business achieve a competitive advantage.

#### APPLY your understanding

- 18 'Successful businesses are those that empower their employees to adapt readily to changes within the business environment, whereas those businesses that attempt to resist change and disempower their staff will ultimately fail.'
  - (a) Identify the main reasons for employee resistance to change.
  - (b) Demonstrate why it is important for managers to communicate effectively when introducing changes in the workplace.
- 19 'In response to data collected through key performance indicators businesses are constantly changing.'
  - (a) Describe the key performance indicators that cause businesses to change.
  - (b) Using a current example, describe and explain the responses of that businesses management to these KPIs.

### eBook plus

#### Digital documents

##### Missing word glossary quiz

Test your knowledge of key terms from this chapter.

**Searchlight ID: doc-19091**

##### Crossword

Check your understanding by completing this crossword on key concepts from this chapter.

**Searchlight ID: doc-19092**

### study on



Sit VCAA exam

## eBook<sup>plus</sup>

### Digital document

#### School-assessed coursework

Complete your end-of-chapter school-assessed coursework in Microsoft Word.

**Searchlight ID: doc-19093**

## SCHOOL-ASSESSED COURSEWORK

### OUTCOME 1

**Explain the way business change may come about, use key performance indicators to evaluate the performance of the business, and discuss the driving and restraining forces for change and management strategies to position the business for the future.**

### ASSESSMENT task — structured questions

**Time allowed:** 90 minutes

**Marks allocated:** 50 marks (the marks for each question are indicated at the end of each question)

**Conditions:** closed book (no notes or textbooks may be used when completing this task)

**1** Define the following terms and provide an example for each:

- driving forces
- restraining forces
- key performance indicators
- competitive forces
- Generic Strategies.

5 x 2 = 10 marks

**2** Identify and describe the key features of Lewin's Force Field Analysis.

4 marks

### The cost of flying

Operating an airline is an expensive business. The cost of planes, fuel, staff and landing fees are high and vary from country to country. Once scheduled it is almost impossible to cancel a flight and a half empty plane is a source of lost revenue.

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



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

Review the financial data below from a hypothetical airline.

#### Operational statistics

Group Underlying Income Statement Summary	June 2015 \$M	June 2014 \$M	Change \$M	Change %
Net passenger revenue	13 667	13 242	425	3
Net freight revenue	936	955	(19)	(2)
Other revenue	1213	1155	58	5
<b>Revenue</b>	<b>15 816</b>	<b>15 352</b>	<b>464</b>	<b>3</b>
Operating expenses (excluding fuel)	(9064)	(9288)	224	2
Fuel	(3899)	(4496)	597	13
Depreciation and amortisation	(1096)	(1422)	326	23
Non-cancellable aircraft operating lease rentals	(495)	(520)	25	5
Share of net loss of investments accounted for under the equity method	(29)	(66)	37	56
<b>Expenses</b>	<b>(14 583)</b>	<b>(15 792)</b>	<b>1209</b>	<b>8</b>
<b>Underlying EBIT*</b>	<b>1233</b>	<b>(440)</b>	<b>1673</b>	<b>&gt;100</b>
Net finance costs	(258)	(206)	(52)	(25)
<b>Underlying PBT*</b>	<b>975</b>	<b>(646)</b>	<b>1621</b>	<b>&gt;100</b>

Operating Statistics		June 2015	June 2014	Change	Change %
Available Seat Kilometres (ASK)	M	142 287	141 715	572	0.4
Revenue Passenger Kilometres (RPK)	M	112 543	109 659	2 884	2.6
Passengers Carried	'000	49 181	48 776	405	0.8

\*Underlying EBIT refers to earnings before interest and tax. Underlying PBT refers to profit before tax.

Read the case study then answer questions 3–9.

- 3 Explain two key performance indicators provided in the case study. 2 x 2 = 4 marks
- 4 Describe three other key performance indicators that could be useful for the business to evaluate to assess success of the business. 3 x 2 = 6 marks
- 5 Describe how a Force Field Analysis could have been used to prepare the business for making the necessary changes to improve performance. 4 marks
- 6 Outline the process involved in completing a Force Field Analysis. 5 marks
- 7 Describe two benefits of completing a Force Field Analysis when considering change. 4 marks
- 8 To improve profit the business could implement a low cost strategy or a differentiation strategy. Identify and analyse the most appropriate strategy in this situation. 5 marks
- 9 Evaluate two driving forces and two restraining forces that may impact an airline in the current climate. 8 marks

# CHAPTER 7

## Implementing change

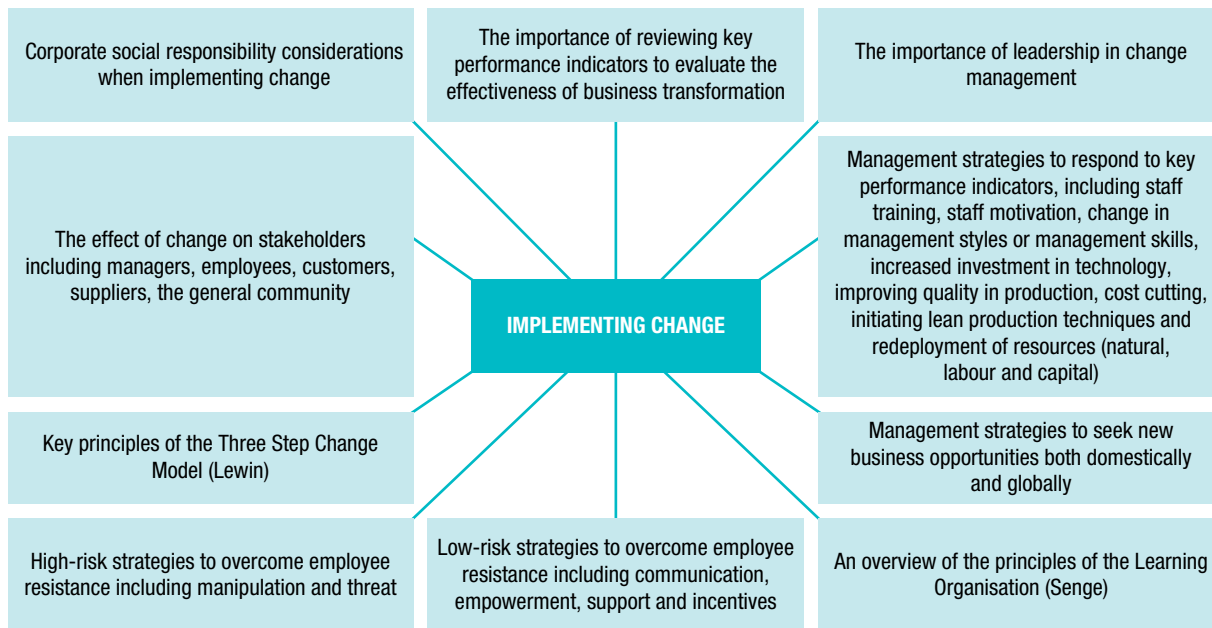
### WHY IT IS IMPORTANT

'Nothing is permanent except change'. Although these words were written around 2500 years ago by the Ancient Greek philosopher Heraclitus, they are as true today as they were then, especially in the world of business. For, example, in a few years time you may well have goods delivered to your home by a drone such as the one shown on the opposite page. Already some pizza businesses are exploring drones as a method of home delivery. Recognising that they need to change is only the first stage in the process. It is now up to businesses to determine how best to implement the change they've identified as important for the continued success of the business.

### WHAT YOU WILL LEARN

#### Key knowledge

Use each of the points below from the Business Management study design as a heading in your summary notes.



#### Key skills

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

- define, describe and apply relevant business management terms
- research and analyse case studies and contemporary examples of business management applicable to managing change in a business within the last four years
- interpret business information and ideas
- apply business management knowledge to practical and/or simulated business situations
- evaluate the advantages and disadvantages of various strategies in implementing change in a business
- propose and justify strategies to respond to key performance indicators and assist in implementing change in a business.

VCE Business Management Study Design extracts © VCAA; reproduced by permission.





## Qantas and change

Change is inevitable. As a consequence, businesses must transform if they want to survive in today's dynamic business environment. One example of an Australian business that has had to constantly implement change is Qantas Airways Limited. Over the years Qantas had to radically change its operations, marketing and business structure in response to internal and external influences including:

- global terrorism and increased security
- oil price increases
- fluctuations in the value of the Australian dollar
- increased competition from low-cost airlines
- rapidly changing technology
- trade union problems, especially with maintenance staff
- volcanic ash clouds that closed down European airspace
- an exploding engine that grounded the A380 Superjumbos.

Former Qantas CEO Geoff Dixon often used the phrase 'constant shock syndrome' with reference to the challenges that Qantas management and staff has had to effectively manage. The question for Qantas management is not whether to accept the challenge of change, but how to implement change effectively, how to make the change as productive as possible, and how to make it a process for revitalising and strengthening the business.

In 2014 QANTAS was faced with the task of cutting costs to save an estimated \$2 billion. Qantas was successful in reversing its flagging financial performance and, with the cutting of around 5000 jobs, was able to implement the change that has returned it to a profitable position.



Qantas's ability to manage and, in many cases, adapt to and embrace change will increasingly determine its competitive position.

• Qantas had to radically change its operations, marketing and business structure. •

# 7.1 The importance of leadership in change management



**KEY CONCEPT** If a manager can display effective leadership skills, then resistance to change will be lessened.

While there is no one precise definition, **leadership** is the process of positively influencing and encouraging individuals to set and achieve objectives.

## study on

Unit 4

Leadership

AOS 2

in change  
management

Topic 1

Summary screen

Concept 1

and practice  
questions

To successfully implement a change process a manager needs to exercise leading; that is, to show **leadership**. By leading change, the manager acts as a bridge to support the employees as they cross from existing work practices into new and unfamiliar territory.

To act as a leader, a manager should display empathy and possess good listening skills. These personal characteristics will assist him or her to discover and appreciate any points of resistance to change. How a manager treats his or her employees will largely determine their acceptance of or resistance to change. A manager who acts as a leader and has high expectations of employees' abilities to initiate and implement a change process will generally be rewarded with people who are willing to embrace the change. There may still be some points of resistance, but this resistance can be productively dealt with, because the employees believe they have the support and trust of their manager.

Employees are generally more prepared to accept the risks involved with change if they feel their manager is concerned about their welfare. Managers who concentrate on the needs of their employees are the most effective, building high-performance teams that attain their objectives. Less effective managers tend to focus on tasks and are more concerned with meeting deadlines; that is, they display the natural characteristics of a manager, not a leader.



A leader who can 'sell' the need for change automatically overcomes one of the main resistance points — that of 'why do we need to change?'

Added to these qualities, a successful leader will need to:

- market and promote the change in a manner that will achieve cooperation and acceptance
- resolve conflicts, which often arise when change is implemented
- keep an open mind, seek out new ideas and freely share information
- cultivate a sense of stability, while at the same time push on with even more change
- show confidence in people, share credit and recognition
- build and communicate a clear vision.

Being an effective leader is not an easy task. There may be temporary setbacks, particularly during periods of negotiation. In the end, leadership may still fail. According to the management researcher Craig Hickman, leadership by itself is not enough. He believes that businesses need the skills of both managers and leaders to competently manage change.

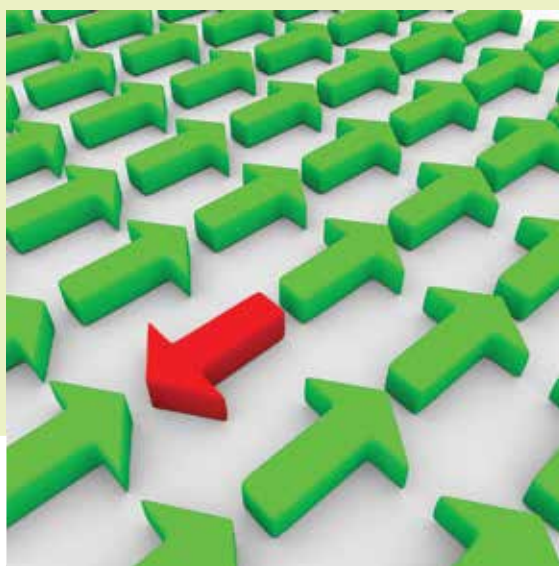
## Mind of a manager, soul of a leader

Change, both external and internal, also has become a way of corporate life. While the manager naturally desires stability, the leader recognises that crisis can stimulate improvement. Managers try to duplicate the successful efforts of others, but leaders would rather break new ground. Managers fasten, fix, and put things in place as permanent fixtures of the business. Leaders continually move about the business, unfastening, unfixing, and removing things to make sure that the business does not stagnate. When it comes to decision making, managers hammer out compromises, while leaders don't mind polarising people around extremes to clarify the differences between them. If changes that occur in the external environment often cause a manager's mind to focus on how to react and respond, they stimulate a leader's soul to become proactive, anticipating and even creating change. 'Plan for change,' argues the manager, 'Experiment with it,' insists the leader. In this age of rampant reorganisation and restructuring, the manager's mind seems to deal with it all very easily. The leader, however, wants to rethink the fundamentals and not be fooled by a reorganisation that may not correct real problems. Managers refine existing structures; leaders promote complete revolution.

**Source:** Extracts from Craig R. Hickman 1992, *Mind of a manager, soul of a leader*, p. 11, John Wiley & Sons Inc.

According to Craig Hickman, 'When it comes to lasting superior performance, managers don't have all the answers; neither do leaders. Businesses need the practical, orderly mind of a manager, and the experimental, visionary, creative soul of a leader.'

• Managers refine existing structures; leaders promote complete revolution. •



### TEST your understanding

- 1 Support or refute the following statement: 'Motivating, inspiring and empowering employees to embrace change is the mark of a good leader'.
- 2 Think of someone you regard as a leader. What characteristics do they display to give them this leader status?
- 3 What do you think of the leader who says, 'Do what I say, not what I do'?
- 4 Read the case study above and answer the following questions:
  - (a) List the main features of a (i) manager and (ii) leader.
  - (b) Do you agree or disagree with Craig Hickman's belief that businesses need both managers and leaders? Justify your answer.

### APPLY your understanding

- 5 In small groups, brainstorm the strategies a leader can take to implement and support people through change. Compare your list with the lists of other groups. As a class, agree on 10 key things a leader should do when introducing change.
- 6 Set up a class debate to consider the following topic: 'Leaders are born, not developed'. Share roles so that those not debating are involved either in assisting with research, or in running the debate and keeping notes on the arguments on both sides.



# 7.2 Management strategies to respond to key performance indicators



**KEY CONCEPT** Key performance indicators provide data that drive businesses to change. Managers must respond to those indicators as they implement change.

## study on

**Unit 4** Evaluate the effectiveness of business transformation  
**AOS 2**  
**Topic 4** Summary screen and practice questions  
**Concept 4**

A **market leader** is a business that has a reputation for being the best in a market, or leading the market in terms of innovation, sales, profits or market share.

## Key performance indicators

In chapter 6 we identified nine key performance indicators that provide managers with data regarding business performance and therefore encourage momentum for businesses to undergo change. In response to the information provided by these key performance indicators managers are obliged to implement strategies to respond to the presented data. The strategies implemented can be measured in terms of their successful application by reviewing the key performance indicators.

## Percentage of market share

In an effort to increase the percentage of market share a business can increase its spending on advertising. A strong advertising campaign can bring in new customers and increase the sales the business is able to achieve. An advertising campaign can promote the business itself or advertise a sale or special event as a means of attracting customers to the business. If the campaign is successful, then the business can increase its sales and the percentage of the market it controls.

Alternatively a business can seek to increase its share of the market through innovation. Developing new lines of stock, new products or new processes to allow cheaper production can also lead to an increase in the market share held by a business. Research and development is able to allow a business to gain a reputation for quality or as a **market leader**.

## Net profit figures

Net profit is what remains when expenses related to the operation of the business are deducted from the revenue earned. To improve the net profit of a business a manager can increase revenue or decrease the expenses of the business.

It was identified in the previous section that increasing revenue can be achieved by an advertising campaign, holding a sale that increases customer numbers significantly or introducing a new product line or service.



Increasing revenue can be achieved by holding a sale that increases customer numbers.



Another strategy a business can adopt to increase profit is to reduce costs. Cost savings can be found through changing suppliers, reducing wage costs (often through downsizing or replacing labour with technology) and reducing utility costs (electricity, phone and gas companies all seek to increase their sales by offering lower prices to customers and business can take advantage of these offers).

## Rate of productivity growth

Productivity refers to the level of output produced from a given level of inputs. Businesses seek to improve their productivity as it means they are able to lower their unit cost. This is a cost cutting measure and will assist a business in increasing its profit and market share.



Improved productivity means businesses are able to lower their unit cost.

How can a business improve its productivity? There are a number of options available to businesses to do this:

- Improving production methods — With improvement in production methods, opportunities to increase speed of production allow greater output to be produced per hour/day. This often is achieved through the use of new and/or improved technology. It is also achieved through reducing waste as a result of improved production methods.
- Minimisation of wastage — Improving the quality of inputs so less waste occurs during production reduces costs as well as increasing the output of a business.
- Staff training — For some businesses one method of improving productivity is through staff training. Improving the skills of employees can lead to improvements in productivity as they become more efficient at their jobs and make fewer errors, further reducing waste.

### study on

Unit 4

AOS 2

Topic 2

Concept 1

**KPIs: staff training, staff motivation**

Summary screen and practice questions

# 7.2 Management strategies to respond to key performance indicators

## study on

Unit 4

AOS 2

Topic 2

Concept 5

**KPIs: redeployment of resources (natural, labour and capital)**

Summary screen and practice questions

### **DID YOU KNOW?**

Many businesses ask customers for email addresses to contact customers after the sale to gain feedback on the standard of service they received.

## Number of sales

Sales can be increased through a range of measures. Businesses often compete on price, quality and service. Increasing sales therefore often stems from improving competitiveness in terms of price, quality and service.

In relation to price, sales can be improved through lowering the price of the good or service. Changing suppliers, purchasing locally to reduce transport costs and reducing labour costs are all examples of strategies a business can adopt to reduce the costs of production or service provision so the price paid by the consumer can be lowered.

It should be noted that changing suppliers or reducing labour costs can also have negative outcomes for a business and so managers must review all possible outcomes of a strategy before implementing it. A new supplier may offer a lower price, but the quality may be poorer and/or delivery may be uncertain, causing other costs to rise.

Quality can be improved by improving the quality of inputs. While they may be more expensive, quality products are often sought by consumers as they represent value for money.

Service is often improved through staff training. Better product knowledge, better customer service and improved warranties and guarantees can increase sales.



## study on

Unit 4

AOS 2

Topic 2

Concept 2

**KPIs: change in management styles or skills**

Summary screen and practice questions

## Rate of staff absenteeism

Why do staff take days off? Answering that question can help managers improve staff morale and motivation and therefore allow the business to improve.

Often staff are unhappy with the workplace environment. It could be the lack of training and support provided by management. It could be the style of management used — an autocratic style doesn't allow staff to be creative or responsible and so employees may become disillusioned with the work place. Changing the style of management is a strategy that can be adopted. Giving employees more freedom and autonomy can improve morale and all aspects of performance.

Employees may be unhappy with the culture of the business. The lack of teamwork or goal congruence can impact staff morale. Implementing strategies such as introducing a workplace uniform, developing a new vision statement and holding social events for staff can all improve morale and reduce absenteeism. These strategies are not quick fixes, rather elements that alter morale and reduce absenteeism over time.

## Level of staff turnover

Staff who are unhappy in the workplace may choose to take time off (see above). If the situation becomes too difficult for employees, then they may choose to leave the business. Staff turnover negatively impacts profits and culture, as staff who leave may be well-liked or a crucial part of a team. These people need to be replaced and the costs of employing new staff will add to the costs of the business.

Getting to know staff is a key strategy managers can use to gauge employee feelings and determine the level of morale. Conducting performance appraisal interviews, staff satisfaction surveys, exit interviews and opening a suggestion box can all provide managers with information to guide decisions as strategies are implemented to decrease staff turnover.



Emotional intelligence can play an important role in reducing staff turnover.

## Level of wastage

Minimising waste should be a goal for all businesses. The reduction in harm to the environment should be a consideration for all businesses as this demonstrates a commitment to social responsibility. It is also good business practice as waste and its removal is a cost to any business and can negatively impact sales and profits. A business could implement a number of strategies to respond to this key performance indicator:

- **Introduce a materials management system such as just-in-time (JIT):** This is a system whereby materials are ordered and scheduled to arrive just as they are needed. While this system aims to reduce storage costs, it can also reduce waste as there are few excess resources and the materials do not have to be stored where they could be damaged and hence become waste.
- **Introduce a quality management system such as quality control:** Here the product is checked at various points through the production process to determine if it is meeting the pre-determined standard. Any products that don't meet this standard are discarded and the problem with production is identified and rectified, reducing future wastage issues.

### study on

- Unit 4
  - AOS 2
  - Topic 2
  - Concept 4
- KPIs: cost cutting and initiation of lean production techniques**  
Summary screen and practice questions

### study on

- Unit 4
  - AOS 2
  - Topic 2
  - Concept 3
- KPIs: increased investment in technology and improving quality in production**  
Summary screen and practice questions

## 7.2 Management strategies to respond to key performance indicators

- **Implement lean production:** This is a business-wide integrated series of systems designed to eliminate waste and inefficiencies in all aspects of production or in the provision of a service.

### Number of customer complaints

Customers are the people who have a large say in the success or failure of a business. If customers are unhappy they will stop using the services of the business and may even convince others to stop using the business by explaining their negative experience of the business. In responding to increasing customer complaints a manager may:

- enrol staff in training programs to better equip them for their role and/or improve their skills in dealing with customers.
- improve the quality of the products produced or provided. This strategy has been discussed a number of times already in reference to responding to key performance indicators. Quality products generally mean consumers are more likely to be satisfied. Concerns may then focus only on price or service. Quality can be achieved through the introduction of a quality management system, be it quality control, quality assurance, total quality management or some other system.
- reduce the price of the product or service by making savings in production or service provision and passing these savings onto customers. Balancing cost savings and quality can be difficult, so managers must determine which area to focus on and which strategy will reduce the number of complaints made by customers.

### Number of workplace accidents

Workplace accidents can occur for many reasons. These include:

- employee distraction
- unmotivated employees
- employees poorly trained in the use of equipment
- lack of business compliance with the requirements of occupational health and safety legislation.

To reduce workplace accidents the business should ensure it is complying with all workplace laws and requirements, consulting staff about improvements to facilities and scheduling regular maintenance of equipment and audits of the workplace.

In addition to compliance with the legal requirements of workplace safety, businesses can provide regular training opportunities for staff to maintain or improve their skills in relevant areas. Reducing the number of workplace accidents will reduce costs, improve morale and satisfaction of staff, and lead to improved productivity.



#### TEST your understanding

- 1 Explain what is meant by a strategy.
- 2 Explain what is meant by a key performance indicator and outline how they can influence managers to change the business.
- 3 Explain how introducing a quality management system is a strategy that can address a range of key performance indicators.
- 4 'Training is a key strategy in improving key performance indicators relating to staff morale.' Analyse this statement, stating whether or not you agree or disagree.
- 5 Select two key performance indicators, outline what information they provide to a manager and/or business owner and describe a strategy to improve each key performance indicator.

#### APPLY your understanding

- 6 Working in pairs, outline two strategies a manager could implement to reduce the levels of waste created by the business.
- 7 Using your experience working on a part-time basis (students can work in groups to ensure each group includes a student with a part-time job), explain how training might be used to improve customer service and increase sales. Share your responses with the rest of the class.



# 7.3 Management strategies to seek new business opportunities both domestically and globally



**KEY CONCEPT** Key performance indicators are only one source of change for a business. New business opportunities are also a source of change.

## Domestic opportunities

New business opportunities can arise from within the existing domestic market in which a business operates. It is the role of the manager to seek new business opportunities to increase market share. To that end managers need to identify opportunities and devise strategies that will allow the business to take advantage of domestic market movements.

### Multiple branding

Multiple branding is a strategy where one business sells multiple brands in the same market. While customers feel as though they have a wide variety of choice in product, their money is generally being directed towards a few major businesses because most brands are owned by one or two businesses. An example can be observed within the shampoo market — there are numerous brands, but only a few businesses actually manufacture the product.

A multiple branding strategy has advantages because it means one business holds more shelf space, leaving less space for competitors' products; fills all price and quality gaps by providing cheaper options; saturates a market; and caters to brand-switchers who like to experiment with different brands.



Different types of packaging and marketing are used to differentiate products that come from the same business.

### Product differentiation

Product differentiation is a strategy where a business will use brand names and advertising to establish some key differences between their product and substitutable products. In markets where there is considerable competition, it can be difficult for a particular product to stand out, make a name for itself or gain a foothold in the market if it is a new product.

Product differentiation can allow businesses to make their product stand out as the product is designed or marketed in a manner that involves a brand name that makes it appear different to the existing products on the market.

#### study on

**Unit 4** Management strategies to seek new business opportunities both domestically and globally

**AOS 2**

**Topic 1**

**Concept 5**

Summary screen and practice questions

## 7.3 Management strategies to seek new business opportunities both domestically and globally

### Franchising

Another alternative a manager/owner could investigate is to franchise their business. Franchising allows one business to operate under the trading name of another business's established brand and sell its products and/or services for a specified period. Establishing a franchise allows a business to expand its operations and market share without the need to borrow large amounts of capital, manage new stores, hire new staff or be involved in the day-to-day operations of the business. Baker's Delight is an example of a small bakery that expanded through the franchising of its name and products.



Domino's is an American pizza chain that has expanded throughout Australia using franchising. The 500th Domino's store in Australia opened in 2013.

### Business Victoria

When wanting to expand it is often difficult for a business owner to know where to start. Questions such as 'How is it best to grow the business?' and 'How can the business take advantage of new opportunities?' arise in the course of conducting the operations of a business. Advice can be sought from Business Victoria which can aid a company in seeking a direction for the future. Business Victoria is a government department that provides assistance to businesses across Victoria and is currently providing specific programs and funding in areas such as:

- New Energy Jobs Fund
- funding grants to support job-creating projects in Melbourne's north, west and south-east and the Geelong region
- providing Small Business Victoria workshops designed to assist businesses who are ready to grow
- funding of the Small Business Bus which tours Victoria, bringing expert advice and business assistance to regional businesses.

### Global opportunities

Expanding a business's market share domestically is attractive because it is likely to be seen as easier and cheaper, with fewer international laws and customs to deal with, and no language barriers or long travel times. However, Australia is a relatively small market and the ability to operate on a global scale provides numerous opportunities for a business to become more successful and increase its market share.

What opportunities are available for a business to take advantage of on a global scale? What strategies could a business use to take advantage of opportunities in a global market?

## Austrade



Austrade is the Australian Trade and Investment Commission. The role of this government body is to advance Australia's international trade and education, investment and tourism interests by providing information, advice and services. This is achieved by making connections overseas, actively promoting Australian businesses and capabilities and providing market information.

Austrade specifically helps Australian businesses, education institutions, tourism operators, governments and citizens as they:

- develop international markets and promote international education
- win productive foreign direct investment
- strengthen Australia's tourism industry.

## Online shopping

Another means of expanding globally is through the creation of an online shop and platform. Many businesses offer customers the ability to browse available goods and services via the internet, order items and services, purchase, pay online and organise the shipment of goods. This allows the whole world to be a potential market for the business, encouraging the expansion of the customer base, sales and potentially increasing their market share.



### TEST your understanding

- 1 Explain why it is important for businesses to seek new opportunities.
- 2 Explain the difference between multiple branding and product differentiation.
- 3 What are the benefits of expanding domestically?
- 4 What are the benefits of expanding globally?
- 5 Explain how the internet has allowed businesses to expand both domestically and globally.

### APPLY your understanding

- 6 Use the **Business Victoria** weblink in your eBookPLUS and write a report outlining how this business can assist businesses take advantage of new markets.

**eBookplus**

**Weblink  
Business Victoria**

- 7 Use the **Austrade** weblink in your eBookPLUS and write a report outlining how this government department can assist a business wishing to begin exporting overseas.

**eBookplus**

**Website  
Austrade**

- 8 Select a product from the following list, then visit your local supermarket. Identify the number of brands sold in that product market. Read the labels and identify the manufacturers of those products.
  - Dog food
  - Breakfast cereals
  - Shampoos
  - Laundry powders
  - Dishwashing and dishwasher detergents
  - Toothpaste

# 7.4 The principles of the Learning Organisation (Senge)



**KEY CONCEPT** Peter Senge is an American scientist who developed a theory relating to learning organisations in the 1990s.



## The learning organisation

Senge developed the concept that all businesses were 'learning organisations'. By this he theorised that all businesses are dynamic entities, constantly having to adapt and improve, in an effort to develop into the type of business they aspire to be, often as outlined in their mission and vision statements. He theorised that learning organisations are those businesses where managers and staff continually seek to expand their capacity to achieve the results they desire. He believed these types of businesses encourage new patterns of thinking and operating, resulting in the aspiration of the business becoming more open-ended.

Change is considered to be a continuous and evolving process. Given this, it is only natural for a business to be continually on the lookout for change and opportunity. By constantly seeking change, a business is evolving and continually learning in an effort to improve and maintain market share, sales and profits. This attitude towards learning, development and change also allows a business a far greater chance of achieving set objectives.

In identifying businesses as 'learning organisations', Senge described five principles or disciplines that he believes are necessary to generate a learning organisation. These principles are:

- systems thinking
- personal mastery
- mental models
- building shared vision
- team learning.

### study on

Unit 4

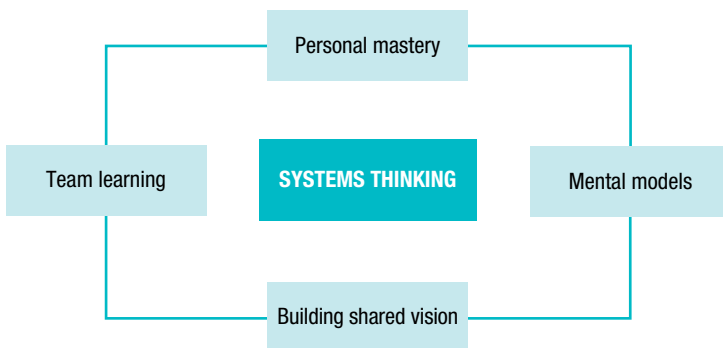
**The principles of the Learning Organisation (Senge)**

AOS 2

Topic 3

Concept 1

Summary screen and practice questions



The four disciplines of systems thinking

## Systems thinking

According to Senge, systems thinking is 'the cornerstone of the learning organisation.'

Systems thinking is the ability to see the big picture, to look beyond what is occurring just within a business. Senge stated that businesses did not operate in isolation, nor do individuals within a business operate in isolation either. Businesses and managers must undergo a paradigm shift from being unconnected to interconnected to the whole. They must see change as arising from patterns that are occurring or have occurred and not as an isolated event.

External forces and factors of change can also lead the business to the realisation that current methods of operation and action are exacerbating pre-existing issues within the company. This in itself can further encourage and necessitate change.

It is with this concept that Senge believes the other four disciplines come into play as systems thinking needs the other four disciplines to enable a learning organisation to be realised.

## Personal mastery

'Organizations learn only through individuals who learn. Individual learning does not guarantee organizational learning. But without it no organizational learning occurs.' (Senge, 1990, p.139)



Mastering one's personal and professional life includes:

- developing competence and skills
- developing the ability to focus energy
- looking objectively at oneself, one's abilities and weaknesses.

Personal mastery involves the people within a business developing proficiency; that is, the ability to undertake continual learning or development to continually show improvement and movement towards achieving the goal or vision the person has set for themselves. This can be achieved through training and development, performance management and appraisal, as well as career progression.

If the individuals within a business are able to continually improve then the business will also improve as these people will be less resistant to change and may in fact drive change as they feel the change will allow them to get closer to the vision they hold for themselves. This will assist the business to change if the vision of the individuals align with the vision of the business.

## Mental models

Mental models are 'deeply ingrained assumptions, generalizations, or even pictures and images that influence how we understand the world and how we take action' (Senge, 1990, p. 8).

To allow the business and individuals to change, the discipline of mental models requires businesses (and individuals) to look inside themselves. Businesses need to be able to scrutinise what they do, their systems and processes and then act upon what they learn. For this to occur it will be necessary for people to learn new skills and develop new orientations, and for there to be institutional changes that foster such change.

The aim is to move the business in the right direction, which will entail working to go beyond the sorts of internal politics and game playing that dominate traditional businesses, through openness and honesty and the sharing of responsibility.

## Building shared vision

Peter Senge starts from the position that 'it's the capacity to hold a shared picture of the future we seek to create' (1990, p. 9). Having a shared vision will motivate all members of the business. It will encourage risk taking, and experimentation, and foster innovation. People who work within the business, who adopt this shared vision, will see the long-term picture of the business and so a commitment to the business and to learning will further develop.

This shared vision is different to the vision statement of a business. The shared vision, if genuine, will see people excel and learn, not because they are told to, but because they want to. Leaders who seek to build a shared vision require a set of principles and guiding practices that will move their vision from a personal vision to a shared vision.

Senge also states that where a shared vision will foster genuine commitment and enrolment rather than compliance, leaders must recognise that attempting to dictate the vision may be counter-productive. People must come to this shared vision themselves, through learning, through a desire to extend themselves and through being innovative. The opportunity to talk, share, communicate in a clear and honest manner will reinforce the vision among believers and spread the vision further.

## Team learning

Team learning is described as 'the process of aligning and developing the capacities of a team to create the results its members truly desire' (Senge, 1990, p. 236). This concept builds on the disciplines of personal mastery and shared vision — but these are not enough. To be a learning organisation, the business needs to go further. People need to be able to act together. When teams learn together, then the business will

## 7.4 The principles of the Learning Organisation (Senge)

achieve improved results, but importantly, members will grow more rapidly than could have occurred otherwise.

The discipline of team learning starts with what Senge referred to as ‘dialogue’. Dialogue is the concept of communicating openly, through the capacity of members of a team to suspend assumptions and enter into a genuine ‘thinking together’.

If teams or groups within a business are able to have a dialogue together, free from bias and pre-conceptions, then greater learning will occur and the business will achieve better results. It will further enhance learning and assist the business in becoming a learning organisation.

### Leading the learning organisation

Peter Senge argues that learning organisations require a new view of leadership. Traditional leadership where leaders are those who set the direction of the business, make key decisions and energise staff is, according to Senge, an individualistic and non-systemic model of leadership. People who work for these traditional-style leaders are seen by Senge to have a sense of powerlessness, and lack personal vision and an inability to master the forces of change.

In a learning organisation, leaders are designers, stewards and teachers. They are responsible for building businesses where people continually expand their capabilities to understand complexity, clarify vision and improve shared mental models.

#### Leader as designer

The policies, strategies and systems are the key area of design. The first task of the designer is to design the governing ideas of the business — the purpose, vision and core values by which the business should operate. The leaders’ task is to design the learning processes whereby people throughout the business can deal with the issues they face, and develop their mastery in the learning disciplines described above.

#### Leader as steward

The notion of a leader as steward is that stewardship involves a commitment to, and responsibility for the vision, but it does not mean that the leader owns it. Leaders are stewards of the vision. Their task is to manage the vision for the benefit of others — they have to learn to listen to other people’s vision and to change their own where necessary.

#### Leader as teacher

The concept of a leader as teacher is not about ‘teaching’ people how to achieve their vision. It is about fostering learning for everyone. Such leaders help people throughout the business develop systemic understandings. Leaders have to create and manage tension, especially around the gap between vision and reality.



#### TEST your understanding

- 1 Define ‘learning organisation’.
- 2 List the five disciplines of Senge’s learning organisation.
- 3 Why do you believe it is important to build a shared vision for a business?
- 4 What is meant by team learning? Provide examples from your experience where team learning exists.
- 5 Explain the role of a leader in a learning organisation.

#### APPLY your understanding

- 6 Explain the link between the five disciplines as explained by Peter Senge. In your response, describe why systems thinking is considered the cornerstone of the five disciplines.
- 7 Explain the three roles of leadership in a learning organisation and distinguish them from the traditional role of a leader.

# 7.5 Low-risk strategies to overcome employee resistance

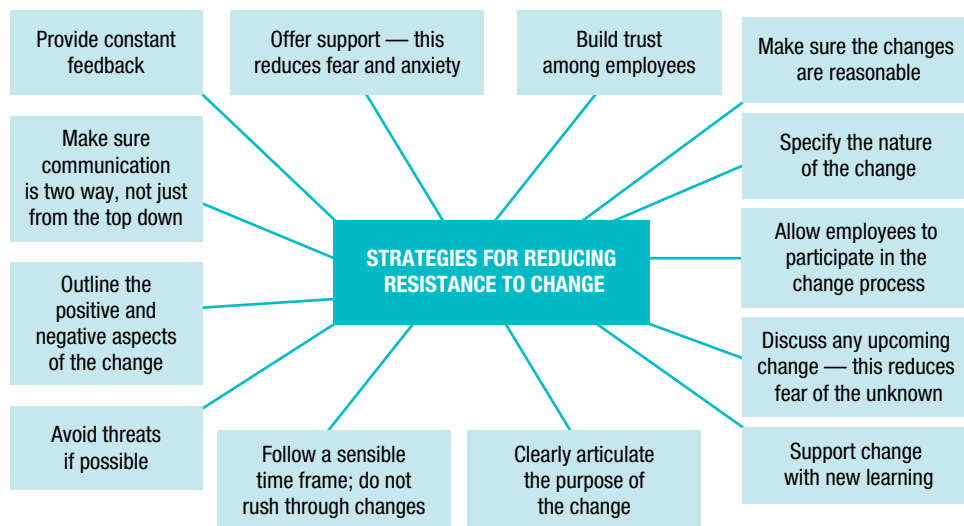


**KEY CONCEPT** Employees are often fearful of change and resist any change. Strategies are needed to overcome their resistance.

## Implementing change effectively — low-risk strategies

Businesses often fail to manage change well. Their record tends to be poor because, in the upheaval of a restructuring process, employees — the most crucial group of all — are often neglected. As well, existing communication channels often break down in the highly emotional climate that surrounds a change program. Low-risk strategies to achieve successful change rely on communication, employee involvement in the change process, training, support and negotiation.

A great deal of research has been conducted on the most appropriate methods to reduce resistance to change. The majority of this research indicates that the environment created by the manager or supervisor can greatly affect employee acceptance, regardless of where or how a change originates. The figure below outlines several strategies for creating a positive, low-risk environment for change.



Low-risk strategies for reducing resistance to change

### Communication

The greater the sharing of information during the change process, the greater the level of trust between management and employees. Maintaining open lines of communication assists in the sharing of information at all levels of the business. As communication is a two-way process, leaders and managers also need to ensure that they provide all employees with the means to communicate their feedback, both positive and negative, to those leading the change.

### Empowerment

It is important that employees feel they have the opportunity for input into those decisions that have a direct effect on what they do or how they operate within the business. Top-down direction can lead to mistrust and lack of confidence in this process. Encouraging negotiation processes can empower employees and enhance the support they show and give for the direction of the change.

Giving all employees the opportunity to participate in teams, working together on clearly specified tasks, allows everyone to ‘buy in’ to the process. The business should

#### study on

Unit 4

AOS 2

Topic 1

Concept 2

**Low-risk strategies to overcome resistance:**  
**Communication and empowerment**

Summary screen and practice questions

# 7.5 Low-risk strategies to overcome employee resistance

A **change agent** is a person or group of people who act as catalysts, assuming responsibility for managing the change process.

also identify individuals who can act as supportive **change agents**. Such people fulfil a crucial role in helping to establish a positive and supportive culture.



Empowering employees by giving them the opportunity to take part in negotiations can help them to buy into the change process.

## DID YOU KNOW?

'Employees who are not informed about why changes are necessary will ultimately resist such changes', says Hannah Russell, a change management consultant. 'When they do not get the information they need, they turn to the rumour mill with all its inaccuracies.'

## Support

Business change may result in some positions being terminated, so those likely to have their employment terminated need to be given appropriate support. This could involve the provision of assistance to find new employment. This sort of support is not only essential for the employee leaving the business, but is also important for maintaining the morale of other staff. If employees see their friends being treated poorly, they will be less supportive of the change process.

Employees who remain at the business following any job losses will also feel supported if they feel the business has confidence in them going forward. This can often be demonstrated through the provision of training for these employees. Training in the new processes or practices will see morale and confidence grow and resistance will be lowered.

## Incentives

Employee resistance can be overcome by providing incentives. This strategy could involve

- providing bonuses
- offering promotions
- offering training and career advancement
- providing the opportunities of additional responsibility
- encouraging greater autonomy for employees.

Businesses often provide incentives to customers such as, 'introductory offers', 'buy one get one free' offers to incentivise customers. Similar strategies can be employed with staff provided management is able to present the incentives as something other than a bribe. This type of strategy can reduce resistance as employees will feel that the business has faith in their abilities and is willing to move forward with these employees 'on board'.

### study on

Unit 4

AOS 2

Topic 1

Concept 3

**Low-risk strategies to overcome resistance: Support and incentives**

Summary screen and practice questions



## What is a team?

In 1972, a group of rugby players, their friends and families left on a flight for Chile from Uruguay. The plane crashed into the snow-covered mountainside, killing 13 of the 45 passengers on board the aircraft. The outside world thought that all 45 people on board had disappeared.

Without any provisions, some of those left alive resorted to devouring the dead. Those who refused to eat the human flesh died of starvation. After 70 days in the mountains, 16 survivors were rescued and taken home. In the most gruesome manner, a group of people banded together as a team with a singular goal of survival.

What makes a team when there is no sense of threat? Teams will form around a common goal that provides them, individually and collectively, with a challenge that they take responsibility for and that can give them increased self-esteem. For example, assume your goal is to increase repeat business from 10 per cent of turnover to 15 per cent of turnover in six months, as you know the selling cost to repeat customers is one-tenth the selling cost to new customers, and the margin on repeat customers is 25 per cent higher, because they require fewer discounts. To have a higher probability of success, this clear simple goal needs to connect with all staff so that they are motivated to achieve it.

The goals should tell a story of the increased customer satisfaction that drives increased repeat sales, the easier selling process with repeat customers, the reduced need to deal with customer complaints, the increased security of employment, the increased ability for the business to grow and employ more people, the increased opportunities for promotion and more responsibility in a growing business, and the increased ability of the business to contribute to the local community and indirectly help the families who have people working in the company.

Explained this way, each single contribution to delivering the goal is seen as doing much more than reaching a corporate goal. Contributing as a team has a multiplier effect. The whole becomes clearly more than the sum of the parts.

Source: Extracts from 'What is a team', [www.changefactory.com.au](http://www.changefactory.com.au).



Teamwork encourages a supportive environment which lowers resistance to change.

• A team will form around a common goal. •



### TEST your understanding

- 1 Explain what is meant by a low-risk strategy for implementing change.
- 2 Select three strategies shown in the figure on page 229 and explain why they are classified as low risk.
- 3 Outline two reasons why it is important to provide support for a person whose employment is to be terminated as a result of change in a business.
- 4 Explain the role of a change agent.
- 5 Explain how incentives differ from bribes and why they can be an appropriate strategy for managers to adopt.

### APPLY your understanding

- 6 What types of tactics to reduce resistance to change have you observed recently? Were they successful in achieving their outcome?
- 7 Read the case study above. According to the author,
  - (a) what causes teams to form?
  - (b) why is it important to clearly communicate to employees the goals of the change?
  - (c) 'The whole becomes clearly more than the sum of the parts.' What does this mean?

# 7.6 High-risk strategies to overcome employee resistance



**KEY CONCEPT** Another approach to overcome resistance is to force through the resistance.

## Managing change effectively — high-risk strategies

The range of tactics examined so far relies on communication, involvement, support and negotiation — low-risk tactics. At the other end of the spectrum are some high-risk tactics. They are considered high risk because their failure may generate negative outcomes. These tactics run the risk, for example, of generating ill feeling between employees and employers, which can permanently damage working relationships. Ultimately, any gains made may be outweighed by the instability within the business.

### Manipulation

If a business wishes to introduce new technology, it may inform its staff of the exciting new training and promotional opportunities that the change will provide. However, it may withhold the fact that the new technology will result in a number of forced redundancies. This is an example of **manipulation**. Manipulation involves exerting undue influence over an employee that may be deceptive in order to get them to behave a certain way. While some people regard manipulation as skilful or artful, others argue that it is deceptive and devious and therefore an unethical practice.

**Manipulation** is the skilful or devious exertion of influence over someone to get them to do what you want.

• ... manipulated people often feel tricked, and that eventually results in them displaying greater resistance to any change.<sup>9</sup>

#### study on

Unit 4

AOS 2

Topic 1

Concept 4

**High-risk strategies to overcome resistance: Threats and manipulation**

Summary screen and practice questions

### Manipulate at your own peril!

At some point we have all used manipulation to get our own way. However, 'getting what we want' using this method is loaded with dangers. This is because manipulated people often feel tricked, and that eventually results in them displaying greater resistance to any change.

A mistake some managers make is thinking they are motivating people when in reality they are manipulating them. Motivation is based on being truthful with people. Manipulation is often untruthful, and involves saying whatever needs to be said to get the result that is required, regardless of future consequences. This is a serious error. According to author and motivational speaker Zig Ziglar, 'Manipulation self-destructs the individual doing the manipulating. Word gets out on manipulators and people grow less and less likely to respond in a positive manner to their manipulation.'

Many managers who use manipulative techniques do so because they lack the skills to deal with disagreement.



The danger with manipulation — pulling the strings — is that this practice can backfire if the person recognises what is being done and feels used. Manipulating employees also raises many ethical questions, not least of which is the abuse of power and authority.

### Threat

A manager who will not or cannot invest the time and effort required for the other tactics may resort to the use of power to force change resisters to conform. This tactic usually involves some type of direct or indirect threat. Threats may involve loss of promotion, transfer, overtime or ultimately, termination. A business that faces

competition from imported products, for example, may advise its staff of the need to change work practices and accept a reduction in entitlements in order to lower the costs of production — or alternatively, four staff positions will have to be terminated. For example, in 2006, Qantas flight engineers were given an ultimatum by senior management that job losses would occur if current work practices and manning levels were not changed. This threat ultimately resulted in prolonged industrial action, causing disruption to the business through numerous flight delays.

The danger with this tactic is that people may appear to be compliant on the surface but are resentful underneath. This can lead to an increase in resistance, possibly culminating in industrial sabotage, grievance complaints, compensation claims for stress and harassment, and industrial disputes. While the threat tactic may be used in some situations that require a speedy response, constantly relying on it as a 'quick fix' may obstruct future changes.



Threats may cause the recipients to submit, but become more resentful, which escalates the resistance.



### TEST your understanding

- 1 Explain what is meant by a high-risk strategy when implementing change.
- 2 In what ways are manipulation and threat high-risk tactics for the achievement of effective change management?
- 3 Do you regard (i) manipulation and (ii) threats as unethical business practices? Why? Share your answer with the rest of the class.
- 4 Identify some possible negative consequences of high-risk tactics in order to reduce resistance to change.
- 5 Identify other high risk strategies a manager might use to overcome resistance to change.

### APPLY your understanding

- 6 Would an autocratic manager tend to use low or high-risk tactics to reduce resistance to change? Give reasons for your answer.
- 7 Read the case study above. In small groups, discuss the ethical dilemmas encountered when using manipulation as a tactic to reduce resistance to change. Select a spokesperson, then share your answer with the rest of the class

# 7.7 Key principles of the Three Step Change Model (Lewin)



**KEY CONCEPT** Kurt Lewin, in addition to developing his force field analysis, also developed the Three Step Change Model.

## study on

Unit 4 **The principles**

AOS 2 **of the Three**

Topic 3 **Step Change**

Concept 2 **Model (Lewin)**  
Summary screen  
and practice  
questions

## Lewin's Three Step Model

Kurt Lewin developed a seminal theory on the best approach for a business to manage change. Lewin believed that change occurs at many levels within a business, be it a large-scale or a small business. He suggested that change can occur at the individual level; that is, that each individual within the business is capable of undergoing change.



Kurt Lewin was a German–American psychologist who is known as one of the founders of social psychology.

argued that to change effectively, a business needed to 'unfreeze'. To unfreeze means to identify what needs to change, all relevant aspects of the business need to be 'put on the table' and the need for change needs to be created. Current conditions need to be identified and changed. Employees also need to know that support is available from management to assist in the change process.

Unfreezing the business changes the status quo — the conditions in which the business is currently operating.

## Step 2 — Change

With the business in this unfrozen state, with all processes, policies, practices able to be changed and the necessary support in place, management is now able to move the business to the new position; that is, to change what is occurring. Support is still provided and in addition, the lines of communication are opened so employees are able to seek guidance and feedback on what is taking place. All communication should be transparent so any rumours can be quickly dispelled.

Lewin suggested that change could occur at a structural or systemic level. The business could undertake change that resulted in a new management structure or new systems that allow the business to operate more efficiently. He also suggested change could occur from inside the business through the culture of the business and the style of management in place within the business.

Lewin identified these three levels of change and incorporated all three levels into a change management theory. He described his theory as the Three Step Change Model.

## Step 1 — Unfreeze

Businesses often become comfortable in the position they are in and change, or the pressures for change, can make it difficult for businesses to accept the need for change. Lewin

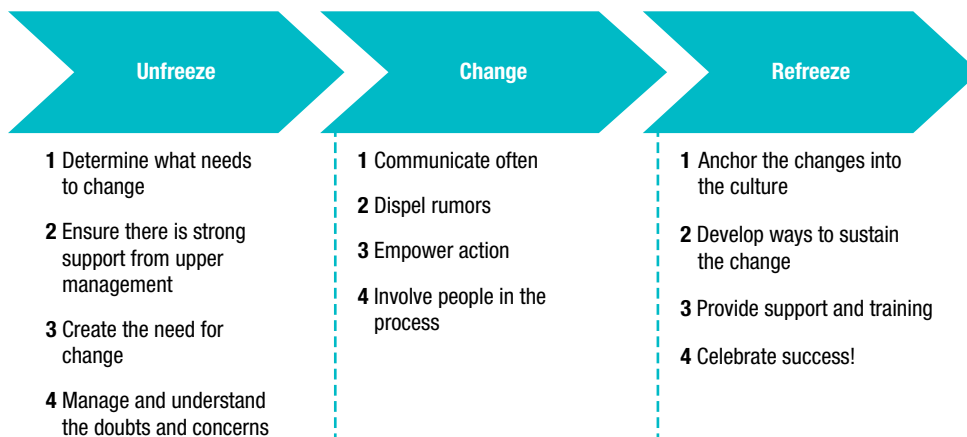


The necessary, key staff are empowered to implement the required change and all relevant people are involved in the process. This reduces resistance and makes it easier for the change to be implemented effectively.

## Step 3 — Refreeze

The fear with undertaking change is that if it is not implemented correctly then the impetus for change will fade and staff will revert to how the business was before — adopting the previous behaviours, following old policies and procedures, and falling back into outdated and outmoded practices.

It is important that the business consolidate the changes into the culture of the business. This can be done by rewriting policies, celebrating achievements, and maintaining support and encouragement for all staff, some of whom may still be uncertain or resistant to the changes.



Lewin's Three Step Change process — practical steps

### Lewin's theory can be summarised by looking at the example of a coin in a cup of ice

Suppose someone gave you a plastic cup filled with clear, solid ice. At the bottom of the cup is a twenty-cent piece lying heads up. Now, suppose you want the twenty-cent piece to be frozen in a tails-up position. What can you do to bring about this desired change? There is only one practical solution. You let the ice in the cup thaw (unfreeze), reach in and turn the coin over (change) and then freeze (refreeze) the cup of water. This is how Lewin recommended that change be handled in businesses.



#### TEST your understanding

- 1 Explain why it is important for change to be implemented effectively.
- 2 Explain why adopting a model for implementing change can make the implementation more effective.
- 3 What are the three levels of change identified by Kurt Lewin?
- 4 Describe Lewin's theory of change management.

- 5 Explain why it is important for a business to 'refreeze' once change has been implemented.

#### APPLY your understanding

- 6 Using your school as an example, outline a recent change in policy. In your response outline why the change was introduced and how stakeholders were informed. Was the change successful?

# 7.8 The effect of change on stakeholders including managers, employees, customers, suppliers and the general community



**KEY CONCEPT** Whenever a business undergoes change there are going to be effects. What those effects are and how they are managed is important.

## study on

**Unit 4** Effects of change on managers, employees and customers  
**AOS 2**  
**Topic 4**  
**Concept 1**

Summary screen and practice questions



Many businesses are starting to realise that a team approach can be a catalyst for superior performance.



Considering that employees are a business's most valuable asset, it is important to manage transformational changes sensitively and professionally.

## The effect on stakeholders

Stakeholders have an interest in the activities of a business. If the activities of a business change then the interest of those stakeholders will also change. The impact can be either positive or negative, depending upon the change that has occurred.

### Effect on managers

When a change is undertaken there are numerous possible effects on the manager of a business. Some of these effects are summarised in the following table.

Effect	Explanation
Change of management style	A change may require managers to change their management style. If redundancies result from the change, managers may need to be more consultative in dealing with employees who are facing redundancy.
Change of processes	Change may stem from new technology being introduced into the industry/business. This may require managers to alter their recruitment and selection processes to reflect the need for individuals who possess the knowledge and skills required to handle the changing circumstances.
Change of structure	A change in the way the business operates may necessitate a change in the management structure of the business. New divisions or departments may open up opportunities for a new manager and new teams.
Change of employment	Some changes may result in the downsizing of the business or outsourcing of a non-core activity. This can result in managers being made redundant as well as employees.

### Effect on employees

Employees are often the ones most affected by any change. We often think of change as leading to job losses through downsizing or outsourcing. However, these are only some of the possible effects of change to employees. Some other effects are shown in the following table.

Change	Effect
Introduction of new technology	Employees will need to undergo retraining or redeployment into other areas of the business.
Business is taken over by or merges with another business	<ul style="list-style-type: none"><li>The culture of the business may change. A new uniform, new vision statement, new values, new employees/team members may all come into play as the new entity develops its own identity.</li><li>The structure of the business may change — new divisions or departments may arise, some may be merged. This may result in new teams and new managers within these new divisions.</li></ul>
New competitors	The business may want to face this new competition by doing things differently. Longer working hours, greater responsibility for existing employees and new processes may be implemented.

### Customers

When a business undergoes change the customers of that business may be affected. Some customers may not like the change, hoping the business will revert back to what it was. Some customers will embrace the change and may even promote the

business to others. An example of this could be seen in the advertising campaign adopted by Aldi in 2015–16. During their campaign, Aldi used regular customers as spokespeople for the business who encouraged friends to try the business. The result was that new customers were gained and pre-conceived ideas were put to rest.

Other businesses have introduced changes over time and been met with a backlash initially before acceptance was won and customers returned. Sometimes it takes time for customers to accept the change and recognise there is no going back. Examples where this has occurred can be seen with the introduction of ATMs at banks, self-serve checkouts, the transition of Safeway stores in Victoria to Woolworths stores and the introduction of the Myki ticketing system for Victoria's public transport system. These changes were met with resistance from customers, but now they are generally accepted.

## Suppliers

Change can bring new methods of production, new training programs for employees and hence new suppliers for a business. For some suppliers this creates opportunities as they gain additional customers for their product/service.

On the other hand, these new methods of production may lead to outsourcing, where businesses rearrange their workforces to employ a minimum full-time staff and use as many people from outside the business as possible on a contract, casual or part-time basis. In some cases these employees are based overseas and so, while the original business is able to keep labour costs to the lowest possible level, local suppliers lose income and staff.

## The general community

When change occurs there can be a negative impact on the general community or a local community. In 2017 it is expected that both Ford and Holden will cease manufacturing motor vehicles in Australia. Already there has been a slow decrease in the workforce of these businesses as they slowly downsize. As this occurs, the local communities suffer as the employees are losing income, reducing their spending and causing local businesses to lose sales. The closures have a 'spin-off' effect on other businesses.

This effect is often more evident in smaller towns where there is only one major employer. Communities suffer when there is reduced employment in that community and less money being spent.

### study on

Unit 4

AOS 2

Topic 4

Concept 2

**Effects of change on suppliers and general community**

Summary screen and practice questions



Car industry plant closures may have a negative impact on local and general communities.



### TEST your understanding

- 1 Explain how change may impact managers both positively and negatively.
- 2 Explain how the culture of a business can be negatively impacted by change.
- 3 Change can improve the skills of the workforce. Discuss how this may occur.
- 4 What are the benefits to customers of change?
- 5 Why are alterations to the management of human resources necessary in response to change?
- 6 In 2013, Telstra employees protested at the company's AGM against call centre jobs being outsourced to other countries.

- (a) Explain how outsourcing may affect suppliers.
- (b) List reasons why Telstra employees protested against the possible outsourcing of jobs.
- (c) What are the possible benefits to customers that outsourcing may bring?

### APPLY your understanding

- 7 Use the internet to investigate an example of a small rural area that has suffered a decline in business numbers and/or population due to the closure of a significant business. Write a report describing the impact on the local community and suppliers.
- 8 Discuss how a change in a business may have a differing effect on the managers and employees of that business.

# 7.9 Corporate social responsibility considerations when implementing change



**KEY CONCEPT** Whenever a business undergoes change there are effects on numerous areas of the business. One such area is the corporate social responsibility position of a business.

**Corporate social responsibility** involves managing business processes in order to produce an overall positive impact on the community.

**Triple bottom line** refers to the social, economic and environmental performance of a business.

## study on

Unit 4  
AOS 2  
Topic 4  
Concept 3

**Corporate social responsibility considerations when implementing change**

Summary screen and practice questions

**Ecological sustainability** occurs when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs.

**Business ethics** is the application of moral standards to business behaviour.

## Corporate social responsibility as a driving force

During the past 20 years there has been growing pressure on businesses to improve their **corporate social responsibility**. Corporate social responsibility is a corporation's initiatives to assess and take responsibility for the company's effects on environmental and social wellbeing. The term generally applies to efforts that go beyond what may be required by regulators or environmental protection groups.

The heart of corporate social responsibility is adopting a **triple bottom line** approach and monitoring changes against this standard. The triple bottom line is a phrase describing the separate financial, social and environmental 'bottom lines' of companies. A triple bottom line measures the company's

- economic value
- 'people account', which measures the company's degree of social responsibility
- 'planet account', which measures the company's environmental responsibility.

The desire to be seen as a socially responsible business will often drive businesses to undertake change to improve their profit, but at the same time to do so without further damaging the environment, mistreating employees, suppliers or customers, as well as giving back to the community in which they operate.

## Ecological sustainability as a driving force

**Ecological sustainability** is an area of significant corporate social responsibility that businesses must consider. The Earth is a fragile system that we need to take care of, so it can maintain itself. The health of the natural environment has a direct impact on society's quality of life. Consequently, a business needs to balance economic and environmental concerns. In other words, businesses are being driven to undertake sustainable development. Businesses are being asked to take increasing responsibility for the protection of the environment, recognising that the pursuit of profit should not be

at the expense of the environment and that the business has an obligation to leave the environment as they found it.

## Business ethics as a driving force

**Business ethics** is not concerned with legal obligations, but with what is morally right or wrong — and all the shades of grey in between. Businesses want to be seen as responsible corporate citizens, conscious of the high ethical standards expected of them by their customers and society at large. As such, businesses will make changes to policies, processes and practices to ensure they are seen as ethical.



Victorian surfacing manager George Hatzimanolis and production coordinator Simon Jordan at the launch of TonePave, a road surfacing material made from recycled printer toner cartridges.



## Change management strategies

There are a number of change management strategies businesses can implement to meet corporate social responsibility expectations. Some examples of these strategies include the following.

- The social conscience of responsible managers has led them to adopt policies of conservation, recycling and restoration. For example, surfwear manufacturer Billabong has developed its own environmental policy. Billabong will conduct business only with partners who share its commitment to the environment.
- Businesses evaluate the full environmental effects of their operations. This can be done by preparing a **sustainability report** that details how the business's practices and operations affect society and the environment.
- Production processes need to be modified to bring them into line with ecologically sustainable practices.
- Managers should encourage standards of honesty and integrity, and expect ethical behaviour from all employees.
- Stakeholders must be dealt with honestly and fairly.
- The business should avoid using misleading or deceptive product descriptions.
- Employees should be provided with a safe working environment; their confidential personal information kept secret; and discrimination abolished.
- A corporate code of conduct should be implemented as it provides internal stakeholders with ethical standards to uphold.



Business ethics are concerned with what is morally right or wrong.

A **sustainability report** is a comprehensive report of what a business has done, and is doing, with regard to social issues that affect it.

## Corporate social responsibility considerations

Depending upon the change occurring within a business the corporate social responsibility considerations may differ. Some examples are shown in the following table.

Change	Corporate social responsibility consideration
Change of supplier	Source supplies from a local supplier. If supplies are sourced from overseas, ensure workers are not exploited, are paid fairly and have decent working conditions. Ensure suppliers uphold the same social responsibility standards.
Introducing new technology	Ensure technology does not add to pollution or create additional waste. Ensure workers are given the opportunity to retrain to operate new technology.
Downsizing	Employees are kept informed of changes and processes for redundancies (if needed)
Merger or takeover	Existing employees are treated appropriately by the new management team and all legal obligations are honoured.



### TEST your understanding

- 1 Explain what is meant by corporate social responsibility.
- 2 Why is it important for a business to consider its corporate social responsibility behaviour when undergoing change?
- 3 Explain what is meant by the triple bottom line.
- 4 Outline some corporate social responsibility considerations that need to be taken into account in the following change circumstances:
  - merger of two businesses
  - introduction of new technology
  - changing suppliers.

- 5 Explain how a code of conduct can assist a business in meeting its obligations to corporate social responsibility.

### APPLY your understanding

- 6 Describe strategies that a business could adopt to meet its social responsibility obligations during negotiations with employees over wage rises.
- 7 Describe strategies that a business could adopt to meet its social responsibility obligations during the introduction of self-serve checkouts at its stores.

### PRACTISE YOUR SKILLS

- define, describe and apply relevant business management terms
- research and analyse case studies and contemporary examples of business management applicable to managing change in a business within the last four years
- interpret business information and ideas
- apply business management knowledge to practical and/or simulated business situations
- evaluate the advantages and disadvantages of various strategies in implementing change in a business
- propose and justify strategies to respond to key performance indicators and assist in implementing change in a business.

#### eBookplus

Weblink  
ASX

### Date report

Referring to key performance indicators as sources of change, use the ASX weblink in your eBookPLUS.

Click on the 'Prices and research' tab, then click on 'Company information'. In the box provided type in a company name (e.g. Woolworths) or a company code (e.g. ABC). This will direct you to information regarding the share price of a business and details regarding the share trading activity of the business.

Click on 'Details' to be taken to a link to the company website.

Navigate around both the ASX website for your chosen company and the company website and find information regarding the financial performance of the business. Print out any relevant data relating to the key performance indicators (or other indicators) and paste the data into a Word document or Powerpoint presentation.



### TEST your understanding

- 1 (a) Write a report of approximately 500 words outlining the key performance indicators identified in the data collected. In your report, provide definitions of the key performance indicators and describe any trends you have been able to identify.  
Use a business report style with subheadings, graphs and diagrams to support your text.
- (b) Write a review for the business selected in (a). In this review, outline possible causes of the trend(s) identified in the KPIs used in (a). Conclude your review by providing at least two strategies the business could implement to improve their performance in the KPIs identified.

### APPLY your understanding

- 2 Your study of Year 12 Business Management is almost over. Could you have done better in assessment tasks? Will you get the results you want or deserve? If you had the time again is there anything you would do differently?  
Prepare a report for Year 12 Business Management students for next year. Provide hypothetical data on SAC

results and explain what possible study score those hypothetical SAC results may result in. Devise a list of strategies you believe students could implement to improve those hypothetical results.

To assist you in preparing data on hypothetical SAC results, use the data provided by the VCAA each year on SAC and examination performance. This data is available on the VCAA website (use the VCAA weblink in your eBookPLUS to access this website).

Go to Educators → Senior Secondary (Years 11–12) → Research and Statistics.

Scroll down to Senior Secondary Research: VCE, VCAL and VET → Senior Secondary certificate statistical information. Click on the most recent year listed.

Go to Section 3: Grade Distributions for Graded Assessments VCE.

Go to 'B' and click on Business Management (this can be done for any subject).

By clicking on earlier years, a trend analysis may be prepared as a guide to performance for students.

#### eBookplus

Weblink  
VCAA

# EXTEND YOUR KNOWLEDGE

The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation



**KEY CONCEPT** Businesses use information drawn from key performance indicators to drive change. Once the change has been implemented it is important to review performance in these areas to evaluate whether the business has successfully changed or whether further change is necessary.

## Magnatech Industries — managing change

**This case study of a real business is designed to provide insight into the management of change and the challenges that need to be addressed for long-term survival.**

Magnatech Industries is a large, private company that manufactures rigid plastic injection mouldings for a range of whitegoods manufacturers of refrigerators, freezers and washing machines. Injection moulding is a manufacturing process that involves heating plastic to a fluid state and inserting it into a mould. This process means that a variety of products once manufactured from heavier and more expensive materials can be produced from less expensive plastic materials.

Over the last decade, significant changes in this industry have meant changes to Magnatech's strategic plans, resulting in operational and structural changes. Technical innovation in the external business environment is likely to result in further, wide-ranging change over the next five years.

### Business background

Name of business	Magnatech Industries
Type of ownership/legal structure	Proprietary company
Shareholders	100 per cent Australian owned
International division	Pro Tag International Thailand
Core business function	Plastic injection moulding servicing the whitegoods (refrigerators, freezers and washing machines) industry
Mission statement	To provide technical solutions through high engineering standards which meet the needs of our clients
Employees	115 in Australia, New Zealand and Thailand

### Brief history

The company has a history that stretches back to the 1950s, when a toolmaking business was established by the original owner. In 1972, the company began to make refrigerator, freezer and washing machine mouldings for three Australian manufacturers. In the 1990s, tariff reductions for electronic appliances had a significant impact on the business. Margins on whitegoods dropped by 40 per cent as the domestic suppliers reduced prices to compete with the cheaper imports.

While Magnatech faces both global and domestic competition, it continues to maintain a major share of the domestic market for plastic mouldings for whitegoods. International competition is increasing. Often, a partially loaded shipping container destined for Australia will be topped up with plastic mouldings, which will then be off-loaded on the domestic market at cost price.

There are currently five plants manufacturing refrigeration mouldings in Australia. Three of these are multinational companies that have chosen to make Australia their headquarters for production in the region, due to Australia's political and economic stability.

### The market

Magnatech supplies mouldings to major customers in Australia (with a significant majority of the market share), with production facilities in Australia, New Zealand and Thailand. One of the characteristics of this industry is the increasing pressure to minimise inventories, reduce manufacturing costs, and reduce lead time (the time it takes to convert raw materials into a finished product) from one week to 48 hours.



Magnatech's injection moulding process is capable of producing impact-resistant panels, trays and shelves for refrigerators, freezers and washing machines.

• Magnatech faces both global and domestic competition . . . •

*continued*



Magnatech Industries' manufacturing process is fully automated, resulting in lower per unit costs of production.

Export markets are a source of revenue that reduces the risk involved from domestic competitive pressures.



When Magnatech adopted a total quality management approach, it emphasised teamwork and shared responsibility for achieving business objectives.

Magnatech currently produces tinted trays and shelving for refrigerators and freezers in 10 different colours. While Magnatech maintains a stock of white internal mouldings, the coloured trays and shelves are made to order. With industry pressure to reduce lead times, Magnatech can generally produce orders for standard colour mouldings within 24 hours. A specialised colour may initially require a lead time of two weeks.

### Changing direction of the business

While there has been a considerable amount of external change in the industry over the past decade, Magnatech's core business activity remains unchanged: injection moulding. However, the strategic plans for the business:

- reflect an awareness of the change in the industry
- acknowledge Magnatech's potential vulnerability in the face of change, particularly as its customer base for core products is a handful of major customers
- incorporate internal changes to ensure long-term survival.

Changes in the direction of the business include the following.

- 1 *Development of new markets, especially export.* Magnatech was initially reluctant to expand internationally because of the difficulties it believed it would face. However, the company soon learnt of the opportunities presented by such an expansion. While still in the developmental stage, Magnatech Industries' export markets are increasingly becoming another reliable source of revenue that reduces the risk involved from domestic competitive pressures.
- 2 *Development of new products, using the skills developed within the core business.* A recent major product development includes the manufacture of a range of security tag devices for clothing retailers. The product, ProTag, has been designed and developed by an associate company, ProTag International (100 per cent owned by Magnatech, including patents and trademarks). As a special releaser is required to extract the tag, products that are displayed are safe from theft. Unlike their core products, which are targeted towards whitegoods manufacturers, the customer base for ProTag is retailers.  
The technology used in the production of the ProTag security system may also be adapted for other product areas. Security systems for aircraft luggage, for example, are currently under evaluation.
- 3 *Site diversification with business expansion in Asia.* Site diversification, particularly with the Thailand plant, has resulted in some significant cost savings and increased market share for the Magnatech Group. Magnatech Asia can take advantage of:
  - access to resins (an input in the production process) at competitive prices
  - the benefits offered by the Australia–Thailand Free Trade Agreement, which reduced the barriers to trade between the two countries.

### Management response to change — internal adjustments

- 1 *Total quality management (TQM).* All aspects of the business are continuously reviewed to ensure value is added and to maximise efficiency for the benefit of the customer. To achieve the TQM objectives, performance indicators such as industry benchmarks are used. The company has successfully developed a workplace culture based on continuous improvement as it believes this will be the most cost effective in the long term.
- 2 *Rationalisation.* The company continues to audit all operations and processes and has recently decided to place some of the manual operations with subcontractors. Any part or product that cannot be fully automated (for example, clicking the parts together) is now outsourced. Subcontractor labour is more cost effective for labour-intensive work.
- 3 *Training.* The majority of the business's employees are multiskilled and there are significant benefits in employee commitment to training. The company has an excellent team and values employee ideas.

If an employee has an idea about changes or refinements to production processes, the company is prepared to submit the idea to trial. Peter Townsend, the managing director, commented that this can sometimes be costly, but in the process of trialling new ideas, employees develop skills that can benefit other areas of the plant.



Over half of Magnatech's employees have at least 15 years of service. Through retirement, the company is likely to lose a substantial amount of experience and expertise. Apprentices have been employed to gain knowledge and skills required for a smooth transition. Magnatech is now embarking on human resource policies that encourage individual expertise.



Magnatech has an excellent team of employees and values their ideas on ways to improve on production.

• [Magnatech] continues to audit all operations and processes. •

- 4 *Ecologically sustainable production.* Over the last five years Magnatech has implemented a '3R' policy: reduce, reuse or recycle. This has benefited both the company, through reduced wastage and more efficient work practices, and the environment. Magnatech also adopted a triple bottom line approach in its financial and non-financial reporting processes.



### TEST your understanding

- 1 Outline some key performance indicators that have impacted Magnatech Industries
- 2 Who are the stakeholders in Magnatech Industries?
- 3 Identify the sources of change that have had an impact on Magnatech Industries over the last decade.
- 4 What new business opportunities have presented themselves to Magnatech Industries?
- 5 (a) What is meant by the terms 'inventories' and 'lead time'?  
(b) Why does Magnatech Industries want to minimise inventories and reduce lead times?
- 6 Outline how Magnatech Industries' strategic plan has been modified as a result of the changes in the business environment.
- 7 What strategies has Magnatech Industries implemented to reduce the consequence of employee retirement?

- 8 Construct a mind map summarising the effect of the changes on Magnatech Industries stakeholders including managers, employees, suppliers, customers and the general community.

### EXTEND your understanding

- 9 How should Magnatech Industries use information regarding key performance indicators to evaluate the change process? In your response explain three specific key performance indicators.
- 10 Discuss whether high-risk or low-risk strategies for overcoming resistance would be more appropriate in this case.
- 11 If you were a manager at Magnatech Industries how would you apply low risk strategies to introduce the changes identified?

# CHAPTER 7 REVIEW

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#### Glossary

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## SUMMARY

### The importance of leadership in change management

- Change requires someone to lead the business through the change.
- A leader who can 'sell' the need for change automatically overcomes one of the main resistance points — that of 'why do we need to change?'.
- A successful leader will need to:
  - market and promote the change in a manner that will achieve cooperation and acceptance
  - resolve conflicts, which often arise when change is implemented
  - keep an open mind, seek out new ideas and freely share information
  - cultivate a sense of stability, while at the same time driving the business forward with even more change
  - show confidence in people, share credit and recognition
  - build and communicate a clear vision.

### Management strategies to respond to key performance indicators including staff training, staff motivation, change in management styles or skills, increased investment in technology, improving quality in production, cost cutting, initiation of lean production techniques and redeployment of resources (natural, labour and capital)

- Advertising can be used to increase market share and sales.
- Introducing training programs can improve productivity, staff turnover, reduce the number of workplace accidents and improve the level of staff satisfactions.
- Improving staff motivation through training, team-building, goal-setting and reward programs.
- Cutting costs can improve performance.
- Investing in technology can improve quality, lower costs and improve performance.
- Lean production can reduce waste and improve productivity.

### Management strategies to seek new business opportunities both domestically and globally

- New business opportunities can be found domestically and internationally.
- Domestic strategies include multiple branding, product differentiation and franchising.
- Global strategies include creating an online store.
- Government assistance can be found through Business Victoria and Austrade.

### The principles of the Learning Organisation (Senge)

- Peter Senge developed a theory that successful businesses were learning organisations.
- A learning organisation is one that continually seeks to change to improve itself.
- There are five disciplines in the learning organisation:
  - systems thinking
  - personal mastery
  - mental models
  - building shared vision
  - team learning.
- Leaders play a key role in the learning organisation.
- Leaders need to be a designer, a steward and a teacher.

### Low-risk strategies to overcome employee resistance, including communication, empowerment, support and incentives

- Low-risk strategies seek to build trust and support from employees so less resistance to change occurs.
- Communication is a low-risk strategy where managers keep employees informed as to what is occurring.
- Empowerment allows employees to feel some ownership or responsibility for the change.

- Support allows employees to feel comfortable and not isolated during the change.
- Incentives, which are not bribes, can lower resistance as employees see a benefit to them.

## High-risk strategies to overcome employee resistance including manipulation and threat

- High-risk strategies have a greater chance of not delivering change effectively.
- Manipulating employees is a strategy that relies on deceiving employees into accepting the change.
- A threat is a means of gaining support for a change but may result in a lack of trust or ownership.

## Key principles of the Three Step Change Model (Lewin)

- Kurt Lewin developed the Three Step Model for managing change.
  - Step 1 is to unfreeze the business and identify what needs to change.
  - Step 2 is to make the change. All policies, processes and practices are now free to be changed as all aspects of the business that need changing have been identified.
  - Step 3 is to refreeze the business. All changes are consolidated into the business policies, culture and objectives.

## The effect of change on stakeholders including managers, employees, customers, suppliers and the general community

- Key stakeholders can be affected by the business undergoing change.
- The effect of change may be positive or negative.
- Managers may need to change their style, restructure the business or change their roles.
- Employees may require retraining, redeployment or face redundancy.
- Customers may need to adapt to a new environment or new methods of service, or a change in quality or price.
- Suppliers may lose contracts, be required to lower costs to remain competitive, or face increased competition.
- The general community may suffer if businesses close or may benefit from expansion.

## Corporate social responsibility considerations when implementing change

- Businesses need to consider the impact of change on society.
- Change should not mean ignoring the obligations of the business to social responsibility issues.

## The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation

- Key performance indicators can drive change.
- When change has occurred the business must review its key performance indicators to evaluate the effectiveness of the change.

## REVIEW QUESTIONS

### TEST your understanding

- 1 What is meant by the term 'leader'?
- 2 Explain why leaders are important during a period of change.
- 3 Briefly outline each of the following:
  - (a) key performance indicators
  - (b) management strategies
  - (c) management styles
  - (d) lean production.
- 4 Referring to specific key performance indicators, explain how changing management styles may improve performance.
- 5 Referring to specific key performance indicators, explain how increased investment in technology may improve performance.

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#### Missing word glossary quiz

Test your knowledge of key terms from this chapter.

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#### Crossword

Check your understanding by completing this crossword on key concepts from this chapter.

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- 6 Referring to specific key performance indicators, explain how improving quality in production may improve performance.
- 7 Explain how multiple branding can create new opportunities for a business.
- 8 Outline the role Austrade and Business Victoria could play in assisting a business take advantage of new opportunities.
- 9 Explain what is meant by a learning organisation.
- 10 List and briefly outline the five disciplines of a learning organisation.
- 11 Explain what is meant by a 'leader as a steward'.
- 12 Distinguish between a low-risk and a high-risk strategy for overcoming change.
- 13 Explain why communication is considered a low-risk strategy.
- 14 Explain why threats are considered a high-risk strategy.
- 15 Outline Lewin's Three Step Theory of change management.
- 16 Outline how change can both positively and negatively affect the general community.
- 17 Outline how change can both positively and negatively affect employees.
- 18 Outline how change can both positively and negatively affect customers.
- 19 Explain why businesses should consider their corporate social responsibility obligations when implementing change.

### APPLY your understanding

- 20 'In order to accelerate change, a leader is needed. This leader may be in the form of a "change agent". Someone in the business may undertake this role or they may come from an external position. The change agent focuses on initiating the change, determining what part of the business should lead the change, the direction of the change and, most importantly, how the change will be sustained. This person often enlists others to be role models of change, sometimes working through a committee or project team.'
  - (a) Discuss the role of a change agent in creating a culture of change.
  - (b) Use a current example from a business to support your discussion.
- 21 'A business without an online presence is a business preparing to fail.' Discuss this statement.
- 22 Describe how Austrade can specifically assist businesses take advantage of global business opportunities.
- 23 Analyse the use of manipulation to overcome resistance to change.
- 24 Analyse how a change in a business that leads to new production methods may impact suppliers and employees.

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## SCHOOL-ASSESSED COURSEWORK

### OUTCOME 2

**Evaluate the effectiveness of a variety of strategies used by managers to implement change and discuss the effect of change on the stakeholders of the business.**

#### ASSESSMENT task — structured questions

**Time allowed:** 90 minutes  
**Marks allocated:** 50 marks  
**Conditions:** Closed book (no notes or textbooks may be used when completing this task)

- 1 Define the following terms and provide an example for each:
  - leadership
  - domestic business opportunities
  - high-risk strategies
  - learning organisation
  - corporate social responsibility.

5 marks
- 2 (a) Identify and describe the key features of Lewin's Three Step Change Model.  
 (b) Explain how this model would be used by a business wishing to change its production methods from a predominantly labour-intensive system to a capital-intensive system
 

4 + 6 = 10 marks
- 3 Describe the five disciplines of Senge's Learning Organisation.
 

5 marks



- 4** Explain two low-risk strategies that could be used to overcome resistance to change. 4 marks
- 5** A local business has just decided to increase its use of technology in an effort to reduce cost.
- (a) Explain why, in the short term, introducing new technology may not reduce costs. 3 marks
- (b) Describe possible effects on customers, employees and suppliers if the change is implemented. 6 marks
- 6** (a) Explain why a business should consider social responsibility when undertaking change.
- (b) Explain how sustainability reports and a code of conduct can be used to support a business in managing its corporate social responsibility obligations during a time of change. 2 + 5 = 7 marks
- 7** Describe three strategies a business could implement to respond to information provided by key performance indicators that suggest the business is not performing well. In your response, explain why it is important to review these key performance indicators once the change has been implemented. 10 marks

# GLOSSARY

- arbitration** a process that occurs when a 'judge' (such as a commissioner of the Fair Work Commission) hears both arguments in a dispute in a more formal court-like setting and determines the outcome
- assets** items of value owned by a business
- autocratic management style** one where the manager tells staff what decisions have been made
- automated production line** comprised of machinery and equipment arranged in a sequence with components added to the good as it proceeds through each step, with the process controlled by computers
- Award** a legally binding agreement that sets out minimum wages and conditions for a group of employees
- benchmarking** occurs when a business measures its performance against that of other leading businesses known for their excellence
- bonus** a one-off payment given to a particular employee or group of employees as a reward for meeting particular targets, or for some other special effort
- business change** the adoption of a new idea or behaviour by a business
- business ethics** the application of moral standards to business behaviour
- change agent** a person or group of people who act as catalysts, assuming responsibility for managing the change process
- change** any alteration in the internal or external environments
- collective bargaining** determining the terms and conditions of employment through direct negotiation between unions and employers
- collective/enterprise agreement** a negotiated agreement between an employer and a union or a group of employees
- commission** an amount paid for accomplishing a sale, paid to the salesperson who accomplished the sale, and usually calculated as a fixed percentage of the sale price
- common law individual (employment) contract** those employees who are not under any Award or collective/enterprise agreements
- communicating** the ability to transfer information from a sender to a receiver, and to listen to feedback
- competitive advantage** occurs when a firm, industry or economy has a lower cost price structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market.
- competitors** other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business
- computer aided design** a computerised design tool that allows a business to create product possibilities from a series of input parameters
- computer aided manufacturing** software that designs and controls manufacturing processes
- computer integrated manufacturing** a method of manufacturing in which the entire production process is controlled by a computer
- conciliation** a process that occurs when a third party participates in the resolution of a dispute and attempts to resolve the differences through discussion
- conflict** disputes, disagreements or dissatisfaction between individuals and/or groups
- consultative management style** one where the manager consults employees before making decisions
- contingency management theory** stresses the need for flexibility and the adaptation of management styles to suit the situation
- continuous improvement** an ongoing commitment to achieving perfection
- corporate culture** the values, ideas, expectations and beliefs shared by members of the business
- corporate social responsibility** the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment
- customer complaints** communications that indicate whether or not customers are satisfied with the performance of the business
- customers** the people who purchase goods and services from the business, expecting high quality at competitive prices
- decision making** the ability to identify the options available and then choose a specific course of action from the alternatives
- delegating** the ability to transfer authority and responsibility from a manager to an employee to carry out specific activities
- development** activities that prepare staff to take on greater responsibility in the future
- directors** (of a company) the people who have overall responsibility for managing the company's business activities
- dismissal** occurs when the behaviour of an employee is unacceptable and a business terminates their employment
- driving forces** those forces that support change
- ecological sustainability** occurs when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs
- effectiveness** the degree to which a business has achieved its stated objectives
- efficiency** how well a business uses resources to achieve objectives
- employees** the people who work for the business and who expect to be paid fairly, trained properly and treated ethically in return for their contribution to production
- employer associations** organisations that represent and assist employer groups
- enterprise agreement** an agreement that has been directly negotiated between the employer and employees at the enterprise level
- external environment** those things over which the business has little control. It may be divided into an operating environment and a macro environment.
- Force Field Analysis** outlines the process of determining which forces drive and which resist a proposed change
- forecasting** a materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events
- gainsharing** a method of rewarding employees for making suggestions that improve productivity in a business. The savings achieved from these improvements are distributed to the employees.
- global sourcing** the practice of seeking the most cost efficient materials and other inputs, including from countries overseas
- globalisation** the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers

- government business enterprise** a type of business that is government owned and operated
- government** the group of people with the authority to govern a community. In Australia, this exists at three levels (federal, state and local).
- green Bans** bans imposed by trade unions on any development that is considered harmful to the environment or an area of historical significance
- grievance procedure** provides an orderly system whereby the employee and employer can resolve matters relating to complaints about wages, hours, working conditions or disciplinary action
- hierarchy of needs** Maslow's sequence of human needs in the order of their importance
- human resource management** the effective management of the formal relationship between the employer and employees
- human resource manager** coordinates all the activities involved in acquiring, developing, maintaining and terminating employees from a business's human resources
- incorporation** the process that businesses go through to become a registered company and a separate legal entity
- industry** the classification of groups of businesses related to the particular good or service they produce
- innovation** a process that occurs when something already established is improved upon
- inputs** resources used in the process of production
- intangibles** services which cannot be touched
- interest groups** organisations who attempt to directly influence or persuade a business to adopt or change particular activities, processes or policies
- internal environment** factors inside the business
- interpersonal skills** the ability to deal or liaise with people and build positive relationships with staff
- inventory** goods and materials held as stock by a business
- inventory control** ensures that costs are minimised and that the operations system has access to the right amounts of inputs when required
- job analysis** the study of an employee's job in order to determine the duties performed, the time involved with each of those duties, the responsibilities involved and the equipment required
- job description** the duties, tasks and responsibilities associated with a job
- job specification** qualifications, skills and experience that an employee needs to have to carry out a job
- just in time** a materials management strategy that ensures that the exact amount of material inputs will arrive only as they are needed in the operations process
- key performance indicators** specific criteria used to measure the efficiency and effectiveness of the business's performance
- laissez-faire management style** one where the employees assume total responsibility for, and control of, workplace operations
- leadership** the process of positively influencing and encouraging individuals to set and achieve objectives
- leading** the ability to influence or motivate people to work towards the achievement of business objectives
- lean management** an approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality
- learning organisation** monitors and interprets its environment, seeking to improve its understanding of the interrelationship between its actions and its environment
- level of wastage** the amount of waste created by the production process
- limited liability** the shareholders in a company cannot be held personally responsible for the debts of that business
- lockout** occurs when employers close the workplace for a period of time as a means of applying pressure to employees during a period of industrial conflict
- log of claims** a list of demands made by workers (often through their union) against their employers. These demands cover specific wages and conditions. Employers may also serve a counter-log of claims on the union.
- macro environment** made up of the broad factors in the economy and society within which the business operates
- management** the people who have the responsibility for successfully achieving the objectives of the business
- management skills** the abilities or competencies that managers use to achieve business objectives
- management style** the behaviour and attitude of the manager when making decisions, directing and motivating staff and when implementing plans to achieve business objectives
- manipulation** the skilful or devious exertion of influence over someone to get them to do what you want
- market leader** a business that has a reputation for being the best in a market, or leading the market in terms of innovation, sales, profits or market share
- market share** the proportion of total sales in a given market or industry that is controlled or held by a business, calculated for a specific period of time
- master production schedule** a plan that details what is to be produced and when
- materials handling** the physical handling of goods in warehouses and at distribution points
- materials management** the strategy that manages the use, storage and delivery of materials to ensure the right amount of inputs is available when required in the operations system
- materials requirement planning** involves developing an itemised list of all materials involved in production to meet the specified orders
- mediation** the confidential discussion of issues in a non-threatening environment, in the presence of a neutral, objective third party. Many businesses now specify mediation as a first step in their dispute resolution or grievance procedures.
- mission statement** expresses why the business exists, its purpose and how it will operate
- motivation** the individual, internal process that directs, energises and sustains a person's behaviour
- need** a personal requirement
- negotiation** a method of resolving disputes whereby discussions between the parties result in a compromise and a formal or informal agreement about a dispute
- net profit** what remains when expenses are deducted from the revenue earned
- niche market** a narrowly selected market segment within a larger market

- number of sales** a measure of the number of good or services (products) sold
- number of workplace accidents** indicates how safe the workplace is for employees
- objective** a desired goal, outcome or specific result that a business intends to achieve
- operating environment** the outside factors with which the business directly interacts in the course of conducting its business
- operational planning** specific details about the way in which the business will operate in the short term
- operations management** all the activities in which managers engage to produce goods or services
- organisational inertia** an unenthusiastic response from management to proposed change
- outputs** the end result of a business's efforts — the service or product that is delivered or provided to the consumer
- outsourcing** the contracting of a specific business operation to an external person or business
- overseas manufacture** the production of a good in a country that is different to the location of the business's headquarters
- participative management style** one where the manager unites with staff to make decisions together
- partnership** a business owned by a minimum of two and a maximum of 20 people
- penalty rates** additional wages paid to employees who work outside of normal working hours
- percentage of market share** the business's share of the total industry sales for a particular good or service, expressed as a percentage
- performance appraisal** the formal assessment of how efficiently and effectively an employee is performing their role in the business
- performance feedback** the information provided to an employee after a performance appraisal
- performance management** a focus on improving both business and individual performance through relating business performance objectives to individual employee performance objectives
- persuasive management style** one where the manager attempts to sell decisions made
- planning** the ability to define business objectives and decide on the methods or strategies to achieve them
- private limited company** an incorporated business with a minimum of two, and a maximum of 50 private shareholders, and whose shares are offered only to those people whom the business wishes to have as part owners
- proactive** to initiate change rather than simply to react to events
- procurement** the process of researching and selecting suppliers, establishing payment terms, negotiating contracts, and the actual purchasing of resources that are vital to the operations of the business
- product differentiation** the use of brand names and advertising to establish differences between substitutable products
- production plan** an outline of the activities undertaken to combine resources (inputs) to create goods or services (outputs)
- productivity** a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services)
- protected industrial action** action taken by either party to a dispute that has been approved by the Fair Work Commission
- public listed company** an incorporated business with a minimum of five shareholders, and whose shares are freely traded on the Australian Securities Exchange
- quality** the degree of excellence of goods or services and their fitness for a stated purpose
- quality assurance** the use of a system so that a business achieves set standards in production
- quality circles** groups of workers who meet to solve problems relating to quality
- quality control** the use of inspections at various points in the production process to check for problems and defects
- rate of productivity growth** the change in productivity in one year compared to the previous year
- rate of staff absenteeism** the number of workers who neglect to turn up for work when they are scheduled to do so
- reactive** to wait for a change to occur and then respond to it
- redundancy** occurs when a person's job no longer exists, usually due to technological changes, a business restructure or a merger or acquisition
- resignation** the voluntary ending of employment by the employee 'quitting' their job
- restraining forces** those forces that work against the change
- retirement** occurs when an employee decides to give up full-time or part-time work and no longer be part of the labour force
- retrenchment** occurs when a business dismisses an employee because there is not enough work to justify paying them
- revenue** the income that a business earns from the sale of goods and services to customers
- robotics** highly specialised form of technology capable of complex tasks
- sanction** a form of penalty or punishment
- shareholders** (or members) the owners of a company
- silent or sleeping partner** contributes financially to the business but takes no part in the running of the partnership
- Six Sigma** a quality management approach that seeks to identify and remove the causes of problems in the operations process, achieving virtually defect-free production
- SMART goals** goals that are Specific, Measurable, Attainable, Relevant and Time-bound
- social enterprise** a business with the objective of fulfilling a social need
- sole trader** a business owned and operated by one person
- staff turnover** the number of staff leaving the business
- stakeholder engagement** occurs when businesses share information and seek input from stakeholders to discover the social and environmental issues that are important to them as part of the business's corporate social responsibility
- stakeholders** groups and individuals who interact with the business and have a vested interest in its activities
- strategic planning** long-term planning, usually over two to five years
- strategies** the actions that a business takes to achieve specific objectives



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

**succession planning** a focus on preparing employees with potential to take on key management positions within the business in the future, should the need arise

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

**supply chain** the range of suppliers from which the business purchases materials and resources

**sustainability report** a comprehensive report of what a business has done, and is doing, with regard to social issues that affect it

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

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

**tangibles** goods which can be touched

**termination** the ending of the employment of an employee

**total quality management** an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation

**trade unions** organisations formed by employees in an industry, trade or occupation to represent them in efforts to improve wages and the working conditions of their members

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

**transformation** the conversion of inputs (resources) into outputs (goods or services)

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

**unfair dismissal** when an employee is dismissed because the employer has discriminated against them in some way, such as firing someone because she is pregnant

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

**unprotected industrial action** action that has not been approved by the Fair Work Commission

**vision statement** states what the business aspires to become

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

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