CHAPTER 9

Management and change

9.1 Introduction

‘Nothing is permanent except change.’ Although these words were written around 2500 years ago by the Greek philosopher Heraclitus, they are as true today as they were then, especially in the world of business. For example, imagine the type of motor vehicle you will be driving in 20 years. It might look like the futuristic car shown below. You might even be able to take to the sky if there is a traffic jam. The motor vehicle industry has to effectively manage change due to dwindling oil supplies, stricter pollution controls, greater safety requirements and broader recycling legislation. Businesses only survive in today’s highly unpredictable business environment if they effectively manage change. Businesses that embrace change will profit; businesses that resist change will be left behind.

FIGURE 9.1 Could this be the type of motor vehicle you will be driving in the future? Technology is constantly changing. So too is the world of business. Responding positively to these changes is often a recipe for long-term survival, because well managed changes can become the foundation for future growth and success.

9.2 What is organisational change?

In Australia, over the past decade, there has been extensive and unprecedented change in the business environment. There is every indication that the pace of change will intensify during this decade. The prevailing attitude in business today can be summed up as follows: ‘There is only one constant in business and that is change.’

To help guarantee the long-term survival of the business, managers must respond to these changes. Hoping that the changes will either go away or have no impact on their business is a recipe for disaster. Managers also find it frustrating to learn that as soon as they adjust to one change in the business environment, they must
readjust to accommodate another. Some managers are fearful of change, seeing it as a destructive force. Others perceive change as an opportunity for creativity and openly embrace it.

Change is any alteration in the internal or external environments; for example, change in consumer tastes, change in production methods, change in markets or products sold, or change in how employees perform their tasks. It could also be a change to the way things are perceived, or new ways of dealing with problems. In response to these changes, many organisations have undergone organisational change: the adoption of a new idea or behaviour resulting in a difference in the form or operation of an organisation over time. The organisation may have modified its corporate culture, implemented new organisational structures, recruited employees with new skills or developed different work practices.

The rapidly increasing pace of change threatens to overwhelm many businesses. Adapting to change forced by the external environment is never easy for a business. While change may be the most daunting challenge confronting management, the rewards are great for those who are prepared to accept the challenge and not only react to change but also initiate and manage it (see the following Snapshot).

Steve Polosak — change management

One of the most challenging aspects of my role as an Information Technology (IT) manager for a large organisation is to initiate and implement change. For bad or worse, change keeps coming in business and in life. Change is not made without some inconvenience. Therein lies the challenge.

Previously, organisations faced one change at a time, and when it was over, people could rest a while until the next change came along. In today’s business environment, the problem is that most organisations have a number of major change projects occurring simultaneously.

A manager will ignore these changes at his or her own, and the organisation’s peril. Well-managed changes can become the foundation of future growth and success. For example, the organisation recently decided to implement a new data transfer system that would alter employee work practices. To create an environment that would accept the change, I began by explaining the four ‘Ws’ to the affected employees — What the change is, Why the change is needed, Whom the change will affect, and When and how the change will take place. Fear of the unknown is a major barrier to change.

Then, I involved employees in the change process. It is only natural for employees to go along with changes that they have helped bring about. From my experience, people will resist poorly implemented changes or changes that are suddenly imposed on them without any warning.

The changes did cause some initial resistance. However, six months later, productivity has improved by 18 per cent and the majority of employees adapted so well that morale has improved.

Snapshot questions

1. Recall why change can be difficult to manage.
2. Explain what Steve Polosak does to effectively manage change.

Managing change

As profitable opportunities can arise from change, it must be considered a fundamental aspect of a business’s strategic planning. 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 being passively swept along or, worse still, get caught unprepared. Such people are proactive rather than reactive.

The crucial management issue is how to manage change to make it as productive as possible, using it to renew and strengthen the business. However, to be constructive, change must occur at a pace at which it can be absorbed and integrated by the business.

Also, all changes should be thoroughly evaluated to assess their overall impact. Poorly managed changes normally result in employee resistance, tension, anxiety, lost productivity and, ultimately, decreased profits. Managing change is especially difficult when the pace and nature of change is largely beyond the control of the manager.

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.

**Summary**
- Organisational change is the adoption of a business’s new idea or behaviour in response to internal or external influences.
- The ability to embrace, manage and adapt to change will increasingly determine a business’s competitive advantage.
- Successful managers are the ones who anticipate and adjust to changing circumstances.

**Revision**
1. **Define** the term ‘change’.
2. **Explain** the meaning of the phrase, ‘There is only one constant in business and that is change’.
3. **Account** for why some managers are fearful of change, whereas others openly embrace it.
4. **Distinguish** between proactive and reactive management.
5. **Examine** figure 9.2 above. **Explain** why change is compared to ripples on water.
**Extension**

1. Change is a continuous process, not an event. **Propose** an example from your own experience to illustrate the continuous cycle of change.

2. **Newspaper portfolio**
   - Select four external influences that affect businesses. Over a 5- to 6-week period, collect four to five articles on each factor from newspapers, internet and journals.
   - Paste the articles into a scrapbook under the four headings (influences). Ensure that you date and acknowledge the source of each article.

**Reports**
- **Create** four reports of approximately 150 words on each of the external influences. Use a business report style with subheadings, graphs and diagrams to support your text.
- Your responses should **synthesise** the theory obtained from your teacher and textbooks, with the information on current business conditions and influences from your newspaper, internet and journal articles.

### 9.3 Responding to internal and external influences

It is said that if you stop moving, you die! The same applies to businesses. Businesses must keep responding to the never-ending pressure for change. Whether the influences driving change come from outside (external) or within (internal) the business (refer to chapter 3), changes to the business will occur. Such changes should be viewed as opportunities to be taken advantage of as opposed to challenges to overcome.

When a business responds to the influences of change, businesses often undergo changes in their organisational structure, business culture, and human resource and operations functions.

Some businesses respond to the forces of change in a major way. The result is often a complete restructure of the business. Such a change is referred to as **transformational change**. A transformed business, after undergoing radical change, will have a different (usually flatter) organisational structure, new work systems and procedures, a changed employee structure, greater use of technology and an altered corporate culture.

Other businesses may respond to forces of change in a smaller way. This may involve only a few employees at a time, undertaking new operational procedures. Such change is referred to as **incremental change**. For example, an office employee may change from using a fax to using email when sending information to customers.

Often, a business will implement both major and minor changes simultaneously. However, regardless of the extent of the change, recent studies conducted in a wide range of businesses revealed that all employees should be involved in the change process. This is because any change ultimately has an impact on every employee.

**Structural responses to change**

Businesses need to continually improve and develop if they are to survive change. As the business environment changes, businesses undergo **structural change**.

In recent years, the main structural changes introduced in Australian businesses have included:
- outsourcing
- flatter organisational structures
- work teams.

**BizWORD**

**Transformational change** often results in a complete restructure throughout the whole organisation.

**Incremental change** results in minor changes, usually involving only a few employees.

**BizWORD**

**Structural change** refers to changes in the business’s structure — that is, the organisation chart.
The aim of these changes has been to streamline business operations (including coordination and control), improve efficiency and empower employees to make their own decisions.

Outsourcing

A trend rapidly gaining support throughout the corporate world and government establishments is **outsourcing**. Outsourcing has had a profound impact on businesses, particularly on the mix of employees. Many businesses have rearranged 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 rate. This keeps costs to the lowest possible level.

Outsourcing may be necessary to help an organisation contain its costs and survive in a global marketplace. Obviously, outsourcing has both positive and negative effects. Outsourcing may mean that job losses occur within the organisation and other jobs need to be created. The positive impact is that the organisation may be able to produce its goods, or supply its service, more efficiently than before.

**Flat structures**

Flatter management structures have become more common in recent times. As middle-management positions are abolished, greater levels of accountability and responsibility are transferred to frontline staff. Such businesses are characterised by fewer formal reporting controls, sharing of best practice methods, learning focused on the business’s needs, a supportive learning environment and a focus on continuous improvement. In the contemporary workplace, businesses are evolving from formal, hierarchical structures with many levels to less formal, looser structures.

**Work teams**

Coupled closely with the emergence of the flatter organisational structure is the development of work teams. Teamwork allows businesses to be more flexible and responsive. Teams also motivate employees to be more creative, to develop a broader view of goals, and to contribute across the entire business. The development of teams is transforming workplace cultures, practices, operations and productivity levels.
Impact of change on business culture

For a business to survive in the long term, changes within the external or internal environments should be reflected in its business culture. If the business culture fits the external environment, managers and employees have the attitude they need to compete successfully. For decades, Telstra enjoyed a monopoly on telecommunications services within Australia. With the deregulation of the telecommunications industry (which resulted in increased competition), as well as the privatisation of Telstra, managers and employees were forced to adopt a different mindset to compete in the new environment. The existing business culture had to change because it did not fit the real-world requirements. The new external environment required a new way of thinking — a new business culture.

Students and teachers face similar challenges whenever the educational authorities modify the external examination requirements or implement new study designs. Such changes will influence the structure of a school, its operations and the school's culture. Different attitudes, values and mindsets will eventually be adopted within the school to satisfy the new demands.

Impact of change on human resource management

Organisational change will ultimately have a profound impact on employees at all levels within a business. Consequently, adjustments to the human resource management function are necessary to improve the effectiveness of changes made in other business divisions, such as organisational structure and technology. Some of the main human resource management changes are:

• Recruitment and selection must be altered to reflect the need for individuals who possess the knowledge and skills required to handle the changing circumstances.
• If employees are to be made redundant then appropriate termination procedures must be put in place.
• Training must be offered to existing employees in the areas of teamwork, problem solving, decision making and change management.
• Performance appraisal and reward systems that reinforce the new behaviours must be put in place.
• More autonomous and empowered employees will require changes to the traditional roles and communication methods within the business.
• To attract and maintain skilled employees, flexible working arrangements will be needed.
• The bases of power will shift from title, seniority and authority to collaboration and contribution, and this must be communicated.
• A clear vision of where the business is headed and the benefits to employees will need to be developed and clearly communicated.
Impact of change on operations management

For many businesses, reducing production costs has become the basis for gaining a competitive advantage in the marketplace. In response to changes in the environment, businesses are constantly seeking ways to speed up production time, shorten production development, streamline distribution and serve customers. Some of the main operations management changes are:

• businesses have refitted and reorganised their factories to take advantage of improvements in technology. They are also pursuing efficiencies in process design and materials management.

• New advances in production technology have been accompanied by changes in the way the production process is organised, including flexible manufacturing.

• Flexible manufacturing allows production plants to be smaller, more specialised, and closer to important markets.

• There is an emphasis on quality management — an organisation-wide system of procedures to ensure that the products satisfy consumers. This includes quality assurance and quality control, coupled with total quality management.

• Human relations are being improved so that employees will approach their work more intelligently. This includes such considerations as balancing workloads, using ergonomics, simplifying materials handling, changing operations sequences and training employees.

BizWORD
Flexible manufacturing is production by computer controlled machines that can adapt to various versions of the same operation.

Summary

• Changes can be major (transformational) or minor (incremental).

• When a business responds to the forces of change, the result will be a change to its:
  - organisational structure, including outsourcing, flatter structures and work teams
  - business culture; for a business to survive in the long term, changes should be reflected in its culture
  - human resource management practices, including recruitment and selection, training, performance appraisal and redundancy procedures
  - operations management, including flexible manufacturing and quality assurance.
Revision

1. **Distinguish** between transformational change and incremental change.
2. **Identify** three minor and three major changes that have occurred in your school over the last few years.
3. **Define** the term ‘structural change’.
4. **Examine** figure 9.3 and **discuss** the effects outsourcing would have on Australian companies that have outsourced some of their business processes.
5. **Construct** a mind map to **summarise** the business’s three main structural responses to the changes in the environment. The mind map has been started for you.

![Mind Map Image]

**Outsourcing**
- contracting to outside suppliers
- impact on employees

**Flatter organisational structures**

**Work teams**

**BUSINESS STRUCTURAL RESPONSE TO CHANGE**

6. **Explain** why the business culture should be modified in response to changes in the external environment.
7. **Propose** why alterations to the human resource management function are necessary in response to changes in the external environment.
8. **Outline** what human resource management changes businesses have undertaken in response to environmental changes. Use the following headings in your response:
   (a) Recruitment and selection
   (b) Termination procedures
   (c) Training and development
   (d) Performance appraisal.
9. Select two operations management changes and **outline** how they assist the business in achieving a competitive advantage in the marketplace.
10. Consider the following situations and **determine** whether the change required would be major or minor. Give reasons for your answer.
   (a) A sales representative complains that he is unable to access the latest prices on some products quickly enough because price changes are mailed monthly to his office.
   (b) A distinct decline in the quality of manufactured items from the heavy metal section has been traced back to the high turnover of staff in this section over the past nine months.
   (c) The development of new technology in the paper manufacturing industry will require the chief executive officer and the board to completely reassess their present manufacturing operations.
   (d) The responsibilities of several key staff in the accounting department will need to change as a result of the new computerised accounting system.
Extension

1 Investigate a business that is being restructured as a result of changes in its internal environment. Business magazines, journals or the internet are an excellent source of information and frequently report on organisational restructuring in a variety of industries or businesses. Some recent examples of changes you may wish to explore include:
   (a) e-commerce
   (b) organisational alliances
   (c) work–life balance.

2 Zoe could not understand why her team members were being so difficult. Couldn’t they see that the changes she had made to the work roster would be to everyone’s benefit? She thought they had all agreed to the changes when they were discussed at the last team meeting. She was not sure what to do next. Consider your own experience of the difficulties in trying to predict how something will turn out.
   Determine what managers can do to reduce these difficulties.

3 Flatter management structures often result in higher levels of responsibility and accountability for all employees. Consequently, any organisational restructure that involves removing a layer of management will be perceived by employees as a major change. Assume you are the manager in charge of a restructure that will result in a flat management structure. Determine the advantages you would put forward in support of the restructure.

4 Arrange to interview someone who has experienced a major change in his or her workplace. Examine and report on the impact of this change on the interviewee, his or her colleagues and the business’s culture. Critically analyse how the change was managed.

9.4 Managing change effectively

Constant change has made the task of management more demanding and exciting than ever before. Change is the most daunting challenge confronting managers, as well as the most promising opportunity. Now well entrenched and likely to accelerate, change must be considered a fundamental aspect of a business’s strategic planning.

BizFACT

In 2008, IBM conducted the first ‘Making change work’ study, which revealed that about 60 per cent of business’s change programs failed to achieve their goals fully. The study showed that the most common goals for change programs were cost reduction, higher customer satisfaction and increasing revenue. The main reasons for success were senior management sponsorship, employee involvement, and honest and timely communication. The main resistance to implementing change centred on people’s mindsets and attitudes, and their business culture.

FIGURE 9.7 Management researcher John Kotter maintains that the change management process consists of the following eight steps: 1. establish a sense of necessity; 2. form a guiding group; 3. create a vision; 4. communicate the vision; 5. empower people to fulfil the vision; 6. recognise and reward achievements; 7. consolidate improvements; 8. institutionalise the changes.
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. Strategies to achieve successful change rely on communication, employee involvement in the change process, training, support and negotiation.

Change is inevitable. As a consequence, businesses must transform if they want to survive in today’s environment. Nine2Three Employment Solutions is an example of a business that successfully manages the challenge of change (see the following Snapshot).

Nine2Three Employment Solutions — managing change

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.


Snapshot questions

1. Identify the internal and external influences that have had an impact on Nine2Three Employment Solutions.
2. Outline the strategies used by Nine2Three Employment Solutions to manage changes.

A manager can use a number of strategies to manage change effectively. Management of the change will be more effective if the business can:

• identify the need for change
• set achievable goals
• develop strategies to overcome resistance to change
• use management consultants.
Identifying the need for change

An effective manager should always be scanning the environment, attempting to understand factors that will have an impact on the business. In this way, he or she may better identify current trends and predict future changes.

Achieving such a vision requires a holistic view of the outside world and awareness of the potential impact on the business of a variety of factors. Correctly anticipating these factors greatly assists the manager in identifying the need for change. This strengthens the business so it may take full advantage of opportunities that favour its long-term survival in an increasingly competitive world. Sharing the vision with employees encourages them to better understand why the change is necessary.

To better understand what changes need to occur, a manager needs access to accurate and up-to-date information.

Business information systems

As a student you rely on measurements — subject marks and school grades — to assess your progress. This information allows you to determine what changes, if any, need to be made to your study pattern. Information is also crucial for any business. Actually, much of a business's success or failure to accurately identify what needs to be changed depends on its ability to collect, organise, process and retrieve information quickly. For example:

- an operations manager of a manufacturing business must collect data about production costs and production schedules
- a marketing manager must gather data measuring sales, product development and customer satisfaction
- a finance manager must collect data about financial transactions and measure cash flows
- a human resource manager must record staff absences, training requirements and overtime payments.

Consequently, a successful business must be able to gather, store, combine and analyse masses of data quickly and efficiently. Once processed and organised to be useful to an individual manager, this information becomes the raw material for decision making. Without it, a business would quickly lose its way because it could not accurately identify what needs to be changed.

Where do managers get the information they need? In most businesses the answer lies in a business information system. A business information system (BIS), also referred to as a management information system (MIS), gathers data, organises and summarises them, and then converts them into practical information.

A management information system (MIS) gathers data, organises and summarises them, and then converts them into practical information to be used by managers who use them to make decisions.

Managers have to plan for the future, implement their plans in the present and evaluate the results against what has been accomplished in the past. Therefore, they need access to information that summarises future possibilities, the present situation and past performance. All this is part of a manager's role in managing change effectively.

Setting achievable goals

A vision statement states the purpose of the business. It indicates what the firm does and states its key goals. In conjunction with the vision statement, a business establishes specific company goals that are measurable (usually set on a yearly basis). Reassessment of the vision statement and business goals may be required if management detects changes in the external business environment that may have a major impact on business activities. However, for change to be managed
effectively it is essential that any new goals be achievable. This means goals that are attainable and realistic. Unachievable goals will only cause cynicism among employees and damage relationships between employees and supervisors.

On the other hand, achievable goals, devised after consultation with employees and communicated clearly by management, have a much greater chance of being realised (see the following Snapshot).

**Dr Edwin Locke — a 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 change people’s behaviour — to allow them the opportunity to embrace change — 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 their efforts. The goal or task should not become so overwhelming that a person loses motivation.

Locke’s theory is not new to us today because this approach to motivation and managing change has been used by individuals and businesses over the last 40 to 50 years. Goal setting is something that is accepted as necessary for our success.

**Snapshot questions**

1. **Summarise** the main points of Dr Edwin Locke’s research.
2. **Explain** how goal setting affects a person’s ability to cope with change.
3. **Propose** why setting goals that are easy to achieve might be counterproductive.

**Summary**

• To manage change effectively requires the change to be as productive as possible; to make it a process for revitalising and strengthening the business.
• Managers must develop strategies for managing change effectively.
• Identifying the need for change and setting achievable goals are two strategies to manage change effectively.

**Revision**

1. **Summarise** the information from the BizFact on page 290 by completing the table below. The first one has been started for you.

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<th>IBM’s ‘Making change work’ study</th>
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2 Recall why an effective manager should continuously scan the business environment.
3 State why it is important for a manager to share the business’s vision with employees.
4 State the purpose of a business information system.
5 Account for the importance of current and up-to-date information for a manager attempting to manage change effectively.
6 Outline why setting achievable goals can help managers implement change effectively.

Extension
1 Read the scenario below. In small groups, create a plan to solve the problems and effectively manage a potentially difficult introduction to new technology. Present your plan to the rest of the class.

Scenario
You are a divisional manager of 30 loyal, long-serving employees. Fierce competition is threatening the long-term viability of the business. Sales and profits are declining due to the lower prices of your competitor. The business 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 your division and the current product.

Twenty employees are required to work the new technology so 10 will become redundant.

Even though sales have declined, you have a number of very loyal customers who have expressed satisfaction with the format of the current product.

Problems requiring solution and action:
(a) Retrenching of 10 employees — examine some of the criteria you might consider regarding 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)
(c) Managing the change with sensitivity: maintaining positive workplace morale and exhibiting leadership
(d) Communicating the change in the product format to the customers and convincing them to maintain their loyalty towards your company and its brand.

Resistance to change
At the same time as managers are undertaking — driving — change for the best of reasons, there will be restraining forces working against the change, creating resistance.

Psychology has shown how difficult it is for individuals to change their behaviour; how difficult it is to eat less, exercise more, stop smoking or be more patient. Resistance to change is strong because for most people personal change is:
• achieved only with considerable effort
• often emotionally stressful.

Businesses, like individuals, also find some changes difficult to cope with. When the pace of change is very rapid or coming from the external environment, then businesses may experience open resistance to the change. For example, consider where you sit in your Business Studies class. It is likely that you and other students sit in the same seats for each lesson. Imagine now that your Business Studies teacher changes the seating arrangement and tells you where to sit. This new seating arrangement will be permanent. No prior warning or explanation of these changes was given.
You and your classmates may react with a mixture of annoyance, irritation, frustration, anger or delight. Perhaps you would be angry or upset at not being consulted or involved in the rearrangement process. You may have felt that you had no control over what you regard as your working conditions and organisational structure. Many of you may view the changes as a threat to the status quo.

What does this tell us about resistance to change? This reaction is common among managers and employees. As individuals become accustomed to doing certain things and doing them in certain ways, so too do businesses. As a result, businesses and employees sometimes vigorously resist change.

The most common reasons why change may be resisted include:

1. **Financial costs.** A major reason for resistance to change is the financial cost of its implementation. Even with access to finance, a business contemplating change must weigh up the costs and benefits of the change.

2. **Purchasing new equipment.** The purchase cost of investing in new technology, plant or equipment can be considerable. Although this is expensive, there can be very significant advantages from making this investment. Prior to making the investment in new equipment, managers will need to weigh up the cost of purchase against the cost of leasing new equipment.

3. **Redundancy payments.** Employees who lose their jobs as a result of changes are entitled to financial compensation in the form of a redundancy payment. A redundancy payment is the money that is given to employees when they are forced out of work because their job skills are no longer relevant. Redundancy payments can be very high, especially if many employees are made redundant.

4. **Retraining.** When significant changes are introduced such as new technology, employees must be retrained. Retraining may be performed on the job or off the job.

5. **Reorganising plant layout.** When new equipment is installed, the layout of the plant may require reorganisation to improve efficiency and productivity. There can be high costs associated with reorganising the plant.

6. **Inertia.** Inertia refers to an unenthusiastic response to proposed changes. Some managers and employees 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’. Change can have a major impact on people. Feelings of lack of control, fear of the unknown and uncertainty about the future can lead to anxiety. The situation is made even worse if there is poor leadership and management during times of change.

**BizFACT**

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’. Why do you think people behave this way?

**BizWORD**

Inertia refers to an unenthusiastic response to proposed change.

**FIGURE 9.9** Uncertainty about the future is a powerful emotion that can inhibit employees from embracing change. This is made worse if employees do not understand the reason for the change, or if they distrust the people, usually management, behind the change.
Driving and resisting forces

All businesses must deal with one constant reality of change: trying to balance the forces driving change with the forces resisting change. **Driving forces** are those forces that initiate, encourage and support the change. The main driving forces for organisational change are the changes in the internal and external environments, as outlined in chapter 3. **Restraining forces** are those that work against the change, creating resistance. The current conditions, or status quo, result from these two forces ‘pulling’ in opposite directions (see figure 9.10). Managers who are trying to implement a change must analyse the situation to identify and balance the driving and restraining forces.

**FIGURE 9.10** Forces for change are constantly ‘pulling’ against the forces resisting change.

Businesses often fail to manage change well. The record tends to be poor because in the upheaval of a restructuring process the most crucial group of all, the employees, are often neglected. As well, existing communication channels are often inadequate when reporting progress. Such channels often break down in the highly emotional climate that surrounds a change program.

**Strategies for reducing resistance to change**

The first step in reducing resistance to change is to ensure that managers understand the main reasons why change is resisted. Once these factors have been identified, each manager can put in place strategies to reduce the resistance. A great deal of research has been conducted on the most appropriate methods to reduce resistance to change. The majority of this research revealed that regardless of where or how a change originated, the workplace culture created by the manager and his or her leadership abilities can greatly affect employee acceptance. Figure 9.11 outlines several strategies for creating a positive environment for change. Two of the most effective are creating a culture of change and positive leadership.
Creating a culture of change

Adopting changes to work procedures or organisational structures requires a degree of risk taking by the participants. For employees and managers to be prepared to take such risks, the business culture needs to be supportive. One method to assist in this process is for the business to identify individuals who could act as supportive change agents. Such people fulfil a crucial role in helping to establish a positive and supportive workplace culture. Change agents may include members of the management team, employees of the business or outside consultants.

Effective teams have open communication channels that assist in the transfer of information; they also develop a strong sense of identity between team members and offer a supportive environment that reduces fear of change. When teams work well, staff turnover and absenteeism decline, change is more readily accommodated and productivity tends to rise.

A change agent is a person or group of people who act as catalysts, assuming responsibility for managing the change process.
Positive leadership

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 with their welfare. Managers who concentrate on the needs of their employees are the most effective, building high-performance teams that attain their objectives. Less effective managers tend to focus on tasks and are more concerned with meeting deadlines — that is, they display the natural characteristics of a manager, not a leader.

Added to these qualities, a successful leader will need to:

• market and promote the change in a manner that will achieve cooperation and acceptance
• resolve conflicts, which often arise when change is implemented
• keep an open mind, seek out new ideas and freely share information
• cultivate a sense of stability, while at the same time 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. However, not displaying leadership is inviting a greater possibility of failure. Research constantly reveals that traditional management is not enough for businesses involved in continual transformation (see the following case study). Such businesses need charismatic, enthusiastic leaders who can inspire people to share their vision.

BizFACT

In 2013, Sheryl Sandberg, the CEO of Facebook, wrote a book entitled Lean in: women, work and the will to lead, about empowering women to assume leadership roles in business. She has said, ‘I believe that if more women lean in, we can change the power structure of our world and expand opportunities. Shared experience forms the basis of empathy and, in turn, can spark the institutional changes we need. More female leadership will lead to fairer treatment for all women.’

FIGURE 9.13 A leader who can ‘sell’ the need for change automatically reduces one of the main resistance points of ‘why do we need to change?’

BizFACT

A successful leader will market and promote the change in a manner that will achieve cooperation and acceptance.

Management consultants

As a student, if you have difficulty understanding some information within a subject, you will probably consult with someone who is an expert in that area. This could be another student, teacher or family member. This is similar to when you have a
consultation with a doctor. You are seeking assistance from someone with specialised knowledge. Businesses also seek advice from management consultants who specialise in a diverse range of business-related areas, including risk management, brand protection, business set-up, executive recruitment and sustainability. Businesses hire the services of management consultants because they provide:

• a wide range of business experiences
• specialised knowledge and skills
• an objective (external) viewpoint
• access to the latest research
• awareness of industry best practices.

The main role of management consultants is to help businesses improve their performance by investigating existing business problems and developing plans for improvement. Consultants can be especially helpful in providing change management advice: a methodical approach to dealing with change, both from the perspective of a business and on the individual level. They can provide strategies to smoothly manage the introduction of business changes by:

• undertaking change readiness reviews
• creating a supportive business culture
• actively involving all stakeholders in the change process
• gaining and recognising early achievements.

However, as in all aspects of life, the quality of advice from management consultants can vary. Therefore, it is best to hire those consultants who are members of the Institute of Management Consultants as their members have recognised standards of character, experience and education.

**BizWORD**

A management consultant is someone who has specialised knowledge and skills within an area of business.

Best practice refers to those business practices that are regarded as the best or of the highest standard in the industry.

Change management is a methodical approach to dealing with change, both from the perspective of a business and on the individual level.

**Magnatech Industries — managing change**

This case study of a real organisation 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 whitegood manufacturers of refrigerators, freezers and washing machines. Injection moulding is a manufacturing process which 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**

<table>
<thead>
<tr>
<th>Name of business</th>
<th>Magnatech Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of ownership/legal structure</td>
<td>Proprietary company</td>
</tr>
<tr>
<td>Shareholders</td>
<td>100 per cent Australian owned</td>
</tr>
<tr>
<td>International division</td>
<td>Pro Tag International Thiland</td>
</tr>
<tr>
<td>Core business function</td>
<td>Plastic injection moulding servicing the whitegoods (refrigerators, freezers and washing machines) industry</td>
</tr>
<tr>
<td>Mission statement</td>
<td>To provide technical solutions through high engineering standards which meet the needs of our clients</td>
</tr>
<tr>
<td>Employees</td>
<td>115 in Australia, New Zealand and Thailand</td>
</tr>
</tbody>
</table>

(continued)
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.

Currently five plants manufacture 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. Magnatech’s manufacturing process is fully automated, resulting in lower per unit costs of production.

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 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 organisation:

- 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 utilised 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, key 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 organisation’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 (continued)
The company 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.

Snapshot questions
1. Identify the stakeholders in Magnatech Industries.
2. Identify the sources of change in the internal and external environments that have had an impact on Magnatech Industries over the last decade.
3. Describe Magnatech Industries’ core business function.
4. (a) Define the terms ‘inventories’ and ‘lead time.’
   (b) Explain why Magnatech Industries wants to minimise inventories and reduce lead times.
5. Outline how Magnatech Industries’ strategic plan has been modified as a result of the changes in the business environment.
6. Describe what Magnatech Industries is doing to reduce the consequence of employee retirement.
7. Construct a mind map summarising the internal adjustments Magnatech Industries’ management has made in response to changes within the business environment. The first part of the mind map has been started for you.
8. **Predict** the possible impact of each of the changes in direction of Magnatech Industries. Use the following headings to prepare your answer.
   - New markets
   - New products
   - Diversification.

9. (a) **Assess** the degree of control and influence Magnatech Industries has over factors in the external environment.  
    (b) **Determine** what are some of the circumstances that will affect the degree of control.

10. **Determine** how the internal and external stakeholders are likely to benefit by Magnatech Industries promoting socially just and ecologically sustainable change. **Summarise** your ideas using a table like the following one.

<table>
<thead>
<tr>
<th>Benefits for internal stakeholders</th>
<th>Benefits for external stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>New and better products</td>
<td></td>
</tr>
<tr>
<td>New technology</td>
<td></td>
</tr>
<tr>
<td>Employee training programs</td>
<td></td>
</tr>
<tr>
<td>Improved working environment</td>
<td></td>
</tr>
</tbody>
</table>

**Summary**

- At the same time as managers are undertaking — driving — change for the best of reasons, there will be restraining forces working against the change, creating resistance.
- The main reasons for resistance to change include:
  - financial costs (the cost of implementing major changes can be substantial)
  - purchasing new equipment (this can also be expensive)
  - redundancy payments (if employees lose their jobs as a result of change, they are entitled to financial compensation)
  - retraining (when changes are introduced, some employees will require training)
  - reorganising plant layout (the layout of the plant may need to be reorganised if new equipment or technology is introduced)
  - inertia (some managers and employees resist change due to a fear of the unknown).
- Driving forces are those forces that initiate, encourage and support the change.
- Restraining forces are those that work against the change, creating resistance.
- Resistance to change is common among managers and employees.
- Two strategies for overcoming resistance to change include:
  - creating a culture of change (encouraging teamwork)
  - providing positive leadership (sharing the vision).
- The main role of management consultants is to help businesses improve their performance and assist with change management.

**Revision**

1. **Outline** why management and employees commonly resist change.
2. **Explain** how you would feel if your classroom was radically changed overnight without your knowledge.
3 Distinguish between ‘driving’ and ‘restraining’ forces.

4 Complete the sentences below by identifying the correct term from the following list:
   cost  common  fear  effectively  financial
   resistance  analysing  managers  strategies  retrained

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 organisations. The resistance needs to be managed _______________. Managers can fail to achieve change by not _______________ the situation properly. Employees may resist change because of the _______________ of the unknown, the _______________ costs involved and the need for some employees to be _______________. _______________ for reducing resistance to change need to be developed by _______________.

5 Outline how the following can be a restraining force:
   (a) lack of time
   (b) poor timing.

6 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.

7 Based on the information from this section, explain why there was so much resistance by bank tellers when they were first required to use computers to process customer transactions.

8 Examine figure 9.11 on page 297. Select the two strategies you think are the most important. Justify your selection.

9 Recall the role of a change agent.

10 Identify the features found in a team that help others overcome resistance to change.

11 Clarify how positive leadership can help overcome resistance to change.

12 Select a major change in your life, such as moving house, changing schools or starting a new casual job, and complete the following:
   (a) State the reasons you liked or disliked the change. Share your thoughts with other class members.
   (b) Identify the reasons that were common among the group.
   (c) Interpret what this tells you about the best strategy that a manager could use to help overcome resistance to change.

13 Identify the benefits of hiring a management consultant.

14 Use the Pacific Brands weblinks in your eBookPLUS to investigate change in this business over the last 5 years. Evaluate the change the company has undergone and the role of leadership and management consultants in this change process. Write a brief report on the journey of Pacific Brands as the company reinvented itself.

Extension

1 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.’
   (d) ‘Change is the new normal for leadership success.’

2 Think about a situation in which you would like to make a change but face some resistance. The situations might involve improving your Business Studies results, changing the arrangement of your timetable or having greater use of the family car. (a) Summarise the status quo.
   (b) Propose the situation as you would like it to be if you could change it.
(c) Identify the main driving forces.
(d) Identify the main restraining forces.
(e) Determine strategies for reducing the impact of the restraining forces.

3 Because of recent changes to the Work Health and Safety Act you must implement some new safety procedures. You know that some of your employees are going to regard some of these changes as ridiculous. Propose what you might do to get the employees to accept the changes.

4 ‘... the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new.’ Machiavelli (The Prince, 1532). Evaluate the accuracy of this statement.
Business management

Multiple choice questions

1 Which of the following would be classified as a social goal?
   (a) To increase market share by 10 per cent
   (b) To sponsor the local school football team
   (c) To provide shareholders with increased returns
   (d) To improve the training opportunities for employees

2 Which of the following states the process involved in planning?
   (a) Setting standards and targets
   (b) Reacting to daily business crises
   (c) Assigning work to employees and delegating authority
   (d) Measuring the performance of the business against benchmarks

3 Which of the following items are classified as current assets?
   (a) Creditors and cash at bank
   (b) Cash at bank and inventory
   (c) Inventory and machinery
   (d) Machinery and mortgage

4 Which element of the human resource cycle is concerned with preparing a job analysis?
   (a) Acquisition
   (b) Development
   (c) Maintenance
   (d) Separation

5 Which of the following best describes a balance sheet?
   (a) A statement of the profit or loss of a business for a given period
   (b) A statement that shows the movement of cash receipts and cash payments
   (c) A statement that compares expected profit or loss with what was anticipated
   (d) A statement of the assets, liabilities and owner’s equity of a business at a particular date

6 John & Sons Construction has developed a plan to guide the business over the next five years. What type of planning is this an example of?
   (a) Operational
   (b) Tactical
   (c) Technical
   (d) Strategic

7 What does the contingency approach to management emphasise?
   (a) Management as planning, organising and controlling
   (b) Management as leading, motivating and communicating
   (c) The need for managers to be reactive and respond to change after it occurs
   (d) The need for flexibility and adaptation of management practices to suit changing circumstances

8 A furniture store has designed a new logo to market its products. Which marketing strategy is being used by the company?
   (a) Place
   (b) Price
   (c) Product
   (d) Promotion

9 Calculate the value of owner’s equity given the following information: Liabilities = $75 000 and Assets = $145 000.
   (a) $70 000
   (b) $75 000
   (c) $220 000
   (d) $240 000

10 Shimmering Jewellery relies heavily on their sales assistants to promote their goods by outlining the benefits and features of their products to consumers. This has been
successful in persuading customers to purchase their products. Which promotion technique is this an example of?
(a) Publicity  
(b) Advertising  
(c) Personal selling  
(d) Sales promotion

11 Which of the following are both examples of voluntary separation?
(a) Retirement and resignation  
(b) Resignation and dismissal  
(c) Dismissal and retrenchment  
(d) Retrenchment and retirement

12 A manager of a real estate agency always consults with employees when setting targets and making decisions. What type of leadership style would this be an example of?
(a) Autocratic  
(b) Democratic  
(c) Diplomatic  
(d) Hierarchical

13 Beautiful Skin Pty Ltd has decided to produce a razor for women. It has calculated the total production costs for each razor and added a 15 per cent margin to set the final price. What pricing method is this an example of?
(a) Cost-based pricing  
(b) Break-even pricing  
(c) Market-based pricing  
(d) Competition-based pricing

14 Michael is able to manage change in his business by always scanning the environment and attempting to understand the factors that will have an impact on the business. Which of the following best describes the method of managing change effectively used by Michael?
(a) Setting achievable goals  
(b) Reducing resistance to change  
(c) Identifying the need for change  
(d) Utilising management consultants

15 A production manager inspects products at various points in the production process to check for problems. Which of the following best describes his approach to quality management?
(a) Quality control  
(b) Quality assurance  
(c) Continuous improvement  
(d) Total quality management

Short response questions

1 'To understand management today you must look at its history. Management approaches (theories) and schools of thought represent differing viewpoints and strategies for managing people, making decisions, organising workplaces and solving problems. Each offers something of value for today’s manager.’
   (a) Identify three management approaches and summarise the main features of each. 3 marks
   (b) Explain how these approaches could influence contemporary management practices. 6 marks
   (c) Analyse the relationship between management approach and the types of business structure that a business could adopt. 12 marks

2 ‘Managers need a wide range of skills. The relative importance of these skills depends upon the manager’s level in the business.’
   (a) Identify four management skills. 2 marks
   (b) Explain how the quantity of the skills needed differs at each level of management. 5 marks
   (c) Determine why it is important for a manager to acquire new skills. 10 marks
3 (a) Define the term ‘stakeholders’. 2 marks
(b) Identify and describe two possible conflicts that could arise between various stakeholders. 6 marks
(c) Propose possible strategies that managers could adopt to reconcile any likely conflicts of interest. 6 marks

4 (a) Outline what is meant by the term ‘effective management’. 3 marks
(b) Distinguish between ‘good’ and ‘poor’ management. 5 marks
(c) Evaluate the importance of good management to the business’s overall success. 10 marks

5 (a) Outline the role of managers when organising operations in a manufacturing-based business. 3 marks
(b) Demonstrate how a business can ensure that quality of outputs is maintained. 6 marks

6 (a) Define the term ‘marketing mix’. 2 marks
(b) Outline the three approaches a business can adopt when selecting a target market. 6 marks
(c) Recommend a marketing mix for a business you are familiar with. 10 marks

7 (a) State the main role of marketing. 2 marks
(b) Define target market.
(c) Assess the importance of each of the four Ps of the marketing mix. 10 marks

8 (a) Define the term ‘goal’. 2 marks
(b) Identify four business goals. 4 marks
(c) Explain how it can be difficult for a manager to achieve a mix of business goals. 4 marks
(d) Assess the importance of staff innovation, motivation, mentoring and training. 10 marks

9 Construct an income statement and balance sheet in correct format using the following information. You will be required to determine profit and to use this figure to balance the balance sheet. 12 marks

Sales $400 000  Owner’s equity $45 000
Expenses $300 000  Debtors $12 000
COGS $50 000  Mortgage $60 000
Cash $20 000  Land and buildings $120 000
Stock $10 000  Goodwill $8 000
Creditors $15 000

10 (a) Define the term ‘human resource/cycle management’. 2 marks
(b) Demonstrate the four main elements of the human resource cycle. 6 marks

11 (a) Describe the steps to be followed by the human resource department so the most appropriate applicant will be chosen to fill a vacancy. 3 marks
(b) Deduce what problems could arise for a business if an inappropriate candidate was selected to fill a job vacancy. 6 marks

Extended response questions

1 In the following situation, identify and explain the management skills that could be used.
   A dispute has arisen between the IT department and the accounting department regarding the introduction of a new computer invoice system. The accountant wants the new system introduced by the beginning of the new financial year, but the IT manager believes that the staff will not be sufficiently trained by then to use it effectively. You are the human resource manager in charge of this project and must negotiate agreement without further delay.

2 Compare the classical, behavioural and contingency management approaches. Study a business and account for how management theory has influenced the business’s structure.

3 ‘The only constant in business is change. The pace of change is accelerating, with change coming from both internal and external sources. How a business responds to
these changes will ultimately determine its future.’ **Critically evaluate** the strategies used to manage change effectively in a business you have studied.

4 Choose a real-life example of a manufacturing-based business and a service-based business. For each example, **outline** the inputs, processes and outputs of their operations.

5 ‘An effective marketing mix is crucial if a business wants to increase its market share.’ **Discuss**.

6 ‘Marketing is a system of business activities designed to plan, price, promote and distribute something of value for the benefit of the customer at a profit.’ With reference to a business you have studied, **discuss** and expand on this statement.

7 ‘A thorough understanding of accounting and finance is essential for business managers’. **Identify** the three main financial statements and **discuss** their importance.

8 ‘If a business wants to be appropriately flexible and responsive to market needs, then it should train all employees to be good at everything. That is, they should be experts in all aspects of each key business function. Generalists, not specialists, are required.’ Is this a practical proposal? **Justify** this statement.

9 Imagine you are specialising in accounting services for a small business. Terry, one of your clients, runs a home maintenance business. He admits to you that he regularly offers a discount to customers who pay him in cash, so that he can keep his apparent profit as low as possible to avoid tax, and not have to declare every transaction on his BAS. **Explain** how you would try to convince him to maintain all his financial records in a socially responsible and ethical manner.

10 ‘There are only two ways in which to create and maintain outstanding business performance. First, take exceptional care of the customer and, second, develop new products. It is that simple.’ **Determine** how accurate this statement is. Give reasons for your answer.