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.

Corporate social responsibility considerations when implementing change
The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation
The importance of leadership in change management

The effect of change on stakeholders including managers, employees, customers, suppliers, the general community
Management strategies to respond to key performance indicators, including staff training, staff motivation, change in management styles or management skills, increased investment in technology, improving quality in production, cost cutting, initiating lean production techniques and redeployment of resources (natural, labour and capital)

Key principles of the Three Step Change Model (Lewin)
Management strategies to seek new business opportunities both domestically and globally

High-risk strategies to overcome employee resistance including manipulation and threat
Low-risk strategies to overcome employee resistance including communication, empowerment, support and incentives
An overview of the principles of the Learning Organisation (Senge)

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.

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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.
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.

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.

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.’

**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.

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**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.
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.

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.
7.2 Management strategies to respond to key performance indicators

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 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.

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.

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.

Emotional intelligence can play an important role in reducing staff turnover.
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 on to 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.

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**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.

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.
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.

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 logo]

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 government department can assist a business wishing to begin exporting overseas.
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.
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

**Weblink**

**Business Victoria**

**Austrade**
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.

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### 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

### 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
The principles of the Learning Organisation (Senge)

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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.
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](image)

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...
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.

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.'

DID YOU KNOW?

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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'.

Empowering employees by giving them the opportunity to take part in negotiations can help them to buy into the change process.
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.


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?
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.

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.

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 resistors 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.

**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.
KEY CONCEPT Kurt Lewin, in addition to developing his force field analysis, also developed the Three Step Change Model.

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.

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 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.
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.

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### Lewin’s Three Step Change process — practical steps

1. **Unfreeze**
   - 1. Determine what needs to change
   - 2. Ensure there is strong support from upper management
   - 3. Create the need for change
   - 4. Manage and understand the doubts and concerns

2. **Change**
   - 1. Communicate often
   - 2. Dispel rumors
   - 3. Empower action
   - 4. Involve people in the process

3. **Refreeze**
   - 1. Anchor the changes into the culture
   - 2. Develop ways to sustain the change
   - 3. Provide support and training
   - 4. Celebrate success!

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### 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.

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### 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?
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.

<table>
<thead>
<tr>
<th>Effect</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change of management style</td>
<td>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.</td>
</tr>
<tr>
<td>Change of processes</td>
<td>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.</td>
</tr>
<tr>
<td>Change of structure</td>
<td>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.</td>
</tr>
<tr>
<td>Change of employment</td>
<td>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.</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Change</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction of new technology</td>
<td>Employees will need to undergo retraining or redeployment into other areas of the business.</td>
</tr>
</tbody>
</table>
| Business is taken over by or merges with another business | 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.  
  • 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.  
  • 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. |
| 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.

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.

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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** 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.

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**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.

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**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.

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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.

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.

<table>
<thead>
<tr>
<th>Change of supplier</th>
<th>Corporate social responsibility consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td>Introducing new technology</td>
<td>Ensure technology does not add to pollution or create additional waste. Ensure workers are given the opportunity to retrain to operate new technology.</td>
</tr>
<tr>
<td>Downsizing</td>
<td>Employees are kept informed of changes and processes for redundancies (if needed).</td>
</tr>
<tr>
<td>Merger or takeover</td>
<td>Existing employees are treated appropriately by the new management team and all legal obligations are honoured.</td>
</tr>
</tbody>
</table>

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.
APPLY YOUR SKILLS  Sources of change

PRACTISE YOUR SKILLS
• define, describe and apply relevant business management terms
• research and analyse case studies and contemporary examples of business management applicable to managing change in a business 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.

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 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.
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

<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 Thailand</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>

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 1980s, 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
EXTEND YOUR KNOWLEDGE

The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation

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.

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

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.
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.

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