BUSINESS STUDIES

Business Report

Executive Summary

Changes within the internal and external business environments are inevitable phenomena that managers of a business must be able to deal with. Businesses require dynamic managers that are able to adapt to these changes, implement new decisions, increase competitive advantage and be flexible.

This report will discuss and analyze with reference to two case studies, Nummi and Harley Davidson, the following:

- The role of management within a business and its importance in maintaining the perpetual success of a business.
- The different roles managers have to play to adapt to changes
- How various managerial skills contribute to effective management
- How managers have a responsibility to the stakeholders
- Management theories managers can implement to achieve efficiency and effectiveness
- The various sources of change managers have to deal with
- Reasons why some managers may resist change
- How managers can manage change effectively
- The social responsibilities managers have to uphold

This report will also focus on evaluating the importance of the skills of management in ensuring effective management with close reference to Nummi, Harley Davidson and other case studies. Harley Davidson is a famous motor-cycle company whereas Nummi is a car manufacturing business. Harley Davison has been running for 100 years of operation since 2003 and attributes this success to effective management. Similarly, Nummi attributes its low absenteeism rates and organizational behavior to Nummi as well.

Role and importance of management

Management can be defined as the planning, organizing, staffing, leading, directing and controlling of an organization for the purpose of accomplishing a common goal. Successful management is characterized by efficiency and effectiveness. Efficiency refers to achieving maximum output with a minimum level of inputs whereas effectiveness refers to the management's ability to achieve the goals of the business. The role of management is to ensure high efficiency which means the costs of production are decreased and high effectiveness which means goals are achieved. Businesses increase efficiency by using contemporary technology or downsizing their labour force.

Management is important to the Australian economy and the business itself due to the increase in Australian businesses in international markets leading to increased competition. According to the Karpin report, businesses need to increase efficiency and effectiveness to compete with international business on a global scale and hence contribute to employment growth and improved living standards in Australia. Effective management is also essential to businesses as mangers provide vision for the business, implement changes and decisions, coordinate activities and are responsible to stakeholders.

The extent of how important effective management is in the success of a business can be seen in the Nummi and Harley Davidson case study. Both case studies demonstrate how effective management was in rebuilding both companies and saving them from the brink of bankruptcy.

Responsibility to stakeholders

The stakeholders of a business refer to the individuals and groups who have a vested interest in the business or are affected by the decisions a business makes. Managers have a responsibility to internal stakeholders such as shareholders, other managers and employees. Shareholders expect managers to maximize efficiency to increase profit, other managers and employees expect managers to treat them equally and fairly and provide a safe work environment. Managers are also responsible to external stakeholders such as creditors, environment, the government, customers, suppliers and the general public. Managers are expected to make decisions that are socially just and environmentally friendly, and must abide by the laws that control businesses.

Managers may need to reconcile conflicts of interest between stakeholders. For example, a conflict of interest may occur between the shareholders and employees. Shareholders want to maximize profit and minimize costs and employees are the most expensive cost of the business. Hence, managers need to appease both stakeholders and develop strategies that will maximize efficiency and effectiveness without downsizing the labour or provide redundancy packages to employees.

Managers at Nummi are responsible to their stakeholders, particularly their employees and shareholders. They were responsible to their shareholders in that they were required to maximize revenue to increase profit and return on investment however initially this was not the case as worker productivity and morale could not be improved. This led to the closing down of the Fremont plant in 1981. In addition, the managers had a responsibility to their employees to provides a safe working environment and high morale however initially the plant conducted simple, repetitive task that led to high absenteeism, alcohol and drug abuse and low worker productivity.

Management roles

Managers need to adopt various roles to achieve efficiency and productivity, adapt to change and reconcile conflicts of interest between stakeholders. Managers adopt the interpersonal role, decisional role and informational role. The interpersonal role refers to the relationship between people which means the manager has to act as the leader to direct subordinates, the figurehead to represent the business in public and liaison officer to coordinate different departments. The decisional role involves choosing between several options to achieve a specific aim which means managers have to act as the entrepreneur when initiating new projects or products, the disturbance handlers when dealing with problems and taking corrective action, the resource allocator when allocating various resources such has machinery and the negotiators when resolving conflict and bargaining with suppliers, distributors etc. The informational role refers to the collecting and analyzing information from various sources, which means managers have to act as the monitor to examine changes in the external environment, the disseminator to inform other people of information collected and the spokesperson to inform the general public about new projects, products etc.

The managers at Nummi and Harley Davison are required to play a number of management roles to deal with issues and concerns. For example, during the reopening of the Fremont plant in Nummi, mangers adopted the interpersonal role and acted as leader to their employees, forming self manmade teams and teamwork. Another example can be seen in the Harley Davison case study where managers had to adopt the decisional role by acting as the entrepreneur when initiating new strategies such as the materials-as-needed, statistical operator control and employee involvement. In both case studies, managers had to adopt the informational role and collect information from other sources, for example Harley Davidson managers collected information from Japanese companies and incorporated this into management strategies.

Skills of management

Managers require special skills that assist with the different roles they have to play for the business and help identify change and implement strategies. These skills include:

- People skills – Managers need to be able to use their interpersonal skills to communicate, listen to and understand co-workers. Employees need to be constantly motivated by their managers which results in maximum labor input. In addition, people skills allow managers to succeed in effectively adopted the role of the leader, liaison officer and figurehead. Managers require active listening skills, feedback skills, delegation skills and discipline skills.
- Strategic thinking - Managers need to be able to view the business as a whole and understand the interdependence of the business functions. Strategic thinking also involves translating the mission and vision into achievable goals and plans and using leadership skills and teamwork to coordinate the employees to achieve the goal.
- Vision – Managers need to be able to develop a long term plan for the business, also known as the vision and propose strategies and tactics to achieve these goals. This means managers are required to analyze the business's position and anticipate any changes in the future.
- Flexibility and adaptability to change –The managers of a business need to be flexible to adapt to change as it is constantly occurring in the internal and extern business environment. Hence, managers need to develop proactive strategies to deal with change rather than reactive strategies. This means managers are required to monitor the business's performance and anticipate any future changes to take advantage of opportunities and minimize threats.
- Self-management – Managers need to mange themselves by implementing time management to complete all task on time. Managers can also participate in self managed work groups where the provide support and training for other employees.
- Ethical and high personal standards – Managers have the responsibility to act ethically, have high personal standards, be honest and just, and treat others equitably and fairly. Managers act as role models for other workers and society which means unethical society will be considered unacceptable by stakeholders.
- Team work – Through motivation and positive reinforcement, manager need to encourage employees to work together to achieve o a common goal and ensure the success of the business. Managers also need to negotiate with other employees, generate trust, understanding and loyalty to the business.
- Complex problem solving and decision making – Managers need to have complex problem solving skills as many problems can occur in a business. Hence, managers need to identify the problem, find solutions, assess solutions and choose the most appropriate methods, implement the solution and monitor the results. Managers need to prioritize with problems, identifying the immediate problems and dealing with them first. In addition, senior managers have to make decision that involve the best interests of the business as a whole, ensuring strategies goals will be achieved. Middle managers have to make decisions regarding specific departments and functions.

Management theories

To achieve effective management, mangers may employ the following management theories: classical-scientific, behavioral, and political and system/contingency theory. The classical-scientific theory was developed by Henri Foyal and emphasized the importance of a hierarchy and high degree of specialization. The theory focused on an autocratic style of management, with managers having a short span of control, and a great emphasis was placed on planning such as strategic, tactical and operational planning. The hierarchical organizational structure was based on division of labour which meant each worker was specialized in their area; however this meant tasks were repetitive and boring. The classical scientific theory was rigid and inflexible because it was based on mathematical and scientific data and workers had little input in decision making due to the autocratic nature of management.

The behavioral theory was based on Maslow's hierarchy and focuses on human behavior and the importance of motivation. The theory emphasizes on the collaboration between managers and workers, resulting in a flatter organizational structure. This led to the creation of teams, multi skilling of workers and a democratic management style, which meant there was better communication between mangers and workers. Hence, workers were able to have some input in the decision making process and achieve self motivation and satisfaction from their work. Managers motivate their staff through monetary and non monetary rewards.

The political theory describes how people can have differing opinions and perspectives, which can lead to the formation of coalitions or temporary alliances. Hence, dominant coalitions will power (e.g. legitimate, coercive, expert etc.) within the work environment. This means managers need to be able to negotiate and bargain between coalitions to prevent conflict.

The system/contingency theory uses an integrated management approach. The system theory emphasizes on the interdependence between the business functions and its relationship to the internal and external business environments. The contingency theory focuses on the need for a more flexible structure, varied leadership such as autocratic, democratic, collegial or laissez faire and greater monitoring of business environment. Hence the role of management is to coordinate these different sections and monitor business environments.

Sources of change

The major sources of change in business are diversified and varied. The sources of change include the influence of economic, geographic, social, legal, political and technological developments from the external environments. In additions, internal influences are also vital; they include the effects of accelerating technology, new systems and procedures and new business cultures.

External influences:

- Economic influences - affect businesses in terms of changes in consumption expenditure, business investment, government economic policies, international economic environments, changing work forces and productivity of infrastructure. An example of an economic influence can be seen in the current world financial crisis. The United States of America are currently undergoing recession and this affects the global economy as they are strongest economy in the world. Hence, businesses in other countries are losing revenue and are on the brink of bankruptcy.
- Financial influences - include the deregulation of the Australian financial sector and the level of interest rates.
- Legal influences - include government rules and regulations which promote fair conduct and trading practices. An example of this is the Occupational Health and Safety Act 2000.
- Political influences - include any major changes from an election, trade agreements and negotiations and privatization. An example of this would be the Australian-United State Free Trade Agreement (AUSTFA).
- Geographic influences - include changes in the demographics of Australia’s population. For example, our location in the Asia-Pacific region, population shifts from rural to urban area and the increased average age of our population.
- Technological developments - impact businesses as these developments result in increased efficiency and productivity. Technology aids in the creation of a ‘global village’, connecting Australia to the world which enables effective communication channels. In addition, the increase in technology results in cheaper products, increased convenience, new production methods and designs, new marketing concepts and improved quality.
- The changing nature of markets - influence business activity as these changes place pressure on Australian businesses, causing them to become more competitive. Due to the increase in pressure, businesses have begun outsourcing their services to focus on their core function. Consumer markets have also changed leading to changes in consumer tastes and individual preferences for goods.
- Social influences - include contributing to the community through charities and ecologically sustainable activities. This provides publicity for the business, aiding in the creation of a good business image. Business need to be aware of the changes in society’s needs and wants

- through constant research and development. For example, the increased rates of obesity has caused society to be more health conscious, this resulted in healthier menus in fast food shops such as salads and fruit. For example, McDonalds created a new healthy menu to facilitate for this growing trend. In addition, McDonald contributes to the community through the Ronald McDonald House Charity which provides shelter and assistance to less fortunate, ill children. Businesses also have to act ethically and socially responsible by practicing ecological sustainability and protecting workers from cheap labour.

Internal influences:

- Accelerating technology - managers need to identify technological developments and implement new systems and procedures to improve the efficiency and productivity of the business. An example of technological developments includes teleconferencing and e-commerce. E-commerce refers to the use of electronic communications to carry out business, for example fast food restaurants such as Pizza Hut and Domino are taking orders from consumers through the Internet and delivering pizza to them.
- New systems and procedures - such as stock controls such as JIT (just in time inventory control) have allowed stocks to be monitored more effectively.
- Business cultures - managers also need to implement strategies to deal with new business cultures that may result from the merging to two businesses to form one business. For example, managers in Westpac and St George may have to deal with the conflict of two different business cultures.

Reasons for resistance to change

Although change can be beneficial to businesses, some managers may resist these changes due to financial costs, inertia of managers and owners, cultural incompatibility in mergers/ takeovers and staffing.

When a business needs to change, financial costs will almost always be involved. Managers may need to purchase new equipment to keep up with accelerating technological developments. This could lead to redundancy, as new machinery may replace the need for human labour; this means redundancy payments need to be paid to compensate for this change. Furthermore, employees may need to acquire new skills to operate the machinery, and hence need to be retrained. Thus, several costs are also involved with retraining employees. In addition, new machinery may require the reorganization plant layout, leading to obsolete old machinery being removed. This could involve costs as well, such as installing new equipment and larger premises. For example, Oroton Group had to close a manufacturing plant because its operations were too expensive; hence redundancy payments had to be paid as well as the liquidation of machinery.

Manager and owners may display reluctance or resistance to change. This is known as inertia, and usually occurs with older employers and employees. These owners and managers may be unfamiliar with change as they have spent most of their lives in a stable business environment and hence view change as a risk. To assist with inertia, firms may hire change agents, who are able to identify changes and analyze the consequences of change or the absence of change. An example of inertia can be seen in the managers of Oroton Group are mainly family members who exhibit episodes of inertia in researching the external environment.

When two businesses merge together to form one business or when a business takes over another business, a conflict between two different business cultures occurs. This is known as cultural incompatibility. An example of this can be seen in the merging of St George and Westpac. Hence, cultural incompatibility can occur between these two different firms.

Staffing may be affected when a change in business occurs. This may be in terms of retraining, low morale, inertia, deskilling and redundancy. Deskilling occurs when staffs are not required to perform a task as machines have replaced that particular skill. For example, cash registers have replaced the need to calculate prices. In addition, some employees may seek to sabotage the business, due to resistance to new machinery or policies.

Managing change effectively

Change is managed effectively when managers identify the need for change, set achievable goals, create a culture of change and implement change models.

The constant monitoring of internal and external business environments allow managers to identify a need for change by assessing market trends and anticipating future changes. This means effective managers are able to assess the business's performance and compare it to what had been planned or predicted before. Hence, managers can use benchmarking (comparing performance with competitor's performance in same industry) and the world's best practice (comparing business to highest standards achieved globally) to measure the business's performance.

Managers also need to set achievable, realistic goals in manage change effectively. To evaluate the current position of the business, managers conduct a situational analysis such as the SWOT analysis, which identifies strengths, weaknesses, opportunities and threats. The SWOT analysis allows managers to develop strategies and plans to overcome weaknesses and threats, and improve strengths and opportunities.

In addition, managers also need to create a culture of change to encourage employees to work together successfully to their potential without lacking confidence in the business's ability to succeed. Employees who motivate co-workers and imbibe confidence are referred to as change agents as they improve staff morale and increase productivity.

To deal with changes in business, managers may implement either of Kurt Lewin's change models: force-field analysis and unfreeze-change-refreeze model. The force field analysis model consists of identifying driving forces and restraining forces. Driving forces are reasons to push for change and restraining forces are reasons to resist change. When these forces are in equilibrium, no change can occur. However, when driving forces are stronger then restraining forces, change is inevitable. Managers need to identify and monitor these forces, set achievable goals, utilize managerial skills and create a culture of change.

Lewin's unfreeze/change/refreeze model involves unfreezing the existing conditions and identifying the need for change, developing methods to implement the change and refreezing the new procedures and rules. Throughout each step, managers need to exhibit complex decision making skills, teamwork and positive reinforcement.

Change and social responsibility

When implementing change, managers need to consider their social responsibility and ethical issues, i.e. ecological sustainability, quality of working life, technology, managing cultural diversity and e-commerce.

Managers have a responsibility to practice ecological sustainability by protecting the environment and ensuring the technology they use or product production methods use the resources efficiently and sustainably to preserve the environment for future generations. Managers also have a social responsibility to treat all employees with equity, justice and respect and provide equal opportunity for each employee. The managers of a business are required to attain the satisfaction of its workers by demonstrating commitment positive reinforcement through techniques such as job rotation and flexible working hours. Managers also have a responsibility to provide a safe working environment for all employees.

The rise of technology can cause the deskilling of workers which can contribute to an increase in the number of unemployed low skilled people. Managers have a social responsibility to help employees develop new skills through retraining. Technology also has a positive effect in that it allows employees to work at home which is suitable for families and mothers. Australian businesses are increasingly entering the global market and competing with international businesses. Managers have a social responsibility to prevent cheap labour in developing countries as this violates human rights. In addition, managers need to practice ecologically sustainability in developing countries as well. Managers also need to recognize the importance of managing cultural diversity and incorporating niche markets to focus on a particular minority in society. Furthermore, businesses need to take advantage of the plethora of cultures in Australia and adopt innovative strategies from other cultures.

E-commerce is defined as the use of electronic communications to conduct business activities. Managers have a responsibility to train staff to adapt to the new procedures of e-commerce. Managers also have a responsibility to ensure the security of customers when conducting transactions over the Internet. The Internet has allowed efficient and effect communication to be conducted however, distractions such as games, personal emails and junk mail can provide interferences.

Conclusion and evaluation

Managers play an important role in determining the success of a business; as successful management is characterized by effectiveness and efficiency. Managers require specific managerial skills such as decision making skills, people skills and self management that enable them to identify major sources of change and devise strategies and goals to implement these changes utilizing either the force field analysis or unfreeze/change/refreeze model. The managers of a business also have to adopt different roles to correspond with change, i.e. interpersonal role, decisional role and informational role. Managers can also implement different management theories such as classic-scientific, political and behavioral adapt to change. Managers have to deal with changes in external environment such as economic, legal, political and social influences and changes in internal environment such as accelerating technology, new business cultures and new systems and procedures. Some owners and managers may resist change due to inertia, cultural incompatibility, financial costs and staffing. Managers have a responsibility to internal and external stakeholders and a social responsibility in terms of ecological sustainability, technology, quality of working life, e-commerce and managing cultural diversity.