UNIT 3 BUSINESS MANAGEMENT
SUMMARY NOTES FOR THE VCAA EXAMS

WRITTEN BY A STUDENT WHO OBTAINED A PERFECT 50 STUDY SCORE

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Area of Study 1 – Business Foundations

Types of Business

Large Business +200 employees, Medium 20-199 employees, Small = less than 20

Ways to distinguish - revenue (small = less than 2million, large = millions), numbers of staff, market share (small = customer locally, medium = some market dominance, large = significant) dominance)

Sole Traders:

A sole trader (or sole proprietor) is a business with one person who exclusively owns and runs the business.

- It will need to register a business number with Australian Business Number (ABN) and will need to register a business name with Australian Securities Investments Commission (ASIC).

- The owner is legally responsible for all aspects of the firm including unlimited liability - means that the owner of the business is personally responsible for any of the debts incurred by the business.

- If the business cannot pay debts, the owner may have to sell assets in order to raise enough money to pay off the liability.

Advantages:

- Inexpensive to set up
- Complete Control
- Ease of establishment

Disadvantages:

- Unlimited Liability (personal assets at risk)
- Business often relies heavily on the owner, resulting in long hours.
- Business can cease to operate, if owner dies or gets ill – has no perpetuity

Partnership:

Where two or more people (up to 20) own a business.

- Just like a sole trader, partnership is not a separate legal entity and therefore has unlimited liability.

- There are two types of partners, general and limited. A general partnership is where all partners are equally responsible for the management of the business and each has unlimited liability for the debts of the business.

- A limited partnership will have one or more general partners and one or more limited partners whose liability is limited to the proportion of their investment.

A partnership can help a business access larger amounts of capital as all partners can pool their funds together. It can also be beneficial if the partners have varying expertise - this can help the firm with a range of skills and experiences that contribute to future success.

Advantages:

- Workload is shared among partners
- Business can continue if one partner leaves or dies
- Partners wealth can be pooled together to raise capital.

Disadvantages:

- Profits shared among partners
- It can be difficult to find suitable partners.

Private Listed Companies:

A company that is restricted to 50 shareholders. Shares are sold privately and not open to being publically traded. This means that share can only be traded with the permission of the other shareholders. This company has the letters 'Pty Ltd' after their name - Proprietary Limited.

Advantages:

- Pay company tax rate rather than income tax rate on profits
- Limited Liability
- Company is a separate legal entity from the shareholders

Disadvantages:

- More expensive to set up
- Restricted number of shareholders.
- Shares cannot be traded freely

Public Listed Companies:

The company is listed on an exchange such as the ASX and its shares can be traded by the general public. Companies can raise money by offering shares to the public in exchange for money. In exchange, the shareholder owns part of the company and gets to share in any profits through dividends and any capital gains in share price. These companies have Ltd - Ltd - the word is at the end of the company's name which means the shareholder's liability is limited by the value of their shares.

Advantages:

- Limited Liability
- Greater ability to raise large amounts of capital

Disadvantages:

- Costly to form
- Large reporting requirements

Social Enterprises:

A social enterprise is a business that exists primarily to fulfil a vision that benefits the public or community rather than shareholders. They are commercially viable businesses that have a vision for an outcome that has a positive social impact on the community and they trade to fulfil that vision.

Advantages:

- Fill a perceived gap in the market
- Address a specific social need

Disadvantages:

- Start-up capital may be difficult to source
- High operating costs.

Government Business Enterprises:

An organisation that undertakes a commercial activity on behalf of the government.

- There are GBEs at both federal and state levels of government.

- Government owned and operated; self-funded and profit driven

Advantages:

- Some independence from government scrutiny

Disadvantages:

- Potential for political interference
- Potential for less accountability leading to less productivity

Business Objectives

These provide an overall goal which can be then translated into action by using strategies

Make a Profit:

Profit is the amount of money left over once expenses have been paid (revenue - expenses = profit).

- Key goal
- Major indicator of business success
- Linked to sales, expanding a business and market share

Increase Market Share:

Market Share is the proportion of the market controlled or owned by a particular business.

- It is normally expressed as a percentage of the size of the market as a whole.
- Aggressive marketing, opening up more stores, implementing technology are ways in which to improve market share.
- E.g. Since Aldi's entry to the market in 2001, it has steadily increased its share at the expense of both Coles and Woolworths.

To meet a social need:

- Business offers goods or services targeting the greater good and to improve the lives of others

To meet a gap in the market:

- Can offer goods or services that are not available anywhere else
- Can be locally based or offered more broadly
- Conducts market research to identify what customers seek to meet their needs and wants.

Meet shareholder expectations:

Companies will often have the objective to meet these expectations (return on investment) which can influence the decisions and strategies that a manager uses. If the organisation is able to achieve this objective and meet the expectations of shareholders, they may attract investment from other potential shareholders. These shareholders expect to make a return through capital gains (the value of the firm increases) and dividends (their share in the profits)

Link

- Sole traders aim to make a profit and fulfil a market need.
- Partnership aim to make a profit, meet shareholder expectations
- Private Listed Companies aim to make a profit and meet shareholders expectations.
- Public Listed Companies aim to make a profit, increase market shares and meet shareholder expectations.
- Social Enterprise primarily aims to fulfil social needs and to make a profit.
- Government business enterprises aim to make a profit.

Characteristics of Stakeholders of Businesses

Define Stakeholder:

Are those that have a direct or vested interest in a particular business.

Interest:

Stakeholder	Definition	Interest
Employees	People that work in the business in exchange for remuneration	To earn fair pay, have good working conditions and ongoing employment
Lenders	Parties who provide funds to allow the business to operate or expand	To get a return on their investment through payment of interest on the loans
Suppliers	Businesses that provide goods or services to another firm	They want to see the business doing well (in terms of increase in sales) so that they can sell more supplies to that business and to see that the firm is profitable (so they can get paid)
Customers	Those that purchase goods and or services from a business. They are a lifeline for a company	To receive good quality products at fair prices, so they receive the best value for their money
Shareholders	People that have invested money into the business and own a share in that business	To see the firm generating a profit so that it can get a return on their investment through dividends and capital gains
Competitors	Rival businesses that sell similar products in the same market	Competitors want to gain a competitive advantage and have healthy competition.
Trade Unions	Group that represents and protects the rights of workers in a particular industry	To see workers are treated fairly within a business and see them receive fair wages and good conditions
Managers	Those responsible for different functions of the business and make decisions and give direction to help a firm achieve its goals	To be involved in setting goals and ensuring the firm is completing these goals.

And to receive fair remuneration for their time, effort and skill. |
| Community | A group of people that live in the same place in which the business operates in | To see a firm, thrive to ensure it continues to employ local residents and sell good products at fair prices. |

Examples of Potential Conflicts between Stakeholders

Employees and Shareholders:

An example of this could be a local retail store, where the employees have been asking for improved working conditions and higher wages. The manager may want to reward the employees for their hard work and offer a combination of higher wages and reduced hours. However, by deciding to do this, it may cause prices to increase and profits to fall, which conflicts with the interests of both customers (who are after lower prices) and shareholders (who are after higher prices, thus larger revenue)

Employees and Shareholders:

For instance, a BMW decided to improve the working condition of employees (particularly engineers) to allow them a better work-life balance and less chance of injury through spending money on improvement of machinery and thus negatively impacted on the short term profits due to increase in expenses. However, the hope would be that by providing better conditions, employees will be more satisfied with the workplace, work harder and be more productive and hence BMW are being socially responsible - they are going out of their way to improve the working conditions of their employees, when the operations system was quite adequate. This will then help to maintain downward pressure on costs and improve profitability. Yet, this change causes conflicts between stakeholders (shareholders and employees) as this expense reduces the available amount of profit for shareholders, but the employees are happy as their conditions are significantly improved.

Employees and Management:

These stakeholders are likely to clash over the use of profit in the company. Employees will want profit to be used to increase their wages and make their jobs easier, whereas management will want to either increase their own salaries, or otherwise reinvest the money into growing the business, rather than spending the profit on employees.

Customers and Shareholders:

This clash also relates to profits. Customers want the lowest price possible for their goods and services, which means that the profit margin of a company will be lower. Shareholders wants dividends to be as high as possible, which means that profits need to be as high as possible, which means higher prices for customers.

Examples of Corporate and Social Responsibility:

<u>Shareholders</u>

The business should demonstrate CSR to ensure that investment is safe, needs to keep the shareholders informed about business operations and prospects, whether they be negative or positive

<u>Customers</u>

Ensure products are of the highest quality, fit for purpose. This may mean slowing production to ensure product meets high quality standards.

<u>Employees</u>

Ensure workers are paid fairly and the managers are open and honest about job security.

E.g. CSR by going above and beyond legal obligations – implementing new technology in manufacturing whereby it reduces the physical strain on employees and thus improves their health and reduces absenteeism.

<u>Trade Unions:</u>

Bargain in good faith and keep the union informed on any developments which may affect job security of staff.

<u>Community:</u>

Give back to community by supporting local programs.

Ben and Jerry's, for instance, uses only fair trade ingredients and has developed a sustainability program for dairy farms in its home state of Vermont.

Tom's Shoes, another notable example of a company with CSR at its core, donates one pair of shoes to a child in need for every pair a customer purchases

Define corporate and social responsibility:

It is the continuing commitment of a business to operate in an economically, socially and environmentally sustainable manner whilst balancing the interest of diverse stakeholders.

Triple Bottom Line – an indicator of an organisation's CSR levels and performance

Where the firm can evaluate how well it has performed economically, socially with its employees, customers and the community, as well as its impact on the environment.

Benefits:

- An increase in interested shareholders (although primarily profit driven, they are interested in companies that behave in a CSR manner

- An increase in potential customers (consumers prefer to purchase from companies who behave in an CSR manner as they feel 'part of it' and gain a sense of satisfaction knowing they are purchasing from a company that is making a positive contribution to the community)

This can in turn result in increase of sources of capital and greater amounts of revenue/profit which can be then used for other areas

Limitations:

- Time consuming and expensive (firms would need to employ and appoint staff to dedicate their time, and allocate money and other resources to CSR projects)

Not being CSR:

- Target of consumer and community concern and anger, which negatively impacts reputation and business performance.

The Areas of Management Responsibility

Operations:

- The manager needs to oversee this to ensure goods and services are produced efficiently and have the desired quality.
- Oversees the transformation of inputs into outputs
- Uses a variety of strategies from managing materials, to focusing on quality and waste minimisation to ensure the production process is efficient

Definition:

The operations management function is designed to oversee the process of converting inputs into outputs, and involves ensuring that the operations of a business are efficient so that they are using as few resources as possible to create as much output as possible.

The system has three main parts:

- Inputs: these are resources used to create a good or service - raw materials, facilities, equipment, time
- Processes: activities that convert or transform the inputs into outputs - training, use of resources, OH&S
- Outputs: the final good or service produced, ready to be sold to consumers.

This can help an organisation achieve its objectives. For example: an organisation that has an objective to deliver a high quality product to its consumers' needs the operations are to be able to do this. The manager also needs to ensure that it has the correct processes in place, such as checking for defects at regular intervals. Finally, the manger needs to ensure that the outputs consistently meet the standards expected by the customers.

Finance:

The area of finance is one that encompasses a range of activities revolving around the management of money and other assets.

- Finance is a key for any firm so they can buy stock, pay employees, advertise, develop products and grow.
- Includes setting budgets, cash flow, payroll, preparation of all financial documents
- Analyse financial records to assess the viability of the business

Human resources:

The area of the firm that manages the relationship between the employees and the business.

- Manager needs to bring in the right people, ensure that their skills are developed, they are motivated and achieving objectives.

- Being able to employ and retain the best employees ensures that the business is able to achieve its set objectives.

- The manager responsible for human resources needs to make certain the business has the right people, in the right jobs, at the right time so that objective is being achieved in the most cost efficient manner.

- This often includes: hiring, training and pay rises

If the firm sets strategic objectives relating to productivity, then responsibility rests with HR to ensure it develops positive relationships that boosts morale and and hence staff are then motivated to work to such tasks.

Sales and Marketing:

This could include advertising, social media campaigns, promotional offers, direct selling and many more strategies.

- Marketing plays a vital role in achieving increase in sales, profit and market share – and also creating an ongoing relationship between the firm and its customers.

- A business can have a wonderful product to provide consumers, but if the consumer is unaware of the product or its benefits, it will then be difficult to attract sales.

- Marketing alerts and attracts consumers to purchase the goods or service, which assists the business in achieving its set objectives.

Technology Support:

Technology support is responsible for implementing and maintaining technologies within the business.

- Focusses on installing and maintaining all technological needs of the business.

- It is important for communication, data processing and storage and the operations system.

- This kind of support is vital in order to improve processes (efficiency) and reduce costs.

- Technology has helped businesses to expand across borders due to the development of web technologies and e-commerce. These advances help businesses achieve their objectives by improving processes, improving products and reducing goods.

For example:

Banks have been able to improve the service they provide to their customers by making online banking available. This helps banks to serve more customers per day while reducing their costs (no need for longer opening hours which involves employment costs) → improves profitability (more revenue and costs have been reduced = increased profit)

Management Styles

A management style is the way in which a manager makes decisions and communicates with employees.

Autocratic:

Manager makes the decisions and tells the employees what tasks to perform - limits employee knowledge and frequently checking on employee performance.

- Management makes decisions without employee input (centralised)
- One-way communication (top-down)
- Places importance on completing tasks

Strengths:

- Fast Decisions
- Clear direction given to employees
- Roles are set out clearly
- Suits a hierarchical structure
- Time is used effectively

Weaknesses:

- Low morale - due to no input from employees
- Poor relationship between management and staff
- Very task focused with lack of employee development
- High absenteeism and turnover

When is the Autocratic style best?

- When time is lacking and decisions need to be made quickly
- When employees lack experience and knowledge
- Simple tasks

Persuasive:

Manager makes the decisions and then attempts to sell this decision to the staff - similar to autocratic, except manager gives reasons for their decisions.

- Manager makes decisions without employee input (centralised)
- They attempt to make employees accept the objectives of the organisation
- One-way communication although more information given to the employee

Strengths:

- Fast Decisions
- Decisions may be supported by employees as they are more informed

Weaknesses:

- No employee input
- Communication is one-way
- Low morale
- Employees are frustrated as their ideas are not heard in the decision making process
- Small pool of ideas due to no consultation

When is the Persuasive style best?

- When time is of importance and decisions needs to be made quickly
- Employees lack experience
- Simple tasks

Consultative:

Manager seeks the ideas and opinions of the employees before the manager makes a final decion - gains feedback from staff before making the sole decision.

- Two-way communication
- Manager makes decisions (centralised)
- Discussions are encouraged
- Importance is placed on employee involvement, yet management still remains control

Strengths:

- Greater variety of ideas
- Higher morale
- Improves confidence and motivation of employees as they are more involved

Weaknesses:

- Time consuming
- Some ideas will be overlooked which can cause conflict between staff (some may feel they are undervalued team member)

When is Consultative style best?

- During times of change
- When employees have experience and knowledge
- Problem solving tasks

Participative:

A participative management style is where the manager unites with staff in making decisions together.

This style is characterised by decentralised control where there is <u>staff participation</u> and <u>ownership in decision making</u>.

- Two-way communication where employees are encouraged to provide ideas and feedback
- Employees are able to make decisions (decentralised)
- Information is shared among employees
- Decentralised control where there is staff participation and ownership in decision making
- Having a pool of people from a variety of backgrounds would lead to more favourable outcomes
- Skills of staff are developed

Strengths:

- High levels of trust that is formed (as manager allows staff to make important decisions)
- Strong relationship between manager and employee
- High motivation
- Wide view point results in better decisions made as more experience is pooled together

Weaknesses:

- Time consuming - decisions are often discussed and debated - therefore it affects firm's efficiency and ability to meet deadlines.
- More time on forming decisions and less time completing goals and tasks
- Managers role may be undermined, if they are not fully involved in the decision making process.

When is Participative style best?

- Experienced and knowledgeable employees
- When problem solving is required
- During times of change - it allows the staff to be involved in the change and thus staff are more accepting of the decision
- When creativity is required

Laissez-Faire:

Manager gives employees full responsibility and control of the workplace operations

- Two-way communication
- Employees make decisions (decentralised)
- Manager is only involved if asked
- Authority and decision making is decentralised

Strengths:

- Employees feel a sense of ownership which results in improved morale and motivation to achieve outcomes.

- Allows for high levels of creativity in the workplace – as staff can freely express their ideas without being held back by a manager or decentralised decision-making.

Weaknesses:

- Misuse of company resources.

- No way to intervene with employee conflict.

- Increased freedom may lead to some employees being less productive.

- Employees are not monitored regularly which can lead to a loss of management control and company objectives may become lost.

When is Laissez-Faire style best?

- Highly skilled employees
- High creativity is required

Management Skills

Communication:

The transmission of information to one or more recipients in such a way that the recipients understanding of the message is as close as possible to the meaning that the sender intended.

The transfer of information from sender to receiver, and to listen to feedback - can be verbal and non-verbal

- This is important so that stakeholders are clear on expectations
- Needs to be clear to help promote positive relationships
- Provide clear instructions to subordinates to fulfil their tasks and roles
- Internally (Manger to employees) and externally (inform stakeholders)
- Increases chances of successfully achieving business objectives
- Effective communication is typically two-way communication

Delegation:

The transfer of authority and responsibility from a manger to an employee to carry out specific activities. The manager who is delegating the task still retains accountability, and clear communication is therefore required when delegating.

- Delegating tasks can free up time for the manager
- Helps improve the skills and experience of employees
- Improves job satisfaction as the employees are trusted and relied upon to perform tasks

Planning:

The ability to look ahead and set goals or objectives

- Three levels of planning - (Strategic: Long term goals 3-5yrs – senior management, Tactical: Medium term goals 1-2yrs – middle management and Operational: Short term goals day to day)

- Future orientated

Example of Strategic Planning - the CEO and Board of Directors decide to expand company operations overseas

Example of Tactical Planning – Computer system upgrades.

Example Operational Planning – weekly staff rosters

A logical planning process: SADIM

- **S**et the objective: what the manager is aiming to achieve
- **A**nalyse the environments: gather information via a SWOT analysis
- **D**evelop alternatives: Develop a range of possible strategies that could achieve the set objective
- **I**mplement: Implement the most appropriate alternative
- **M**onitor: check to see if set objective has been met (via feedback from members of company), take corrective action where necessary

EXAMPLE: Explain each of the steps in a planning process that James could use to help the success of his new venture

The second step in the planning process is to analyse the current environment. This may involve conducting a SWOT analyse that looks at the strengths, weaknesses, opportunities and threats to the business. James would need to conduct this analyse to ensure he is well informed on where the firm currently sits. He would need to gather information on the internal strengths and weaknesses of the firm and also the external opportunities he may take advantage of, whilst acknowledging the external threats/competitors. By analysing the current environment, it will provide James with information to help make a successful plan when implementing his new venture.

Leading:

The ability to be able to motivate and inspire others to work towards achieving business objectives.

- Objectives give people direction
- Leading motivates people to work hard towards that given direction
- Improves morale and achievement of objectives

Good leaders need to:

- Be good communicators
- Provide support
- Act as a mentor
- Resolve disputes – act fairly in a dispute, listen to concerns of both parties, rectify as quickly as possible to get the employees back towards achieving business objectives.
- Encourage
- Show confidence in the cause

Decision-making:

The ability to select the most appropriate course of action from a range of alternatives

Common decision-making process: IGDACE

- Identify the problem: be clear about what the issue is
- Gather information: collect information from the issue
- Develop alternatives: Develop possible solutions
- Analyse alternatives: asses the strengths and weaknesses of each alternative
- Choose and Implement: Select the most appropriate alternative and implement it
- Evaluate: gather feedback on the final decision to see if it has been effective in solving the issue.

Interpersonal:

The ability to deal with people using empathy to build trust and positive relations with employees and other stakeholders of the business

- Allows the manager to communicate accurately and honestly, yet maintain strong relationships
- Helps build a strong culture where relationships are valued.
- Results in higher productivity, efficiency and fewer conflicts

Relationship between styles and skills

Autocratic and Persuasive rely heavily on:

- One-way communication
- Delegation of tasks
- Planning
- Centralised decision-making

Consultative and Participative rely heavily on:

- Two-way communication
- Delegation of tasks
- Interpersonal
- Leading
- Centralised/decentralised decision-making

The styles that have <u>centralised decision-making will delegate tasks to employees</u>, while the styles that have <u>decentralised decision-making not only delegate tasks but also delegate decision-making and responsibility to employees.</u>

Corporate Culture

Refers to the shared values and beliefs of an organisation and is characterised by its traditions and heroes.

- A business where employees <u>share the same values creates a positive environment</u> and hence employees spend <u>more time together and collaborate more.</u>

There are two types of corporate culture:

- Official Corporate Culture - what the business intends the culture to be. It can be seen in official documents such as the mission and or stated values.

- It is the impression the business tries to create with its external stakeholders

- Real Corporate Culture - what the actual values are of the people within the business. It can be seen in areas such as: the overriding management style, dress code and how employees treat each other and customers.

Elements of Corporate Culture: these indicate what type of culture the firm has

- Values - customer service, teamwork, honesty

- Physical Layout - open space, encouraging, collaboration

- Heroes - the unique stores of the business or people they look up to or celebrate - e.g. Founders

- Rituals - social gatherings

- Dress code - how the employees dress

Indicators:

- Dress code – how professional or strict and organisation is, and their treatment of employees.
- Slogan – their focus and therefore what they value and believe in
- Choice of style
- Layout of office
- Values

Benefits of Positive Culture:

- Reduced staff turnover – and therefore staff are more likely to want to work for an organisation that has highly valued and shared beliefs.
- Reduced staff absenteeism
- Improved productivity
- Higher morale within the workplace
- Higher autonomy and empowerment of staff

Developing a Corporate Culture:

- Communicate - communicating the desired values and behaviours through verbal and non-verbal use. Employees need to know the expectations placed on them which gives them direction to embrace the desired values

- Leading by example - to act as a model of the desired values, it encourages others to follow in the same manner - dress code – A business that values team work and open communication should have managers that are using 2-way communication and working in teams.

- Recruitment and selection - In order to develop a desired culture, the firm can ensure new employees share the same values and beliefs as the business - can be done in interview process. Where the employees share the same values it creates a positive culture where employees are more likely to collaborate and spend time together

- Training - employees that are new to the organisation need to be trained in accordance with the culture. For example, a business that values a high level of customer service should conduct ongoing customer service training. For instance, by giving staff training course it makes them more efficient and satisfied as they are contributing to the success of the business – leading to a more positive culture.

- Reward and Recognition - management must reward behaviour that reflects the desired culture of the organisation and appropriate values. This not only increases the likelihood of the employee continuing to demonstrate correct behaviours, but also encourages others to embrace the values.

- Develop Rituals – more social gatherings which creates work-life balance and embraces interactions

Choice of management styles

Autocratic:

Suits a highly structured business where great emphasis is placed on achieving tasks - these types of managers place very little value on the level of job satisfaction

Participative:

Emphasis on ensuring works gain job satisfaction as well as achieving their assigned tasks - greater contribution of decision making and communication is open

Employee centred = values worker's contribution and places trust and faith in their abilities = positive culture

- A business that adopts are more employee centred demonstrates that it values contribution of workers and places faith and trust in their ability → positive culture

    Employee decentralised = task orientated, doesn't have faith in employees, reduces morale = negative culture.

- **Policy** (i.e. a dress code) - a written statement detailing processes, procedures and regulations that must be observed in a given situation.

- It tells employees what to do and how to do it in any given situation. The policy should reflect the given values in the company statements

- **Physical Layout**

    More breakout areas allow for teamwork and collaboration = positive culture
    .

Area of Study 2: Managing Employees

2.1 Relationship between Managing Employees and Business Objective:

Human Resource management includes all the strategies to recruit the right staff to fill vacancies, keep staff motivated through offering higher pay, promotions, a new office and non-monetary enticement (company car) and implement correct procedures when terminating staff

Business objectives are the set goals a business is aiming to achieve. The relationship between employees and business objectives is that it is the employees that work to achieve the objectives – without staff, objectives simply cannot be achieved.

A common business objective is to increase profits. The HR manager can assist in achieving this by ensuring that all employees have adequate product knowledge about what they are selling, and conducting regular performance appraisals to identify any areas for improvement. This will increase the sales that the firm receives and therefore assist the firm in achieving objectives.

Human Resource managers aim:

- to develop positive work environment
- to promote good relations with staff

This can lead to higher levels of motivation, increased productivity and ultimately the achievement of these objectives

2.2 Key Principles of Maslow's Hierarchy of Need

Motivation is the drive or desire of employees to achieve business objectives

Maslow's Motivation Theory:

Employees have needs to be satisfied, and are motivated by unfulfilled needs

- The idea that all people have needs to be satisfied, and therefore people will be motivated to work towards satisfying those needs.

- These needs can be arranged into a series of steps, according to their importance, into a hierarchy of needs.

- Once lower levels needs are met, the higher levels of need can be pursued.

- The opportunity to satisfy these needs that provides the motivation to employees.

- Theory is important because it suggests the idea that organisations have to create workplaces that attempt to satisfy all the needs of an employee, and cannot simply attempt to motivate through providing for lower level needs such as adequate pay.

- Once a need is met it is no longer a motivator

Benefit:

- Helps HR manager identify what could motivate staff and be able to then develop strategies to address needs

Limitation:

- Difficult for managers to identify the level of need for each employee.

Need – In order of importance	Definition
Physiological Needs (extrinsic motivator)	Very basic needs – needs that individuals require for human survival – water, sleep, food, shelter, clothing This can be achieved by providing satisfactory pay
Safety Needs (extrinsic motivator)	Security and protection from physical and emotional harm– such as health and job safety An employer can provide for this through exceeding OH&S laws, longer term contracts
Social Needs (Intrinsic motivator)	A sense of love and belonging in the workplace – includes wanting to develop relationships An employer can provide for this through supportive management, social gatherings and open workspaces
Esteem Needs (Intrinsic motivator)	Where employees strive for recognition of achievements and respect in the workplace This can be provided by giving an employer responsibilities, promotion, recognition and or rewards.
Self-Actualisation/Fulfilment (intrinsic motivator)	Where employee has the need to become everything that one is capable of being – to achieve full potential. An employer can provide for this through creative and interesting jobs, and providing opportunities for advancement within the company

2.3 Key Principles of Locke and Latham's Goal Setting Theory

Locke and Latham's Goal Setting Theory:

- Concluded that employees were motivated by clear goals and appropriate feedback regarding their achievement.

- Centres on motivating people by giving them the opportunity to achieve goals.

- The employee's desire to perform the goal, therefore provides them with the motivation, and increases and sustains the employee's performance overtime.

- People who have more difficult but attainable goals perform better than those who have less difficult goals.

- Lack of accomplishment of goals can lead to job dissatisfaction – leads to lower productivity and a lower commitment to the organisation.

Two Important Factors in setting goals:

Goal Difficulty - harder the task, the more motivation that is derived and therefore productivity levels increase.

Goal Specificity - A clearly defined goal will increase the probability of achieving it.

If employee has goal set in collaboration with manager, they will have a higher commitment to achieving it and greater sense of ownership.

Goals must be:

Clarity – must not be unambiguous, and be measurable and have definite completion times

Challenging – more challenging goals, the more motivation it provides - however goals cannot be overwhelming in that employees feel the goal is out of reach.

Commitment – Set by the employee and employer in conjunction with each other; both must agree

Feedback – regular feedback helps maintain momentum as employee feels appreciated and keeps the employee on track towards the goal.

Task Complexity – should not be so complex that the employee does not expect they can achieve it.

Benefit:

- Clear way of measuring the employee's performance against these goals in terms of achieving the goal or not.
- Allows for employee feedback and this can improve manager's relationship with subordinates

Limitation:

- Time consuming to set goals for each individual or group

2.4 Key Principles of Lawrence and Nohria's Four Drive Theory

Lawrence and Nohria's Four Drive Theory:

- Theory describes human motivation in terms of a set of dynamic, interacting needs that are essential to human makeup

The Drive to Acquire:

This is where the individual is driven to gather material items and status (clothing, shelter, and other goods)

- One way that employers can fulfil this drive is to link job performance with rewards

This would apply to the workplace through:

- Satisfactory remuneration that is equitable with other like firms
- Linking monetary rewards to performance
- Recognition and rewards programs

The Drive to Bond:

The individual is driven to seek strong working relationships within business.

- Employees want to feel as though they 'belong' to the business
- Employees have to engage in relationships with co-workers, of mutual caring.
- This promotes a supportive work environment and a positive culture

This would apply to the workplace through:

- Set up support programs – e.g. mentoring
- Managers showing care and support of staff through celebrations, achievement of workplace milestones.
- Structuring work in teams
- Build a culture that values sharing and teamwork
- Social gatherings
- Employee centred management styles

The Drive to Comprehend/Learn:

Employees are driven to develop new skills and to be challenged in their roles to further potential career advancement.

- To have their curiosity satisfied.
- Employees gaining valuable experience as part of their career development in the workplace.

This would apply to the workplace through:

- Employees being given the opportunity to learn new skills on a regular basis.
- Being given interesting, challenging tasks with variety
- Support growth and learning opportunities – e.g. training and development programs.
- Employees gaining valuable experience as part of their career development in the workplace.

The Drive to Defend:

Individuals are driven to defend themselves, their family, friends, possessions and or accomplishments when they feel threatened

Business have the aim to create a friendly workplace whereby staff do not feel the need to defend themselves

- A workplace that is safe, transparent, and non-intimidating.

- The workplace promotes open communication where all staff are treated fairly.

- The drive to defend must be kick-sated by a threat, which then stimulates employees, and the organisation as a whole, to work to eliminate or correct sources that are communicating misguided threats.

This would apply to the workplace through:

- A positive corporate culture with staff and management developing a strong relationship.

- Intimidation not being used by management to keep staff on track – so that staff do not feel the need to defend themselves.

- Ensure performance evaluations are fair – so that staff do not feel the need to defend themselves.

- Set clear and transparent objectives.

There should be a clear grievance process where employees are able to defend themselves in any disputes that arise.

2.5 Motivation Strategies

Performance Related Pay:

Where employees receive added remuneration payments for exceeding pre-set targets.

a. <u>Pay Increases</u> – employees are covered by an award or agreement and receive a specific amount whether it is an hourly, daily or weekly.

b. <u>Bonuses</u> – these are one-off payments made to employees individually or collectively to reward their effort to reach or exceed pre-set targets.

c. <u>Commissions</u> – an amount paid to an employee for achieving a sale.

d. <u>Share Plans</u>- receiving shares in the business

Advantages	Disadvantages
➢ Can provide immediate motivation ➢ Tangible way of recognising achievement ➢ Encourages goal setting to be not too hard – this emphasises the benefits of goal setting theory. ➢ Provides a direct financial reward to an employee	➢ Generates a competition based culture – whereby staff do not want to help each other ➢ Can cause resentment from some employees ➢ Can be time-consuming to set for each employee ➢ Often a short term motivator

Career Advancement:

Where an employee is given opportunities to develop their skills and move up the hierarchy of a business.

This motivates staff as they are driven to further their career by learning new skills and to take on greater responsibility.

e.g. job enlargement (take on more roles) – e.g. job enrichment (take on more responsibility) – e.g. Job Rotation (to a new area of management – to increase variety of work and broaden knowledge and abilities of employee – this lessens likelihood of boredom and disengagement)

Advantages	Disadvantages
➢ Helps business retain talented employees – thereby reducing staff turnover levels ➢ Employees are rewarded for their past performances ➢ Helps build a positive culture as the business promotes from within.	➢ May cause resentment from those overlooked for promotion ➢ Competition between employees for limited place can lead to workplace rivalry ➢ Difficult to promote all employees

Investment in Training

Spend time and money on improving the skills of staff so the business can gain a competitive advantage through increased levels of productivity and the achievement of business objectives.

- Training is where an employee learns and improves their skills so they are able to perform their job to a higher level.

- Being able to perform at a higher level can create short term motivation.

- This motivates staff as their skills and knowledge is enhanced.

- Ongoing training opportunities can provide long-term motivation.

Advantages	Disadvantages
➢ Shows the employees the business values them ➢ Can give a sense of job security for employees as they are being invested in ➢ Helps further career advancement ➢ A more skilled and productive workforce	➢ Very costly to establish, especially if person leaves the organisation ➢ No guarantee the employee will remain in the business ➢ Training may be wasted if there are not sufficient jobs with higher skill level required

Support and Sanction:

- Support =

  Employees are offered additional help in the workplace, especially if they make mistakes – it can motivate employees to work harder because of the support that they know they have from their employers.
  E.g – Employee Assistance Program which is a confidential counselling service to support their wellbeing and personal lives – can help short term in terms of regaining focus and motivation.

- Sanction =

  Employees are threatened with some form of penalty if they breach workplace practices and or do not meet expectations – motivating employees to work harder and to deliver results and therefore do not receive sanctions or negative consequences.

Advantages	Disadvantages
Support: ➢ Helps improve the mental well-being of employees and because of this support, the employee in turn will want to achieve business objectives/increase productivity due to support given. ➢ Helps build a strong culture, and thus reduce absenteeism ➢ Can be a long term motivator *Sanction* ➢ It can bring other employees in line with policy through fear of sanction	*Support:* ➢ Managers may not know of an employee's problems making it difficult to demonstrate emotional intelligence and empathy ➢ Needs a positive culture to work effectively, where staff feel able to voice their concerns/issues ➢ Some staff may not take kindly to support or the offer of help *Sanctions:* ➢ It can cause resentment from employees therefore lower rates of productivity and even conflicts ➢ Can cause disputes and union involvement ➢ Workplace punishments can create a negative corporate culture

Advantages and Disadvantages of Motivation Strategies – Short and Long Term

Performance Related Pay:

The notion of rewarding an activity leads to the employee wanting more of it and therefore is a short-term motivation strategy.

Career Advancement:

By providing opportunities for advancement within the company through promotions, it acts as a long-term motivator – whereby staff are encouraged to deliver consistent results and improve to gain a higher role in the firm.

Training:

If an employee is having difficulty in performing a task, a training program can boost skills to improve their performance and confidence, which motivates them in the short term. Yet, investing in ongoing training, where staff are encouraged to continuously improve by learning new skills, it then creates long-term motivation.

Support and Sanction:

Both short term motivation strategies.

2.6 Training Options

Training targets the improvement of employee skills and abilities to enable personal and business development. Employees expect to be able to acquire new skills to make them more skilled and to increase their level of employability as well as enable them to multi-task, seek higher levels of pay and work that is more challenging.

On-the Job Training:

- Training that takes place while the employee is working.

- Skills are gained as trainee is carrying out their job.

- Employee learn in a real environment and gain experience dealing with tasks and challenges that they may face during the normal working day.

Can be done through:

- Mentoring – a trainee is allocated to an established member of staff who acts as a guide and helper giving advice and assistance as required.

- Coaching – experienced staff members help trainee learn new skills and processes by providing instructions and demonstrations.

- Job rotation – staff rotate roles or tasks so they gain experience in a full range of jobs.

Advantages:

- Cost effective
- Employee gains experience on the equipment they will be working on
- Opportunity to learn whilst doing
- Training alongside a real colleague with business experience and knowledge – being productive
- Immediate feedback is available from an experienced member of staff

Disadvantages:

- Quality of training relies on the ability of the trainer and time available
- Bad habits could be passed onto new staff
- The learning environment may not be conducive

Off-the Job Training:

- Employees undertake their training away from the workplace

- The business can send individuals or groups to a specialised training facility – to gain a recognised qualification

- A specialised provider with industry specific knowledge instructs staff to develop their skills

Common methods of off-the job training include:

- Day release to attend course

- Online learning

- Block release courses – several weeks at a local college

- Sponsored courses in higher education

- Self-study computer based courses

Advantages:

- A wide range of skills can be obtained

- Staff can learn from an outside expert with vast experience

- More focused on training without workplace distractions

- Staff receive formally recognised qualifications

Disadvantages:

- Costlier with fee charges

- Lost working time and potential output from employees as they are away from work

- New employees still need induction training

- Employees have upgraded their skills and may seek work elsewhere

- May not learn on exact equipment that will be used in workplace

2.7 Performance Management:

Performance management – the process used to evaluate and improve individual and business performance

A successful performance management system should ensure:

- Employees who know and understand what is expect of them in their job roles
- It is important that all strategies are conducted fairly
- Employees are given regular feedback and an opportunity to discuss their work performance
- Employees are acknowledged for their performance through a rewards and recognition program
- Employees are given support if underperforming through additional training.

If individual performance improves then this will lead to improved business performance and the achievement of objectives

Employers can use a number of strategies to measure and evaluate the contribution made by employees. These include:

1. Performance Appraisals:

The process used by a manager to examine and evaluate an employee's work behaviour by comparing it to pre-set standards

- Used to provide feedback to the employee to show where improvements are needed and the reasons why.

- It is used to determine who needs what training and who will be promoted, demoted, retained, or fired.

  Common methods of performance appraisals include:

- **Essay method** – manager maintains a journal of each employee making notes about work performance in different areas of the business

- **Critical Incident Method** – manager record only exceptionally good or bad aspects of work performance

- **Comparison method** – employees are ranked using a predetermined checklist

2. Management by Objectives:

A program where the manager and the employee collaboratively set clear objectives.

Each employee understands what is expected of them and meets regularly with management to discuss and measure their progress against a set of specific indicators.

- These objectives are set for the employee and are in line with the business objectives.

- The employee is then evaluated against the set objectives and provided feedback on their performance.

3. Employee self-evaluations:

This is where an employee assesses their own performance related to pre-determined objectives.

- It should consider the employee's career aspirations enabling them to identify areas for improvement that may require further training.

4. Employee observations:

This is where an employee's performance is evaluated by watching them in action.

- A common method is the 360-degree feedback.

- This is where a diverse group of people who the employee has a contact or relationship with complete anonymous evaluation forms which are processed to identify the strengths and weaknesses of the employee.

- This is useful when assessing the employee's leadership, interpersonal and team abilities.

2.8 Termination Management

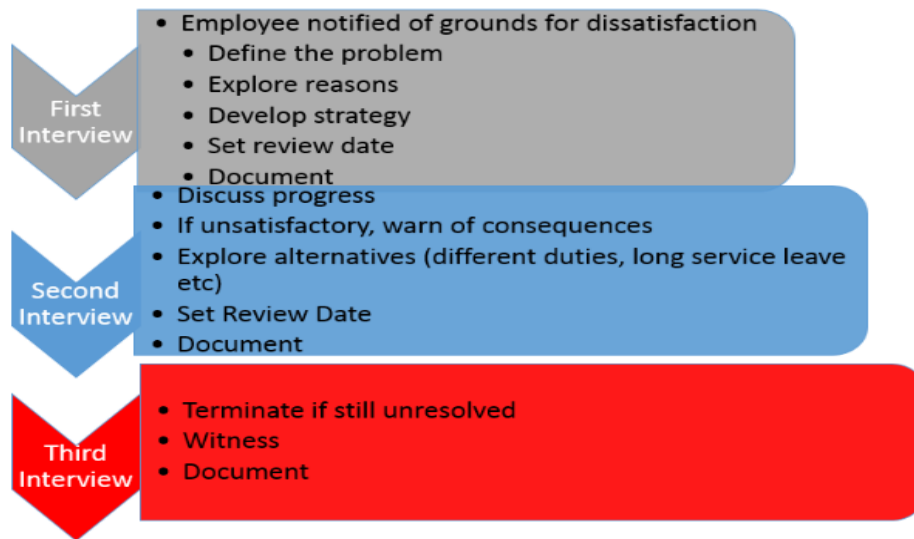The ending of an employment contract and the employee ceases work at the business

Voluntary Termination	Entitlements
Resignation – where the employee voluntarily decides to terminate the employment contract. Due to: • Unhappy • Moving location • Receive a better offer elsewhere • Change of career An Exit interview is where a manager asks a series of questions to the resigning employee – this allows the business to identify any issues that may be forcing employees to leave and thus may help future staff turnover levels.	Employees will need to give a period of notice before they leave The amount of notice they need to give will be stipulated in the Award of Enterprise Bargaining Agreement. **Payment for completed work and accrued benefits** – holiday pay and any wages owing. Transition: (Business) Finding and training the replacement person before the employee resigns.
Retirement – where the employee leaves the business with the plan to no longer be part of the workforce. Succession planning is the process of developing skills and knowledge of people within the business to take on greater responsibility in the future.	Employees are entitled to **9.5%** minimum superannuation during their time of work along with any accrued entitlements (e.g. annual leave and long service leave) Ensuring the employee is paid what is owing up to the day of retirement – includes long service pay, holiday pay. Transition: It is important that the business helps the retiree in this transition as well as prepare themselves for the loss of talent and experience. A business can make the process of transition easier by: Offering services such **as counselling, investment advice along with lifestyle planning.**

Regular Entitlements:

Annual leave, holiday pay, sick pay, financial packages and any wages owing.

Involuntary Termination	Entitlements
Redundancy – when an employee's job no longer exists and or there is no longer sufficient work for the employee to perform. Due to: - Poor financial performance - Restructure - New technology replacing labour Can be either voluntary or involuntary The redundancy payout can provide employees with the incentive to take up voluntary redundancy Involuntary redundancy is where the employee is told they will no longer have a position within the business and are forced to leave – they still receive the same monetary payout as those taking up voluntary redundancy, except they are forced to leave.	Redundancy package - that is a financial payment based on how long they have been working at the business. **Business must offer financial compensation for the loss of income** The amount they will received is outlined in their workplace agreement. Pay and benefits for work conducted. Employees are also entitled to time off work to attend job interviews and look for new employment. Transition: Provide counselling, career counselling, assistance writing resumes, outplacement services and or extra training to enhance employability **– this is very costly for a LSO**
Dismissal – when an employee is terminated due to unacceptable behaviour or performance. Summary – where the employer can dismiss an employee without notice when the employee has had a serious breach of conduct – e.g. theft, fraud, breaching safety standards. On-Notice – Due to underperformance or breach of policy, the employee can be dismissed on notice. This is where they are given a warning on their performance, and given time to improve. If there continues to be reoccurrences, the employee will be given notice of their termination Due Process: **An employer-initiated process of counselling and discipline, which may lead to a termination or resolution of problems.** 1. Employee notified of grounds of dissatisfaction 2. Discuss progress, if unsatisfactory, warn of consequences 3. Terminate if still unresolved and document date.	Employees are entitled to pay and accrued benefits for the work they have performed – **such as annual leave, holiday pay and or any wages owing** An employee needs to be afforded the following: - Valid reason for dismissal - A fair and transparent process leading up to the dismissal (Due Process) - Written notice of the date of termination Unfair Dismissal – where an employee has been dismissed from their job in a harsh, unjust manner. - Min notice period of 1-5 weeks - E.g. discrimination against sex, race. Transition: - Must find a replacement – process is costly. - Counselling any staff member impacted by the dismissed employee's behaviour.

First Interview
- Employee notified of grounds for dissatisfaction
  - Define the problem
  - Explore reasons
  - Develop strategy
  - Set review date
  - Document

Second Interview
- Discuss progress
- If unsatisfactory, warn of consequences
- Explore alternatives (different duties, long service leave etc)
- Set Review Date
- Document

Third Interview
- Terminate if still unresolved
- Witness
- Document

2.9 The Roles of Participants in the Workplace

Workplace relations refers to the relationship and communication shared between employees and their employer, especially in areas such as wages, employment conditions and workplace disputes.

Fair Work Commission – FWC – Australia's national workplace relations tribunal

It is the Australia industrial relations tribunal created by the Fair Work Act 2009. It approves agreements reached at the enterprise level, ensuring all parties comply with those agreements – and reviewing and setting minimum wages.

The role to ensure that the rights and responsibilities of the act are fulfilled

They want organisations to continue to produce output which adds to GDP and brings in tax revenue

BEST OFF OVERALL TEST

Role:

- Approve enterprise agreements

    o Must check that bargaining has been conducted in good faith, there is a nominated expiry date and dispute resolution is stipulated in the agreement

- Approve or disapprove industrial action

    o Action from either employee or employer cannot be taken without being approved

- Resolve Disputes and or Unfair Dismissals

    o If required through mediation, arbitration or conciliation

- Provide a safety net of minimum conditions

    o Has the power to make changes to industry awards which set the minimum wages and employment conditions for an industry.

One consideration that the FWC will examine when approving enterprise agreements is whether or not each of the employees to be covered are **better off overall** than under the relevant modern award.

Another consideration is whether there is evidence that both the employer and employees have genuinely agreed to the terms of the agreement.

- <u>Hearing unfair and unlawful dismissal</u>
- <u>Hearing and investigating bullying and harassment claims</u>

Union

An organisation formed by employees that aims to preserve and advance the wages and working conditions of employees in a particular industry as well as protect the rights of workers.

- o Unions are often at the forefront of negations around wages and conditions of employment and will act on behalf of employees when these negotiations take place.

Organisations that represent and offer advice to employees with workplace relations issues such as:

- Negotiation new wage agreement
- Support in disputes
- Organise industrial action (e.g. strikes)

The workers union would be negotiating on behalf of the employees in regards to the closure of the factory. They may be negotiating how many employees will be redeployed, how long employees will have to prepare for redundancy and even other benefits such as further training for employees to make them more employable.

Unions will be working to maximise both the wages and conditions of work, particularly around the safety of employees, for the employees that they represent.

Human Resource Manager

The HR manager is responsible for managing the relationship between employees and the business

To represent the organisation at its most basic level – they want to keep costs like wages low, and have high levels of flexibility and productivity among workers

Role:

- Recruiting the best employees
- Training and developing
- Monitoring employee progress
- Terminating employees
    AND
- Represent the employer in negotiations of new wage agreements – considered a conflict.
- Participate in resolution of disputes
- Implement agreements

The HRM is also responsible for keeping up to date and informed of any legal requirements or work agreements, such as the minimum wage and annual leave. By doing these things, the HRM ensures a positive relationship between the employer and employee.

The role of the Human Resource Manager (HRM) under this decentralised approach is to negotiate agreements which may include a group of employees (collective agreements) or individual employees (individual contracts). Their role is to negotiate the employees working conditions and wage, and may include their hours of work, leave entitlements, sick days and other entitlements.

Employees:

Employees are those that work in the business – their role is to work towards the achievement of objectives

In regards to workplace relations, employees are involved in:

- Negotiation of new agreements
- Voting on new agreements – while a union will often represent employees during negotiations of a new contract, the employees will need to vote on the terms and conditions contained in the proposed agreement.
- Take industrial action if required

Employer Associations

An organisation that provides advice and support to member organisations to help them better understand their obligations in the workplace, as well as provide more generic assistance in their dealings with stakeholders

Employer associations are organisations **(e.g. Master Builders Association)** that represent and offer advice to employers with workplace relation issues such as:

- Negotiation of new wage agreement

- Changes in legislation

  The employer association will stay up to date with changes in both state and federal law – offer support on how to adapt to these changes.

- Employee relations

  Advising in areas related to disputes between business and employees as well as workplace legislations. They may offer advice or even be a representative during a collective bargaining period.

- Employee disputes

The employer association may offer advice to the manager about the obligations when closing down the factory. This advice can help the manager avoid breaking any workplace relations laws within the closure.

Employer associations will be looking to maximise the productivity of a business while maintain a cost structure that allows the business to make a profit.

Centralised System:

Where settlements of disputes between employers and employees are imposed by a third party (government) who determines the minimum wages for employees in an industry.

Decentralised System:

A decentralised workplace relations system is where wages and conditions of employment are negotiated through enterprise bargaining at workplace level.

2.10 Awards and Agreements

The conditions of employment are the benefits they receive including parental leave, sick leave, annual leave, redundancy pay.

Permanent Employment – ongoing employment where the arrangement has no finish date.

Fixed-term Employment – this is where the employment arrangement has a specific end date.

Causal Employment – employed on an hourly basis and do not receive non-wage benefits such as long service leave or parental leave. To compensate for this they receive extra money on top of the standard hourly rate.

The National Employment Standards (NES) – 10 conditions that protect the right of employees to ensure they are not taken advantage of by employers.

10 Minimum Standards Include:
1.   Maximum of 38 hours per week
2.   Certain employees are able to request flexible working arrangements
3.   Parental leave and related entitlements
4.   Annual leave
5.   Personal carers leave and compassionate leave
6.   Community service leave
7.   Long service leave
8.   Public holidays
9.   Notice of termination and redundancy pay
10. Fair work information statement

Award:

The minimum wages and conditions an employee is entitled to in a particular industry.

E.g. a building and construction business will have the Building construction award for qualified tradespeople and clerks award for office staff.

The industry award is used as a benchmark for assessing enterprise agreements before approval from the Fair Work Commission.

o   Centralised: The government intervenes by setting wages and conditions of employment that affect all organisations through the industry wide Award system

o   Decentralised: Where employers and employees determine their pay and working conditions through resolving disputes without outside interference – **heavily based on negotiation**

Agreements:

Enterprise:

Sets out the wage and conditions that will apply to the employees in one business.

- o Uses the 10 NES as a base for the new enterprise agreement
- o Wage increases tend only to be negotiated if rises in productivity can also result.

This is determined through enterprise bargaining – the negotiation of wages and conditions at the workplace level, between an employer and employees (or their respective representatives)

In contrast, in an award, the wages and conditions are determined by the FWC, _with no direct involvement from individual workplaces_

Agreement must pass BOOT test (Best off Overall Test)

Comparison	*Similarities*	*Differences*
Awards vs. Agreements	Both approaches relate to Australian Workers NES are reflected in both centralised and decentralised approaches	Under the centralised approach, pay and working conditions are determined by a central body – FWC. Increases in pay are determined by the centralised body without consideration of an organisation's ability to pay. Whereas, under a decentralised approach pay increases above minimum levels are negotiate at a particular workplace and can take into account the organisation's financial ability to increase wages. The centralised approach applies to an industry or occupation, whereas, the decentralised approach relates to a workplace and provides more opportunity for negotiating productivity gains and improved pay and working conditions. Minimal government intervention in decentralised. FWC will only ratify the collective agreement and become involved in conciliation if employers and employee cannot resolve contract disputes Unions do not have to be involved in decentralised system, but do in the centralised to improve employee pay and conditions More opportunity to negotiate wage increases and better conditions via productivity gains in decentralised system, unlike in centralised where wage is set by a governing body like the FWC.

	Advantages	*Disadvantages*
Awards	More opportunity for industrial action to improve conditions and pay Certainty of pay and working conditions Employers – saves time and effort as they weren't required to negotiate pay and working conditions with employees at a workplace	Does not recognise individual organisation circumstances Lessens the importance of participative management approach as wages are negotiated at workplace
Agreements	Allows employers/employees to negotiate pay and working conditions relevant to the individual workplace Employers have the opportunity to negotiate productivity gains with higher pay, and increased flexibility of contract Creates a more inclusive working environment as both parties are working together to achieve agreement	Reduces level of government control in wage determination More time consuming for employers as they now need to undertake negotiation which may affect business productivity levels

2.11 Dispute Resolution Process

Effective dispute resolution can help employers maintain positive relationships with employees by addressing the issues early on.

- Employees are likely to be more productive if they know their concerns are taken seriously and believe that the employer is working hard to come to a fair resolution or outcome.

It is important that disputes are resolved quickly to ensure relationships can go back to being positive and the employees are happy and motivated towards achieving business objectives.

Grievance Procedure:

A formal process where internal disputes are addressed relating to complaints about wages and conditions.

1. Employee and or representative present complain to supervisor
2. Complain is handled by middle management in meeting with employee and or representative
3. Meeting with senior management
4. Matter is referred to an external conciliation body
5. Matter is referred for external arbitration where a legally binding order is made to resolve the conflict

This is beneficial as disputes can be resolved within the business and because the procedure is outlined, each grievance is handled the same way, therefore making it fair and equitable for every employee.

Mediation:

A method whereby an independent third party participates in the resolution of a dispute and attempts to help resolve the differences through discussion.

- o Note: the person only facilitates the conversation and does not offer suggestions or make any decisions on behalf of the disputing parties.

Conciliation:

Similar to mediation, but third party makes suggestions to the disputing parties on how to best move forward

- o Often used in unfair dismissals

Arbitration:

Where both parties put forward their case to an independent party who then makes a legally binding decision.

- o A disadvantage is that the final decision is taken out of the hands of the disputing parties – this may result in one or both parties being unhappy with the final outcome – which can impact employment relationships going forward.

Area of Study 3 – 'Operations Management'

3.1 The Relationship between Operations Management and Business Objectives

Operations Management:

The function of the business that efficiently and effectively converts inputs into outputs.

Operations management is the function of the business that is involved with efficiently and effectively converting inputs into outputs. The more efficient an organisation is, the greater will be its productivity. Reducing waste and using only required inputs through implementing technology like automated lines or materials management such as JIT - ultimately lowers the cost of production. This results in possibly lower prices passed onto customers, increasing consumer satisfaction and business competitiveness in terms of price and quality. This will result in an increase in sales, therefore potentially achieving profit maximisation and improved market share of relative industry.

Efficiency: The best use of resources in the production of a good or service

Effectiveness: To successfully produce a desired output

3.2 Operations System

Inputs:

The materials and resources used in production to create a good or service.

- The quality of inputs can help improve the quality of the final product.

- It is important that a business obtain the right quality of inputs for the right price to ensure they are able to achieve objectives such as profitability.

Types of Inputs:

1. Raw Materials – supplies that go into making the product – e.g. car wheels.

2. Capital – resources that are used to produce the good or service – e.g. machinery.

3. Human Resources – these are the managers and employees that work to produce final good or service.

4. Time – a non-renewable resource that a business needs to make best use of.

5. Information – can include information about customer trends, the market or information on how to make a product. For example, Coca-Cola keeps the information about the ingredients of its syrup recipe a secret from competitors – this helps maintain quality of product and create a competitive advantage.

Processes:

The activities used to transform inputs into the final output.

- E.g. a manufacturing business that is producing in <u>mass quantities</u> is likely to use a lot of machinery due to their <u>speed and efficiency.</u>

- Manufacturing = robots and machinery to help automate process.

- Service = <u>uses labour-intensive</u> and <u>focus on the interactions between the business and the customers</u>.

Outputs:

The final product produced by the business

- The quality of output is a direct reflection of inputs
- Tangible or intangible
- <u>Output needs to meet the needs and wants of the market</u>
- Meet the quality expectations of customers
- Meet the price expectations of customers
- Delivered in a timely manner

3.3 Key Characteristics of Manufacturing and Service

Manufacturing	Service
Output is tangible	Output is intangible
Goods can be stored and sold at a later date	Services cannot be stored and sold at a later date
Production and consumption is not linked – the good cannot be used until it has been produced.	Production and consumption is linked – the service is consumed while it is being created
Minimal customer involvement in production	High level of customer involvement when service is delivered
Capital intensive – machinery, equipment	Labour intensive – skills of employees to provide service.
Produced	Performed

Example: Book	Example: Hair Salon
Can print thousands of copies in a day This can be stored, moved and sold at a later date The customer can buy the book, can consume (read) it later after purchased.	A customer that receives a haircut will receive it while the hairdresser is providing the service Customer needs to be present to receive new hairstyle The provision of the haircut primarily relies on the skills of the hairdresser, with the use of some capital (dryers, clippers and shampoo) – this represents a small component of the total inputs.

3.4 Technological Advancement Strategies

Technology is used to help improve quality, safety, productivity and even accuracy – thereby providing a competitive advantage.

Automated Production Lines:

A series of workstations are linked by an electronic control system (ECS)

- Each station performs a specific task, which happens automatically, controlled by the ECS.
- They are able to assemble products quicker and often with less wastage.

Effectiveness	Efficiency
Since the production is operated by robots and machines, they are prone to less errors and therefore less wastages and ensuring that the product is free from imperfections - improving effectiveness.	This can be done through reducing the inputs used in production process – such as time, labour – this increases efficiency as the system maximises outputs by using as few inputs.

Advantage:

- Improve productivity as goods/services will be able to be produced/deliverd at a faster rate and wage costs will be reduced. This will help the firm develop a competitive advantage as it can remain competitive on cost and help to deliver good to market quicker than customers.

- Reduces the opportunities for worker injuries as machinery can manage heavy lifting.

Disadvantages:

- Set up costs
- Time consuming to program way in which it must be used.

Computer-Aided Design (CAD):

A software system that allows a product to be designed and tested on computer before it is put into production.

Advantage:

- o The designer can make alterations to the design without needing to erase and redraw - this greatly reduces the time taken in design process
- o Reduces lead times and waste of materials in design stage

Disadvantage:

- o Expensive to purchase
- o Employees need to be trained how to use CAD, which can slow productivity as, they gain familiarity and experience using the system.

Effectiveness	Efficiency
Since the computer is able to simulate the product in production it can help the business identify any potential flaws or errors in desire before it is massed produced.	This can be achieved due to the 3D perspective, which allows a better visual perspective and since the software allows the designer to easily make alterations before put in production, this reduces the input of time – thereby maximising output with few inputs. Reduces the need for inputs (materials) specifically for testing, as this can be done through the program without the good actually being produced = efficiency.

Computer-Aided Manufacturing (CAM):

The use of software to control the manufacturing process.

- The purpose is to create a faster and more efficient production process

Advantage:

- o CAM is more precise, which results in less errors and so less wastage – which improves effectiveness.
- o Improves productivity due to the fast rates at which it can complete tasks.

Disadvantage:

- o High initial start-up cost
- o Time consuming to program the software in the exact way the business wishes for it to operate.

Effectiveness	Efficiency
It allows products to be more consistent in quality, as system is controlled by computers and thus improves effectiveness of operations due to reduced likelihood of errors. Also, as machines are not operated by manual labour, there will be less accidents occurring and so there will be less wastage of inputs – improving effectiveness.	Since these machines can operate at a very quick speed, it reduces the input of time in terms of creating or delivering good or service and also reduces human resources.

Website Development:

Refers to all the tasks that occur to provide a business website that enables hosting facilities for both the Intranet and Internet.

- For example, <u>banks</u> have been able to offer their services to clients 24/7 due to the rise of the internet.

- This has enabled banks to not only improve their service by making it convenient for customers, but it has also enabled them to serve more customers than ever before – leading to profit maximisation.

- <u>Drop Shipping</u> – allows a business to simply take sales from customers, communicate those sales to a manufacturer who distributes the product to the consumer – this has allowed firms to begin with very low start up costs and have very low running costs.

Effectiveness	**Efficiency**
Cloud storage in online shops – less error in the process due to online/virtual shop which has data that accurately stores purchase information. Contact forum – allows for customer feedback thereby enabling firm to improve good in terms of quality and fix any defaults that may hinder effectiveness – therefore increasing customer satisfaction and helps the firm produce a good that is now free from defects and hence increasing effectiveness	The internet has allowed Banks to reduce store hours and so minimise inputs such as time, and human resources (employees and wages) in order to maximise outputs (easy online banking) by creating an online site that is accessible 24/7 for its customers. Drop shipping – take sales from a customer, communicate those sales to a manufacturer who then distributes the product to the consumer – this has created a level of efficiency that has not existed with traditional businesses – i.e. Uber eats and Amazon. This increases efficiency as inputs are reduced due to no human resources needed to be involved with maintaining the online website. OR e.g. doctors use skype to reduce travel costs and need for a physical store thus decreases inputs of time and capital, in order to maximise output of service – thus increasing efficiency

Advantages of Using Technology	Disadvantages of Using Technology
It can help reduce human error	It can lead to redundancies, which can harm culture as employees will fear their job security
Technology can produce products or deliver services more efficiently and with less wastage	High initial cost – therefore putting business under financial pressure
Technology can be used to lift heavy items, therefore ensuring employees health and safety.	Technology can break down, interrupting operations system.
Technology can operate 24/7 increasing output – as it does not require breaks or max working hours, like labour does.	Training is required which is expensive.

3.5 Materials Management Strategies

Materials Management:

A strategy that manages the use, storage and delivery of materials to ensure the right amount of inputs is available when required in the production process.

- In the right place
- In the right quantities
- At the right time
- And with the desired quality from the consumer

Forecasting:

Using past data and trends to attempt to determine future events so that informed decisions can be made around the correct number materials required.

- To predict the quantity and timing of goods and services to match supply and demand.

- This is important so an organisation does not order too many inputs, meaning that there is no stock tied up in idle – the oversupply increases wastage and therefore loss of money.

- Also, undersupplying inputs means an organisation cannot produce enough to meet the quantity demanded, thus limiting their ability to satisfy and increase market share, and to gain a competitive advantage – so that supply can be continuous.

Master Production Schedule (MPS):

A detailed outline of what is to be produced, in what quantities and when it is going to be produced.

- What needs to be produced, in what quantities and in what time.

- It allows the operations manager to manage the logistics of the supply chain to ensure orders can be transported to customers.

- It allows the business to plan their inputs so they have enough resources to meet the MPS.

Materials Requirement Planning (MRP):

An itemised list of materials that are required to meet specified orders

Operations manager must consider:

- The specific type of materials required to meet the MPS
- The exact quantities of each material
- The times they will be delivered

- An effective MRP ensures that the business is <u>never understocked</u> with supplies, so that <u>production is continuous.</u>
- It determines the exact materials that will be required to meet the MPS
- It also ensures that the business is not <u>overstocked</u> where money <u>is not tied up with idle stock</u>.

Just-In-Time (JIT):

Where materials are delivered just as they are needed in the production process

- There must be a strong relationship between the business and its suppliers because if stock does not arrive on time, production will be slowed or even st

- <u>Success of supplier and the business are closely linked.</u>

Advantages:

- Reduces the need for large amounts of storage, which reduces production costs and ensures that operations system is more efficient – this leads to less wastage from damaged, lost, obsolete or stolen stock and thus saves money

- Helps to improve end quality of product – e.g. freshness.

- It increases the amount of space that can be used for production in factories.

Disadvantage:

- If materials don't arrive on time, it can slow or halt production process.

- A business will have no control over issues that arise at supplier level – e.g. wage disputes resulting in strikes – therefore stops stock being supplied, affecting productivity and <u>ability to satisfactorily meet market demand</u>.

- Less time to check for stock faults or imperfections – therefore may impact effectiveness.

Benefits	Limitations
A MPS and MRP means less wastage of raw materials and less costly in relations to labour costs. This occurs because a plan has been developed as to what resources will be required in the production process Reduces overhead costs as less storage facilities is needed as minimal stock is kept on-hand. Only use materials when the production process requires it, therefore reduces likelihood of stock being tied up and any of it becoming obsolete or stolen.	Stock may not arrive on time, thus impacting productivity of operations system JIT allows for less time for checks on quality of materials as they arrive and therefore may reduce effectiveness of operations and may also result in more wastage of materials because of this.

Efficiency
All of the materials management strategies ultimately improve efficiency of the operations system MPS and MRP improves efficiency as by having a clear, outlined plan of what to produce and how, this reduces any procrastination in process and thus reduces input of time, which therefore helps maximise outputs of the business Forecasting – reduces input of time by looking ahead in conjunction with past data to preview future events to ensure enough materials is on hand when required to meet demand JIT – reduces time involved in production process due to swift transition of delivered inputs into production therefore increasing efficiency of operations system

3.6 Quality Management Strategies

Quality Control:

Involves inspections at various points in the production process to check for defects and reliability in the product or service.

- This improves the overall quality, as only goods that reach benchmark standard will be sold to consumer.
- This process of checking helps reduce wastage as faults are detected early.
- This can improve productivity of the system as less time is spent remaking the goods that have been sent back from the disgruntled consumer.
- However, this can slow down production, reduce productivity and add to production costs

In order to do this effectively there must be: (BICC)

- o **Benchmarks** set
- o **Inspections** conducted at a regular basis
- o **Comparisons** made between the product and the set benchmark
- o **Corrective action** in the event that product quality is deemed to be below the benchmark.

Manufacturing:

For example, the quality of a motor vehicle is critical to safety of the consumer, therefore certain parts of the car need to be quality checked every single time. If there are any defects found during an inspection, they will need to be rectified before being delivered to the customer. Checking the final output for any flaws, dents, or loose parts.

Service:

For example, a hairdresser will have the quality control near the end of the service – asking the customer if they are satisfied with their haircut or if more hair needs to be trimmed – has this met your standard.

OR: A massage – is this too hard, or soft, is this right spot, are you feeling any better.

Quality Assurance:

Where a business achieves a set standard of quality in the production of a good or service as assessed by an independent body.

- **ISO (International Standards for an Organisation) 9001 Certification** – once product meets the set standards for their industry – e.g. health and safety.

- Once a business receives the ISO certification – it can give consumers satisfaction that the business is using ethically and responsible processes that help to deliver a high quality good or service that is safe.

- Can improve business competitiveness and customer satisfaction but is costly and needs to detailed documentation, which is time consuming, to gain the accreditation sought.

- It guarantees that all products are of a high quality, and if not, they are not sold.

PDCA Cycle

Plan – planning processes to meet quality expectations of the consumer.
Do – once processes are planned they need to be carried out according to the plan.
Check – regularly checking the processes of the quality management system to ensure they are meeting set standards.
Act – taking corrective actions and preventative actions where necessary.

Total Quality Management (TQM):

A quality philosophy that involves continuous improvement, a strong customer focus and employee participation, attempting to improve quality at every stage of the production process.

- The aim of TQM is to have a production process that is defect free and a business will strive for continuous improvement until this goal is achieved.

- A whole organisation approach to achieving quality.

- However, this can be time consuming and expensive, as **culture** needs to be updated.

- But, if implemented well, it can lead to a strong competitive advantage.

- Improved quality leads to increase in competitiveness.

Based on Three Key Principles:

- o **Continuous improvement**

  The business uses regular evaluation to have ongoing empowerment into the future – employees are set high standard goals as motivation to work harder and therefore produce higher quality goods or services – quality is an ongoing journey that can always be improved.

- o **Employee empowerment**

  Employees are given responsibility to improve the quality of the business. Can be done through **quality circles**, where the group discusses new ways to improve quality of their processes – involves employee participation and teamwork.

- o **Customer focus**

  The entire focus is on the end customers. If TQM is implemented correctly, every employee will understand their role in helping the business to meet or exceed quality expectations from customers.

Benefits	Limitations
Business is less likely to lose reputation and it protects the brand name – as customer only receives goods that meet benchmarks/high standard. Improves sales as customers acknowledge quality measures adopted by the business, which may lead to market share increase.	Costly to set up elaborate quality measures as human resources (employees) may be required to undertake such measures – <u>thus also reducing efficiency.</u> A TQM approach of 'quality circles' is time consuming as ideas are discussed and debated and also impacts productivity as employees are not completing regular work activities. Time consuming to gain accreditation sought.

Effectiveness:
In each quality control strategy, it ultimately improves effectiveness of the operations system and their ability to deliver a good/service that achieves its stated objective without any errors – thus providing a competitive advantage in terms of product quality. Each strategy reduces the likelihood of any errors in inputs and or outputs and because such issues are checked/rectified early in the process, it ultimately reduces wastage of materials and prevents disgruntled customers – as they only receive the highest quality of goods/services. Thus, each strategy helps improve effectiveness – to do things right – and this is done by rectifying any errors to ultimately give the consumer a safe product that achieves its stated objective.

Comparison	Quality Control	Quality Assurance	Total Quality Management
Similar	All examples of quality management. Designated employees responsible for quality.	All examples of quality management. Continuous improvement to meet independent body's certification. Designated employees responsible for quality. Customer focus – to exceed customer expectations with high quality.	All examples of quality management. Continuous improvement as part of its total approach to quality. Customer focus – to exceed customer expectations with high quality. Quality circles (designated employees to maintain quality).
Differ	Quality checks at regular intervals by specific employees.	Independent body. Manage faults <u>after</u> they occur.	Every employee is responsible for quality, not just specific employees. Try to prevent faults <u>before</u> they occur.
Benefits	Saves costs, as errors in production are identified and eliminated by specific employees, therefore reducing amount of wastage produced in the future.	Independent body, no bias and increase sales as consumers acknowledge quality measures adopted.	Prevents faults before they occur, thus limits the wastage of materials in production process.
Limitations	Faults occur after production.	Costly and time consuming to gain accreditation sought.	Most costly as culture must be reshaped and re-defined to promote high quality as one of the firm's values – culture must be updated.

3.7 Waste Minimisation Strategies

Waste:

The amount of products (finished or unfinished) and materials that are discarded by the business during the production process.

- Waste will add to per unit costs of production, resulting raise of product price (to maintain profit margins) and resulting in customers buying from rival businesses.
- Waste costs money and impacts on both profitability and viability of a business.

Common strategies for reducing waste include:

- Obtaining higher quality materials.

- Using recyclable materials for production process or renewable energy.

- Implementing quality strategies to eradicate such wastage through rectifying errors of production –e.g. TQM approach.

- Manage materials more effectively – i.e. implement JIT system where stock is not kept in idle for long periods of time.

- Make deals with suppliers that allows returns on unwanted stock.

Lean Management:

Where a business establishes systems that aims to eliminate waste such as time, money, or materials and inefficiencies in the operations system and ultimately maximise customer value.

- It eliminates any waste of time, money, and effort by identifying each step in process and cutting out steps that do not create value for the business or consumer.

- Lean management reduces the operating costs of a business, increasing its competitiveness in terms of quality and price (due to lower costs, they can offer customers lower prices = competitiveness increase)

- **PROVIDE SOMETHING OF PERFECT VALUE TO CUSTOMER – THROUGH A PROCESS THAT CREATES NO WASTE**

- **IMPROVING CUSTOMER VALUE AS WELL AS IMPROVING EFFICIENCY**

- **WHEN A BUSINES IS ABLE TO REDUCE THE AMOUNT OF WASTE IT PRODUCES, IT GIVES ITSELF A GREATER ABILITY TO ACHIEVE PROFITABILITY AND BUSINESS COMEPETITIVENESS**

  Eliminates Waste – such as by ensuring that the **business does not overproduce a good**, like bread that perishes quickly and goes to waste. Lean management finds areas within business that creates **excess waste and works to eliminate it**. However, the constant push for new ways to reduce costs can cause **stress amongst employees as they continually adapting the way processes are done.**

Aims to reduce wastage and inefficiencies that stem from a variety of sources including:

- Excess production time – too long to complete tasks
- Overproduction – supply > demand
- Defects – defective products that need to be fixed or discarded
- Wait times – between production and distribution – such as food may go off or become perishable.
- Transportation – inefficient movement of materials
- Resources – using too many to produce an output – too many employees

3.8 Corporate Social Responsibility in Operations

Corporate and Social Responsibility (CSR):

The continuing commitment of a business to operate in an economically, socially, and environmentally sustainable manner, whilst balancing the interest of diverse stakeholders.

Benefits of being CSR:

- Customers are more likely to purchase from the organisation as customers are increasingly becoming more concerned for the environment and society. This benefits the organisation as they have more sales thus greater profits

- Employees also increasingly prefer to work at ethical and socially responsible organisations, therefore staff retention will be increased and turnover rates minimised for the business.

Triple Bottom Line:

- **Economic:** Profit Margins and Market Share
- **Social:** Working conditions, wage levels and staff morale
- **Environmental:** CO_2 emissions, level of wastage and recycling.

Inputs (5)	• Procurement – ensuring suppliers incorporate CSR practice – e.g. no child labour.
	• Simplifying supply chains - using local suppliers to reduce carbon emissions and transport costs – as well as support local jobs and the economy.
	• Use inputs that minimally impact the environment.
	• Avoid procuring cheaper, low quality inputs to keep costs low.
	• Use 'green' energy options – e.g. solar power.
Processes (6)	• Ethical disposal of waste – no dumping of waste, chemicals – to help reduce environmental impact.
	• Implement strategies to reduce, reuse and recycle to minimise wastage and thus negative impacts on environment.
	• Retain all processes in Australia to reduce carbon footprint and increase employment opportunities for Australians.
	• To ensure all employees are well trained and have the opportunity to be upskilled – this demonstrates CSR because the firm is investing in the employees to ensure they have the skills to enhance their careers.
	• Use of 'green' technologies – this is socially responsible as it minimise carbon emission and therefore reduces impact on environment.
	• Ensure employees are paid a fair wage, work in a safe environment, and are not exposed to toxic waste or exploited – e.g. cheap labour.
Outputs (3)	• Packaging decisions – minimise packaging and its impact on environment – e.g. biodegradable packaging instead of plastics.
	• Creating goods that are fit for purpose and of excellent quality – this is socially responsible as it ensures that the good is safe for consumption and the interests of the customer is respected.
	Explanation – this is socially responsible as it is ensuring the quality of the product for the end consumer^^^
	• Honest marketing – being truthful and non-deceptive when making claims about product – thus no misleading of communications.

3.9 Global Considerations in Operations

Global Sourcing of Inputs:

Refers to the practice of seeking the most cost efficient materials and other inputs from countries overseas.

Benefits	Limitations
- Raw materials may be cheaper overseas than sourced locally. - This cost savings can help to improve <u>productivity and competitiveness</u> for local businesses - Businesses may also source other inputs such as machinery and equipment from overseas – although it is costly to obtain and ship back to Australia, it may be 'state of the art' and thus can greatly improve the quality of the product, gain a competitive advantage (in terms of speed) and productivity. - The benefit of sourcing global inputs is that it typically reduces production costs, improvise productivity, lowers price and boosts competitiveness	- Creates job losses in Australia - If quality of input is not to benchmark standard it can slow production as inputs must be returned which is time consuming

Overseas Manufacturing:

Refers to the production of a good in a country that is different to the location of the business' headquarters.

- Overseas countries have lower minimum wages and business face lower costs incompliance with regulations as they are very loose.

- These lower costs enable a business to deliver lower prices, improved competitiveness and higher profitability.

Benefits	Limitations
• Lower initial set up costs as facility already exists • Lower wage costs and therefore lower costs of production that such reductions can be passed onto customer to increase competitiveness, profitability and market share.	• Less control over production process, which can affect quality of end output. • Less control over the wages and conditions of employment and thus can have CSR issues – perception of work exploitation • Outsourcing can attract negative publicity due to perceived exploitation of workers which can be very damaging to the brand and goodwill.

Global Outsourcing:

The contracting of a specific business operation to an external person or business.

Benefits	Limitations
• This is done to reduce costs, improve quality or improve productivity. • Outsourcing allows a business to take advantage of the expertise of other firms – which can be highly cost effective • Enable a business to lower its costs and improve efficiency – it would be cheaper for someone else to do it overseas, than do it yourself in Australia. • Enables to focus on their own core activities	• Lose control over the processes they are outsourcing – thus cannot ensure that standards will be met • Language and cultural barriers • Time consuming to find the best organisation to partner with.

Some tasks that are regularly outsourced by businesses:

- Software development
- Call centres
- Accounting and research

Social Responsibility Issues:

- Loss of jobs and negative impacts on economy through outsourcing internationally
- Environmental costs of shipping from one place to another (increase in CO_2 emissions)

Supply Chain Management:

The management of the range of suppliers from which a business purchases its inputs.

Supply Chain Management is critical to Operation System because:

- If there are not enough materials on hand production will slow or stop

- If the quality of the materials are poor, it will reflect in the end product

- If the costs of the materials are too high, it affects the value for the consumer

- If logistics and distribution are inefficient, it will delay the products getting the market, which again can affect the value for the customer.