Business Studies Notes – HSC Topic 1 – Business Management and Change

Managing Change

The Nature and Sources of Change in Business

External Influences

Changing Nature of Markets:

International/Global:

- Change in technology – internet has allowed easy access to global markets
- Uniform consumers want same products (standardise, not wasting time differentiating)
- Business cycle in o/s countries affects Australia. Business cycle due to increase or decrease. in demand for exports and in consumer confidence
- Growth in trade blocs: a group of countries who have adopted a common tariff policy i.e. EU, NAFTA

Domestic

- People are demanding quality, value, environmentally friendly and a variety of products and are health conscious

Economic

- Economic change will affect profitability levels
- Changes in the economic cycle including recession/boom will effect
  - Consumer confidence
  - Employment
  - Spending
  - Investment
  - Sales profit
  - Inflation

  Bus must be aware of these changes so policy can be implemented

  These changes will affect the businesses cost structure and may force management to re-adjust production
- Government economic polity e.g. reforms
  - Micro economic reform
  - Macro economic policy
  - Infrastructure can also change due to economic state

Financial Influences

- Deregulation of the financial markets had resulted in
    - New financial products (Aussie home loans, Rams)
    - Foreign banks in Australia (more variety)
    - Interest rate competition as banks are able to set their own rates
    - Fluctuating exchange rates
    - Tax rates may vary (company and income) decrease in GST
    - GST compliance – time consuming as well as expensive

Geographic

- Climate/weather/natural disasters
- Location of markets – domestic/international (perishability)
- Location of raw materials – international/domestic (COGS-cost of goods sold) may increase due to cartage)
- Location of resources i.e. labour (quality and quantity)
- Decentralisation strategies (government) to relocate regional areas
- Relocating business off shore in overseas countries to take advantage of cheap labour, lower taxes and government incentives

Social

- Changes in society
    - Women in the workforce - paid maternity leave, sexual discrimination laws, more need for crèches, need convenience food for busy
    - More part-time jobs
    - Ageing population – more retirement homes, bus needs to change products to suit the needs of older people
    - People marrying later with lower birth rates
    - Multicultural society – diverse restaurant groups, E.E.O, increase in religious compatibility, E.S.L rooms
    - More skilled labour force
    - Increase in health and leisure – healthier eating places, more gym memberships
    - Early retirement – income tax decrease, sea change, need for more retirement homes, more need for leisure activities
- Managers must be aware that their decisions can influence social attitudes towards the business
- Managers must be aware of emerging social trends and how these will affect the success of existing and planned products

Legal Influences

- Laws affecting employment
  - Equal employment opportunity
  - Anti-discrimination
  - Awards/agreements
  - Affirmative action
  - Superannuation
  - Occupational health and safety
- Laws affecting Environment
  - Environmental protection laws
  - Environmental protection authority (E.P.A)
  - Greenhouse emissions
  - Pollution
- Laws that affect Business
  - Fair trading act
  - ACCC
  - Licensing
  - Zoning
  - Tax, GST, excise, tariffs
  - ASIC

Political Influences

- Different political parties have different policies which may affect the business.
  Egs: GST was introduced by the liberals, Medicare was introduced by labour.
  Liberal say sell Telstra, while Labour says don't sell
- Political parties will have a different fiscal policy – taxes
- Public expenditure will differ

Technological

- Computers
- CAD/CAM
- E-commerce
- Internet
- Robotics
- Electronic Data Interchange
- Could lower cost of production, increase productivity, reduce distance barriers between customers and business and suppliers, create an SCA
- Technological change will often force a business to change its internal procedures to keep up with competitors.

Internal Influences

Effects of Accelerating Technology

To maintain a SCA, business must implement new technology into its business. A technological audit will identify the quantity and quality. It allows for upgrades and maintenance

Costs	*Benefits*
• Capital cost of buying tech. • Maintenance • Training • Licensing of software • Redundancy payouts • Changeover costs (time)	• Increases quality of product • Improves efficiency/productivity • Reduction in lead time • Increase in reliability • Decrease in costs of staff • Easier access to markets (internet) • Less waste and defects.

- Employees might be left redundant, and they need to learn how to use the new equipment and undergo training
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E-Commerce

- This is the use of the internet to buy and sell products
- 2 main areas of E-Commerce
  - Buying and selling on internet with electronic transfer of funds
  - Advertising and delivery on internet with electronic customer support
- Both these E-Commerce types increase communication with the customer. It reduces lead-time (time between order and delivery)
- Information is in real time
- Allows businesses to develop customer profiles
- Reduces staff costs
- Eliminates the retailer, therefore products become more price competitive

New Systems and Procedures

- Often follows technological change. Businesses need to adopt new systems and procedures. Eg's:
  - T.Q.M – total quality management. A system where quality is built into every aspect of the business. Aim is for continuous improvement and adding value
  - Benchmark against World's Best Practice (WBP)
  - Quality assurance – standard of quality – QA 9000 is an internationally recognized standard of quality
  - Batch production – production in small groups to reduce reject products
  - Multi-skilling, job rotation, flexible family programs, teamwork.
  - Using technology – Internet, computers, scanners etc.
- Managers may have to re-organise employees into work teams, institute new cash systems, or increase number of working hours to increase output.

New Business Cultures

- A new business culture refers to a change in the shared values, attitudes and beliefs of the workers in an organization. This can be characterized by:
    - Industrial democracy – input into decisions
    - Increased responsibility and accountability – empowerment of workers
    - Commitment to multi-skilling, training and career paths
    - Encouraging autonomous (self managing) teamwork
    - Flattening structures to reduce levels of mgmt by downsizing
    - Introducing TQM and quality circles
- New culture replaces the traditional culture (classical-scientific)

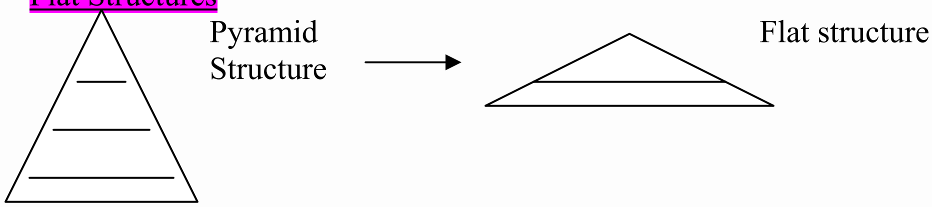
Structural Responses to Change

- A business's structure refers to the way it is organized. It sets out the chain of command, span of control, layers of management and division of labour.
- Change in the internal and external business environment often requires businesses to change their structure – restructure.

Outsourcing

- Outsourcing involves the purchase of services from a thirds party or contracting out non-core activities:
        - Advertising
        - Data entry
        - Employment agencies
        - Accounting work
        - Research and development
        - Lawyers
- Reasons for Outsourcing
    - Cheaper – decrease in staff costs → no superannuation, maternity or holiday leave, workers compensation
    - Could be getting a more professional service
    - Greater variety of choice of service provider
    - Less administration
    - Workers may not be required on a full time basis – therefore would further reduce costs
- The trend is to outsource the Prime function of the business by creating a network. E.g. Nike contracts out all its manufacturing.

Flat Structures



- This decreases chain of command, widens the span of control
- Teamwork – semi autonomous or autonomous.
- Restructuring benefits
  - Increased responsibility/empowerment of workers → increase in satisfaction
  - Communication between levels increases
  - Decrease in cost of staffing as middle management are downsized
  - Quicker reaction to market strategies
- Problems
  - Career paths are no longer available and therefore the business needs to provide workers with more benefits.
  - Employees must be rewarded by increased remuneration packages including fringe benefits and more pay.

Strategic Alliances

- A strategic alliance is where two or more business join forces to achieve a particular goal. There are 2 types:
  - Between a business and a supplier. Each needs each other because one is a customer and one is a supplier.
    - Eg Boeing - supplier and Qantas – customer
  - Between competing organisations in the same industry. Eg Star Alliance and One World Alliance – Qantas, American airlines, British airways, Cathay Pacific
- Another type of recent alliance is companies from different industries joining together for common benefit. E.g. Telstra, Qantas and Visa Card or Woolies and Caltex or Coles Myer and K-mart
- Some reasons for forming strategic alliances includes:
  - Sharing new technology with other businesses
  - Expanding into new geographical or product markets
  - Increasing the businesses' customer base by drawing on the partner's product base
  - Transferring customers between related businesses

Networks

- A network consists of a group of businesses which work together much like an alliance
    - Eg a manufacturer who organises –outsources to other manufacturers to produce and sell their products in a network structure
    - A plumber, electrician and a builder who work together to successfully complete a project
    - Where a business has a number of teams performing specialised services, however sharing information and linked to each other.

Reasons for Resistance to Change

Financial Costs

Purchasing New Equipment

- Capital costs for new equip are very expensive. You need to insure the equipment and maintain it → costly. New technology can be leased or hired, but in many cases a loan will be needed, thus increases the obligation of the business to long term debt commitments.

Redundancy Payouts

- Change often results in restructuring and therefore redundancy
- Short term costs which must be paid to retrenched staff – amount depends on award or enterprise agreement based on the number of years of service

Retraining Costs

- Change often necessitates retraining.
- New skills must be learnt. On or off the job courses at uni, tafe, college – all cost.

Reorganizing Plant Layout

- Time taken in a changeover of technology to re-organise the production line to cater for new products or existing products.
- Also the construction of new buildings and existing extensions are high.

Inertia of Managers and Owners

- The tendency to remain in a state in inactivity
- Static state of managers (inertia) means to resist a change in motion. Managers are comfortable with their existing systems, processes and procedures
- They don't want to change because they like what they have
- Managers also feel that to change may threaten their career prospects or power bases.

Cultural Incompatibility in Mergers or Takeovers

- Workplace cultures differ in different businesses and when 2 businesses merge or a takeover occurs, the fusion of the 2 cultures may not be compatible.
  - E.g. 1:
    - Bus 1 = democratic
    - Bus 2 = autocratic
    - Bus 2 takes over Bus 1 and therefore Bus 1 will resist chance because they don't want to work with an autocratic culture
    - Tasks will now be duplicated and some staff will be retrenched
    - Morale is affected
- Also in most cases, jobs are duplicated and therefore restructuring occurs and employees fear for their jobs