A focus on Unit 4, Area of Study 2

Implementing change

This area of study looks at how businesses respond to evaluation data. Once a business has reviewed its performance, it is important that managers determine where they want the business to be positioned for the future. They can then implement strategies to bring about a desired change. Remember that change is any alteration in the internal or external environments.

Both Woolworths and Coles announced last July that they were joining the push to rid Australia of single-use plastic bags. Both businesses set a deadline of June 30 this year for phasing out the bags across Australia.

The announcement affected stores only in states that had not already passed legislation banning single-use bags: New South Wales, Victoria and Western Australia. The companies began phasing out the bags following the announcement, encouraging customers to pick up reusable bags instead. Single-use non-biodegradable plastic bags were replaced with a range of alternative shopping bag options available for purchase at checkouts, including reusable fabric bags or thicker plastic bags. Alternatively, customers were able to bring their own shopping bag.

In April this year, Woolworths announced that its Supermarkets, BWS, Metro and Woolworths Petrol stores would stop offering free single-use plastic bags to shoppers nationally from June 20 – which was 10 days earlier than originally expected.

In a press release, Woolworths managing director and chief executive officer Brad Banducci said that the company’s teams had been working hard to accelerate the phasing out of bags from stores to make a positive impact on the environment as soon as possible.

However, the business faced a backlash from angry shoppers who did not want to pay extra for bags. Many checkout assistants reported being abused by customers. Other customers refused to pay for the 15 cents reusable bags or 99 cents canvas bags that were made available. In late June, Woolworths was forced to announce that customers would be offered free reusable plastic bags for 10 days.

Coles banned single-use plastic bags from check-outs at midnight on the 1st of July. This did not seem to receive the same attention that the change at Woolworth’s did. However, there was some venting on social media. Like Woolworths, Coles back-flipped and offered customers complimentary reusable plastic bags in the states where single-use plastic bags were being removed for the first time.

In announcing June 20 as the date for the national phase out of single-use plastic bags, Mr Banducci said that the change was “the right thing to do” and that it would help to create a greener future for Australia. He acknowledged it could take shoppers some time to adjust to the ban. Mr Banducci said:

“We know this is a big change for our customers and store teams, and we need to do all we can to make the transition as seamless as possible for both.”

Mr Banducci’s statement reveals a willingness to show leadership and demonstrates some empathy with customers and staff.

Similarly, Coles Chief Operating Officer Greg Davis said that customers have been fantastic through the transition and that the business wanted to help during the change. He said:

“We want to do everything we can to help our customers. For some, it can be difficult to get into the routine of bringing your own bags to the supermarket or know exactly how many you may need for your entire shop,” Mr Davis said.

Mr Banducci also made a number of media appearances in support of the change at Woolworths.
Watch a video where TODAY talks to Woolworths CEO, Brad Banducci, and Landcare’s Dr Shane Norrish, on the first day of the supermarket’s plastic bag ban here: https://www.9now.com.au/today/2018/extras/clips/clip-cjm8fnup00150gt8u3kr8um

Management strategies to respond to key performance indicators

Cost cutting is a quick way to respond to a KPI such as net profit figures. Cutting costs improves effectiveness and can improve profit. Business such as Woolworths and Coles cut costs by reducing direct and indirect costs – such as the cost of single-use plastic bags – or by using other strategies, such as making more efficient use of assets or controlling the supply chain.

Largely, Woolworths’ and Coles’ decisions were made as a result of customer feedback rather than an attempt to cut costs per se. There was also public pressure on the government and on supermarkets to tackle the issue of plastic bags use in Australia. Social media campaign and petition, ‘#BanTheBag’, was signed by more than 180,000 people nationwide, and called on the premiers of NSW, Victoria and Western Australia to implement state-wide bans of single-use non-biodegradable plastic bags.

The change would be expected to cut costs at both Woolworths and Coles, helping both companies to boost their profit figures. Woolworths reported a full-year loss after tax of $1.24 billion in 2015-16 and a full-year profit after tax of $1.53 billion in 2016-17 (Woolworths’ EBIT was $1.5 billion in 2015-16 and $2.3 billion in 2016-17), while Coles reported a full-year profit (EBIT) of $1.86 billion in 2015-16 and $1.61 billion in 2016-17. [EBIT is earnings before interest and tax.]

The ban on plastic bags might also be expected to impact positively on sales for both businesses. Coles’ food and liquor sales increased 5.1 per cent in 2015-16 and by 2 per cent in 2016-17. Woolworths’ sales improved over the 2016 financial year for its food business but declined across the group. For 2016-17, its food sales rose by 4.5 per cent and sales increased across the business.

Management strategies to seek new business opportunities

Pressure from customers to protect the environment and improve sustainability appear to be creating new opportunities for both Coles and Woolworths as both businesses are making a huge effort to reduce waste in order to seize a competitive advantage. The two company’s growing commitment to reduce plastic packaging and food waste appears to have been somewhat influenced by the ABC’s popular program ‘War on Waste’ series and growing customer demands to reduce unnecessary packaging of fresh foods, particularly fruit and vegetables.

As well as removing single-use plastic bags from stores, Woolworth is also:

• planning to install recycling bins in all its stores
• reducing plastic packaging on fruit and vegetables and in private label products – the business is trialling the removal of packaging from 80 lines of produce
• ceasing the sale of plastic drinking straws by the end of the year and is working with suppliers to phase out plastic straws on juice cartons
• using the Internet of Things to monitor and reduce energy use in stores from lighting, air conditioning and refrigeration
• installing solar panels in supermarkets.

As well as removing single-use plastic bags from stores, Coles is also:

• committing to cutting down the plastic packaging for vegetables and fruits – such as bananas
• halving food waste across grocery stores by 2020
• making all packaging of Coles Brand products recyclable by 2020.

Both Coles and Woolworths will provide special bins for customers to dispose of the new reusable bags if necessary. This is through a program called REDcycle, which will convert the bags into plastic products like outdoor furniture.

The principles of the Learning Organisation (Senge)

Peter Senge developed a theory suggesting that to successfully manage change, businesses should be Learning Organisations. A Learning Organisation is a business that is flexible, adaptive and productive during periods of change and is able to harness the talents of employees. It will continually seek to improve itself.

It will be very difficult to find examples of businesses that have consciously made use of Senge’s principles. The VCE Business Management advice for teachers (freely available at the following link: https://www.vcaa.vic.edu.au/Pages/vce/studies/busmgmnt/busiindex.aspx) suggests that if a real business example of the change process is used, it is unlikely that the managers or owners of a business will have considered either Senge’s or Lewin’s theories. Instead, the advice suggests that students might be asked to explain how the theories could have been applied, or the potential benefits of the application of said theories.

While Woolworths and Coles may not have consciously made use of Senge’s principles, elements of the theory can be seen in their practices. For example, both offer training in the expectation that improving individual employee performance will improve the performance of their businesses (personal mastery). Both businesses have a team culture (team learning and mental models). Both have a vision (which one would hope are both shared); for example, Woolworth’s goal is “to have Customers put us 1st, across all our brands” (building shared vision).

Systems thinking is a framework for seeing the big picture or looking beyond what is occurring just within a business. It underlies the five disciplines; conversely, systems thinking needs the other four disciplines for a learning organisation to be attained. Senge suggested that businesses, and individuals within a business, do not operate in isolation. Leaders need to be able to see the many interrelationships between all the parts of a business.

Making use of systems thinking, Woolworths and Coles would have met with stakeholders from all the different aspects of the system related to the production of single-use plastic bags to determine a solution. Both businesses might have communicated their intentions to ban plastic bags, opening a dialogue with suppliers and recyclers about the best way to proceed.
Low-risk strategies to overcome employee resistance

Low risk strategies are the best way to effectively manage change. They can be used successfully in the short-term and are much more effective in the longer-term than high-risk strategies. Low-risk strategies are suitable for overcoming employee resistance as they are more likely to result in employees agreeing with the change or supporting the change.

Communication is a low-risk strategy used to overcome employee resistance. There is evidence throughout this update of the leadership at both Woolworths and Coles communicating the need for change, as well as the strategies being implemented. It is also likely that two-way communication occurred between Woolworths management and staff and Coles management and staff during their periods of change.

High-risk strategies to overcome employee resistance

High-risk strategies can be used (relatively) successfully in the short-term, but in the longer-term are not the best approaches to effectively manage change. The use of high-risk strategies, such as manipulation and threat, can lead to negative outcomes in the long-term, particularly if the change fails. Once employees become aware that management are using such strategies, trust and work relationships can be seriously damaged, impacting negatively on productivity, sales and overall performance of the business.

Key principles of the Three Step Change Model (Lewin)

While it is unlikely that Woolworths’ management would have purposefully considered Lewin’s Three Step Change Model, there is evidence that the company did follow a process that resembles Lewin’s model.

The first step in Lewin’s Three-Step Change Model is to unfreeze the status quo. This step involves preparing the business for change. Management at Woolworths believed that introducing a ban on single-use plastic bags was the right thing to do. Mr Banducci prepared the business for change by explaining the reason for the change and letting employees know that support would be available to assist in the change process. This is evidenced in a July 2017 press release, where he said:

“As a Group we are committed to listening to our customers and also doing the right thing for the environment, and we feel this is an issue we need to take a stand on.

“We currently give out more than 3.2 billion lightweight plastic bags a year and hence can play a significant role in reducing overall plastic bag usage. Today’s commitment shows we are committed to taking our environmental and community responsibilities seriously.

“Whilst we know this is a major decision, we will work very closely with all of our store teams to ensure the transition for our customers is as simple as possible.”

The second step involves the move from the current situation to the new situation. With Woolworths in an unfrozen state, with processes, policies, practices ready to be changed and the necessary support in place, management would have been in a position to move the business to the new situation; that is, to actually make the change. Woolworths would have needed to continue to provide support and maintain open lines of communication so that all employees were able to seek guidance and feedback on what was taking place. Staff would have been empowered to implement the required changes and are likely to have been involved in the process. In this way, resistance to the change would have been minimised. Mr Banducci said that Woolworths would work closely with employees to ensure that the transition for customers was as simple as possible. He suggested that some customers might be inconvenienced in the short term but would adjust to the change.

The final step is to refreeze. This involves putting strategies in place to make sure that the new behaviours and change are stabilised and reinforced, or institutionalised. Woolworths would have ensured that change was implemented correctly so that the impetus for change does not fade, and that the practices and procedures do not revert to the status quo. Policies and procedures will need to be rewritten, achievements celebrated, and support and encouragement maintained.

In a press release dated 20 June 2018 (on the day that the single-use plastic bags were removed from stores), Mr Banducci said:

“This is a landmark day for us not just as a business, but for our customers and communities, to help support a greener future for Australia. We are proud to say that from now on, single-use plastic bags are gone from our stores, for good.”

The effect of change on stakeholders

As change was introduced at Woolworths and Coles, it is quite possible that managers at both businesses may have found themselves in the difficult situation of having to implement the change and cope with the change themselves, as well as support employees – all at the same time. The change was also stressful for employees who were abused by customers.

Green groups welcomed the bans introduced by Coles and Woolworths. Planet Ark CEO Paul Klymenko said:

“This is a welcome move by Woolworths that will have a really positive and meaningful impact on our environment. Single-use plastic bags have become a huge problem for Australia’s oceans and waterways where they cause significant harm to turtles, whales and fish. They also don’t breakdown in landfill and require significant resources to manufacture in the first place.”

The union for retail workers, the Shop, Distributive and Allied Employees’ Association (SDA), also believed that the change was positive for the environment. The union reminded employees that they had rights in relation to the change, including not overloading bags at the customer’s request and not handling extremely dirty or unhygienic bags. SDA National Secretary Gerard Dwyer said:

“This will be a change for retail staff, but they should always follow safe work practices and report any abusive or violent behaviour from customers about the changes to their supervisor. The SDA has and continues to consult with employers to ensure they are supporting staff through this change including providing training on the new rules and support for workers reporting incidents of abusive behaviour from customers. Retail workers should not have to bear the brunt of any abusive behaviour, just following the new rules.”

Large numbers of customers were enraged that Woolworths and Coles had banned single-use plastic bags. Many other customers criticised Woolworths’ decision to continue offering heavier plastic bags at a cost of 15 cents a bag. Some suggested that the business was seeking to profit from the change. However, many customers supported the decision to ban single-use plastic bags.

Mr Banducci told news.com that he didn’t know if he “would have been quite as brave” in making the decision to remove single-use plastic bags.
last year if he had been aware of “what a headache” it was going to be. He said:

“One of the things that actually upset me a little bit at the time was there was sort of an innuendo that we will profit; because we will be charging for a 15c or 99c bag. Actually, [with] the incremental amount of time in store to actually service the customer, certainly it is not a profit driver and we never did it as a profit driver. We did it to do the right thing.”

Corporate social responsibility considerations when implementing change

The changes introduced at both Woolworths and Coles was environmentally friendly, that is, the removal of single-use plastic bags should reduce pollution and waste. Both businesses would also need to ensure that all employees were given appropriate support to cope with the changes. Suppliers of plastic and recyclable bags at both businesses would need to be managed appropriately.

During a sustainability event, Mr Banducci pointed out the complexities involved in reducing food waste, reducing plastic, achieving a sustainable supply chain and achieving energy efficiency. He said that it was important to take plastic out of fruit and vegetables, that customers were calling for this to happen, but that there is a trade-off between keeping a product fresh and reducing the use of plastic. He said:

“If we end up throwing things away because we’ve taken plastic out, that is a very false economy given only 10 per cent of the energy to grow a fruit and veg product on average is plastic. It’s quite a complex balance but we are working on it, and we have taken plastic out of a number of products already. We’re working through it product by product.”

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

A business will need to review KPIs once its transformation has been implemented as part of its evaluation and review of the changes it has introduced. If this is not done, then there is no way that the business will be able to determine whether the transformation was successful or whether there is a need to make any further changes or modifications.

In February this year, Woolworths reported a $969 million first-half net profit after tax (its EBIT was $1.4 billion). The business’s Australian Food division increased sales by 5.1 per cent. EBIT at Coles fell 14 per cent to $790 million. Food and liquor sales grew 0.9 per cent

It will be interesting to see how the single-use plastic bag ban will impact on sales (and profit) at both businesses.

Review questions

1. Describe the changes that have occurred at Woolworths and Coles.
2. What reasons were given for the changes at both Woolworths and Coles?
3. Using the example of Woolworths or Coles, explain the importance of leadership in change management.
4. Explain how the removal of plastic bags will reduce costs at Woolworths and Coles. How successful do you think this strategy will be in responding to key performance indicators such as net profit figures and number of sales.
5. Some of the other strategies related to environmental sustainability that Coles and Woolworths are planning to introduce, or are introducing, might be considered as initiating lean production techniques. Explain why this would be the case.
6. Outline how protecting the environment and improving sustainability may assist Coles and Woolworths to seek new business opportunities.
7. Outline how Woolworths or Coles may have made use of the principles of Senge’s Learning Organisation.
8. Using examples, explain how Woolworths or Coles has used a low-risk strategy to overcome employee resistance.
9. Apply Lewin’s Three Step Change Model to the change at Woolworths or Coles.
10. Explain the effect of the changes at Woolworths and Coles on two stakeholders.
11. Outline the complexities involved in reducing food waste, reducing plastic and achieving energy efficiency.
12. Explain why it is important for a business to review key performance indicators.

Application exercise

Case study on implementing change – GoEnviro

Lauren started GoEnviro with the aim of commercialising sustainable products. The business currently manufactures a reusable water bottle and a reusable coffee cup. The business has 10 employees. Lauren has found that the size of the Australian market is somewhat limiting and is now seeking opportunities for her business globally.

Lauren has noticed recently that the business’s rate of productivity has been falling, while the rate of staff absenteeism has been increasing.

Answer the following questions that relate to Area of Study 2 of Unit 4 Business Management.

1. Explain why Lauren’s leadership will be important as change is introduced at GoEnviro.
2. Discuss one strategy that Lauren could use to seek new business opportunities globally.
   a) Propose and justify a strategy that Lauren could use in response to GoEnviro’s key performance indicators.
   b) Discuss the effect that the change you proposed in part a) may have on employees and customers.
3. Evaluate one low-risk strategy and one high-risk strategy to overcome employee resistance at GoEnviro.
4. Explain how Lauren could make use of the key principles of Lewin’s Three Step Change Model.
5. Describe two corporate social responsibility considerations that Lauren will need to address as she implements change at GoEnviro.
INTERESTING INFORMATION

Qantas catering business sale turns ugly

In April 2018, Qantas announced the sale of its catering arms to its global alliance partner Emirates, pending Australian Competition and Consumer Commission approval. The company plans to offload subsidiaries Q Catering Limited and frozen food maker Snap Fresh to Emirates Group’s dnata catering, cargo and ground handling group. The sale included an agreement for dnata to supply catering for Qantas flights for a minimum of 10 years.

This change will see Qantas’ Q Catering and Snap Fresh employees become dnata employees. However, staff are concerned that their entitlements will not be kept. The TWU (Transport Workers Union) NSW assistant state secretary Mick Pieri said staff morale was poor. He said staff were especially concerned about losing their Qantas Superannuation entitlements. Mr Pieri said that representatives from Qantas Superannuation were not able to tell staff whether they would receive the same superannuation benefits if they became dnata employees. A Qantas spokesman said the changes to superannuation was explained to all catering staff.

In June, following a heated stop-work meeting in Sydney, a number of employees refused to leave the room and, according to the union, between 60-70 employees were stood down. However, most have since been reinstated, but it is believed that five remain ‘stood down’ on full pay pending a Qantas investigation.

Life Savers lollies back in Australian hands

Darrell Lea recently announced that it is acquiring the rights to the Life Savers brand in Australia and New Zealand from Swiss-based food giant Nestle. Production of Life Savers will move from New Zealand to Australia, where they were last manufactured in the early 2000s. Darrell Lea employs nearly 200 people across its Australian manufacturing operations, and this change will certainly provide a boost for local employment. However, the sale will result in 55 job cuts from Nestle’s New Zealand operations. Nestle said it was consulting with employees affected by the Life Savers acquisition.

Darrell Lea CEO Tim York said that the business was in the market for great confectionery brands such as Life Savers as part of its business growth ambitions. He said:

“We believe there is significant growth potential for the Life Savers brand through new product innovation and gaining additional distribution in Australia and New Zealand.”

Darrell Lea has forecast double-digit growth through both organic growth and the acquisition of complementary confectionery brands and manufacturing capability.

Nine and Fairfax merger

At the end of July 2018, Nine and Fairfax announced a merger of the two businesses. The merger will cut costs for both companies and create a single media giant with exposure to television, online video streaming, print, digital and real estate advertising. Current shareholders of Nine will own 51.1 per cent of the new company, which will be named Nine, and current Nine chief executive officer Hugh Marks will lead the new company. Fairfax shareholders will own the remaining 48.9 per cent of the company. Fairfax will contribute three directors to a board of six. Three current Fairfax directors will be invited to join the Board of the combined business, which will be chaired by current Nine chairman (and former federal treasurer) Peter Costello and will include two further (current) Nine directors.

Under the proposed transaction, Fairfax shareholders will receive 0.3627 Nine shares for each Fairfax share they own, and 2.5 cents cash per share. Fairfax’s directors have unanimously recommended the deal in the
absence of a better offer from another company.

In a media release, Fairfax’s chairman Nick Falloon said:

“The structure of the proposed transaction provides an exciting opportunity for our shareholders to maintain their exposure to Fairfax’s growing businesses whilst also participating in the combination benefits with Nine.”

Nine’s chairman Peter Costello said:

“Both Nine and Fairfax have played an important role in shaping the Australian media landscape over many years. The combination of our businesses and our people best positions us to deliver new opportunities and innovations for our shareholders, staff and all Australians in the years ahead.”

The merger is subject to shareholder approval from both companies and a review by the Australian Competition and Consumer Commission (ACCC).