The purpose of the Business Management Update is to provide teachers and their students with information about some of the latest ideas and examples from the business world. In this fourth edition, these have been applied to the relevant key knowledge points from Area of Study 2 of the VCE Unit 4 Business Management Study Design.

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, managers will determine where they want the business to be positioned for the future. They can then implement strategies to bring about a desired change.

CPAP Business Management Update 3 examined the need for change at NAB (National Australia Bank Limited). This current update will focus on how NAB has responded to its evaluation data, including the management strategies it has introduced, the effect of change on stakeholders, and the importance for NAB to review its KPIs in order to evaluate the effectiveness of its transformation program.

In November 2017, NAB announced a three-year transformation program. A new structure was proposed that would reduce layers and complexity in the bank. Processes were to be automated, digital channels introduced, and less products made available. A total of $4.5 billion was to be invested in making NAB simpler and faster, less bureaucratic, with more efficient and reliable systems and to provide a better experience for customers. As part of the changes, it was announced that 6000 people would be leaving the bank, with 2000 new roles being created. The new roles would relate to a variety of capabilities including data, AI, robotics, automation, and digital. Cost savings of greater than $1 billion were targeted by the end of the 2020 financial year.

The importance of leadership in change management

Leadership refers to the process of positively influencing, motivating or encouraging individuals to set and achieve objectives. Leadership is important in change management because an effective leader is able to understand the situation now and what it could be like in the future. Leaders model good practice and encourage and praise good performance. By supporting staff and acting out of concern for their welfare, effective leaders typically find that employees are more willing to accept the risks associated with change.

As a leader, then-CEO Andrew Thorburn understood the negative consequences of NABs transformation program on employees but also clearly communicated the necessity for change at the company. In 2017, when announcing NAB’s full year results, Mr Thorburn said:

“... when I think about a longer term plan, and the challenges in the environment, I think all big businesses – particularly incumbent businesses – the reshaping of the workforce is going to be significant. And I think it’s important we face into that and we have a clear plan and we talk with our people about it.”

He also said:

“As we go through that for people that will be leaving our company over the next few years, we do want to do that well and we’re establishing a vehicle called The Bridge. The Bridge will actually help people out of our company across a bridge into new employment. We’re going to do a number of very significant things to help them, to give them the confidence and the skills to start that new role outside the company.”

NAB’s newly appointed CEO, Ros McEwan, will need to exercise leadership as he oversees the transformation program at the business. Following the announcement of his appointment, Mr McEwan suggested that he would ramp up the bank’s transformation program. He stated:

“It is essential that I protect and accelerate the bank’s transformation program. The community also expects a higher level of accountability and transparency from the banking industry. Australians deserve NAB to be a world class service provider.”

For more information about the appointment of Mr McEwan, see Box 1 on the next page.

Management strategies to respond to key performance indicators

In Update 3 we explored a number of key performance indicators that provide managers at NAB with data regarding business performance. We found that NAB’s performance was not bad. In fact, when announcing NAB’s 2017 Full Year results, then-CEO Mr Thorburn suggested that the numbers were good. NAB’s profit fluctuated between 2013 and 2017, falling from $5.36 billion in 2013 to $5.29 billion in 2017. Cash earnings increased from $5.74 billion in 2013 to $6.64 billion in 2017. Customer satisfaction across the same period improved (according to NAB’s net promoter score), as did the company’s employee engagement (according to its employee engagement score).

In response to the information provided by key performance indicators, management at NAB decided to implement strategies to respond to the data and position the business to deal with the challenges and opportunities that were anticipated to present in the future. NAB’s transformation program involves remaking the NAB workforce by making 6000 staff redundant and creating 2000 new jobs, reducing costs and investing $4.5 billion to make the company more efficient.

One strategy that NAB is implementing as part of its transformation program is increased investment in technology. Technology refers to applications of knowledge that change people’s lives and change the way
in which a business operates. Directing finances into new technology will allow a business to operate its processes and practices more efficiently and effectively, cut costs and improve productivity. Therefore, when a business invests in new technology, its use will ultimately impact on key performance indicators such as number of sales and net profit figures.

NAB is also redeploying capital. In its 2018 Annual Review, NAB stated that it was planning to reshape its wealth management business. The bank intends to retain and invest in a more focused wealth offering. NAB plans to exit its Advice, Platform and Superannuation and Asset Management businesses operating under MLC and other brands.

Another strategy that NAB is implementing as part of its transformation program is staff training. Training refers to the process of teaching staff how to do their job efficiently, boosting their knowledge and skills. It can be completed on the job or off the job. In 2017, then-CEO Mr Thorburn said that the bank would be retraining employees who had “the aptitude and commitment” to retrain.

NAB is also making use of cost cutting. Every area in a business creates costs. A business will need to examine all of its activities and decide where costs in the production of its good or provision of its service can be cut. Cost cutting is a quick way to respond to a KPI such as net profit figures. Cutting costs improves effectiveness and can improve profit. NAB is cutting costs by reducing direct and indirect costs and by using assets more efficiently.

Management strategies to seek new business opportunities

NAB appears to be seeking new business opportunities domestically and globally as it plans to invest in new and emerging growth opportunities. In its 2018 Annual Review, NAB says that it is constantly responding to the changing external landscape by identifying challenges and opportunities. The company stated that it was investing:

“... in the growth corridors of Greater Western Sydney and Greater Melbourne, in global infrastructure financing, extending the reach of private banking, accelerating UBank as a standalone digital bank – and creating new partnerships through NAB Ventures and NAB Labs.”

The principles of the Learning Organisation (Senge)

Peter Senge developed a theory in the 1990s 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 (available online on the VCAA Business Management page) 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. Alternatively, 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.
Nevertheless, there are businesses that are aware of the ‘learning organisation’. For more information about some examples of learning organisations, see Box 2.

**Box 2: Real learning organisations**

Redbubble is a global online marketplace for print-on-demand products based on artwork submitted by artists. The company was founded in Melbourne, and now also maintains offices in San Francisco and Berlin.

In May, the business apologised for selling mini-skirts, tote bags, and throw pillows printed with images of the Auschwitz concentration camp in Poland. Redbubble CEO Barry Newstead said that he was appalled when he realised that the items were available for sale on the business’s site. In a statement, Mr Newstead wrote:

“Redbubble is a learning organisation, we learn from our mistakes. We do set our policies and make judgments by listening to the communities around us, so that we don’t operate in a vacuum.”

It’s possible that Redbubble has made use of Senge’s theory, but the business is also focussed on Agile and Lean. Interestingly, Redbubble do sell products with Peter Senge quotes.

IBM is another business that is considered to be a learning organisation. The company has instituted effective employee-centric learning programs to develop necessary skills within the workforce. IBM employees complete an average of 60 hours of ongoing education a year, and the company spends half a billion dollars in employee education every year. IBM blogs have made reference to Peter Senge.

While NAB may not have consciously used Senge’s principles, elements of the theory can be seen in their practices. For example, the business offers training, learning and development opportunities in the expectation that improving individual employee performance will improve the performance of their businesses (personal mastery). NAB has a team culture (team learning and mental models), evidenced by one of its values, “win together”. The bank has a vision – “to be Australia’s leading bank, trusted by customers for exceptional service” – which one would expect is shared.

Systems thinking is a framework for seeing the big picture or looking beyond what is occurring just within a business. Leaders need to be able to see the many interrelationships between all the parts of a business. Making use of systems thinking, NAB would have met with stakeholders from all the different aspects of the business to communicate the need for a transformation program.

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**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 NAB communicating the need for change, as well as the strategies being implemented. It is also likely that two-way communication occurred between NAB management and staff during their periods of change.

NAB has also made use of **support**. For example, NAB established its ‘The Bridge’ program to provide care and support to employees impacted through the transformation program. ‘The Bridge’ delivers services in career transition, health and wellbeing, counselling and vocational training through partnerships with providers.

NAB’s 2018 Annual Review talks about **empowering** employees, including during the transformation program.

**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.

**Key principles of the Three Step Change Model (Lewin)**

While it is unlikely that management at NAB 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 NAB understood that there was a necessity for change. Then-CEO Mr Thorburn 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 2017 when announcing NAB’s full year results, where he said:

“... we need a long-term plan, a three to five year plan. And when we face into that environment, we see the impact of digitisation, fintech players, new global banking players coming into our market. An economy that I think has got a lot of potential but still uncertain, particularly given the global situation. So I’d rather face into this environment from a position of strength – and we’re in that position today – rather than drift into it or someone else forces us to do it. I want to put out this plan, I think it’s a good plan but I want to be open with our people too. We’re in a very dynamic industry, the workforce is changing and we’re being honest about that and I think we’re also helping our people through that through the likes of The Bridge.”

Initially, the NAB transformation program was to be overseen by a steering committee. This group comprised half a dozen people including Mr Thorburn and the chief technology and operations officer, Patrick Wright. As we know, Mr Thorburn has since left the business. The committee was to also include Andrew Clark, the managing partner for Australia and New Zealand for Boston Consulting Group. He is overseeing NAB’s transformation until 2020 as a strategic advisor.
The second step involves the move from the current situation to the new situation. With NAB 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. NAB 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 should have been empowered to implement the required changes and should have been involved in the process. In this way, resistance to the change would have been minimised.

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. NAB would have ensured that change was implemented correctly so that the impetus for change does not fade and to prevent things from reverting to the way they were before. Policies and procedures will need to be rewritten, achievements celebrated, and support and encouragement maintained. It is important that NAB consolidates the changes that they have made into the culture of the business.

The effect of change on stakeholders

As change was introduced at NAB, it is quite possible that managers at the business 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. At NAB, it is very likely that managers will be made redundant as well as employees.

Change can also be stressful for employees. For example, employees at NAB may be concerned that they are going to lose their jobs. This is a very real fear as NAB makes 6000 staff redundant (and creates 2000 new roles). As part of the changes occurring at the bank, many employees will need to undergo retraining or redeployment into other areas of the business.

Following the announcement of NAB’s three-year transformation program in November 2017, the union for bank employees, the Finance Sector Union (FSU), welcomed the news regarding the idea of “The Bridge” as additional support for employees facing redundancy. However, the union wanted more details and demanded a sector-wide industry plan and support to help employees maintain employment and transition into jobs of the future.

FSU national secretary, Julia Angrisano, told the Sydney Herald that the finance industry is at a crossroad. She said:

“We are at the point where we could leave the employees behind. The way we treat staff during this period will reflect on the industry... we need to have the industry step up and manage this in a way they haven’t managed it previously.”

As NAB undergoes change the customers of the bank will also be affected. The company’s long-term strategy is to build a better bank for its customers. After investing $4.5 billion, NAB should be more efficient, have more reliable systems and would be expected to provide a better experience for customers.

Corporate social responsibility considerations when implementing change

NAB is committed to making a positive and sustainable impact on the lives of its customers, people, shareholders, communities, and on the environment in which it operates. It is therefore important that the bank act in a socially responsible manner when implementing change.

When introducing its transformation program, NAB would have needed to ensure that its new technology was environmentally friendly, that is, that the new technology did not add to pollution or create additional waste. NAB would also need to ensure that all employees were given the opportunity to retrain. As NAB is cutting jobs it will need to keep employees informed of the changes and processes for redundancies. In acting in a socially responsible manner, NAB would be expected to provide employees with the opportunity to retrain and be redeployed into other roles in the business.

NAB is committed to supporting regional and rural Australia. As part of this commitment, the bank announced in March that it will not close any bank branches in regional and rural Australia until at least January 2021. NAB acting CEO Mr Chronican said:

“We are proud of our heritage in regional and rural Australia and we want our customers to know that our priority is to serve them. We also know that regional and rural Australia is undergoing significant change – and impacts like bank branch closures are difficult for communities.”

In 2018, NAB held community forums and meetings at 13 locations across Australia to hear first-hand from customers what they wanted from their bank. NAB executives and local bankers met with customers and community stakeholders to understand how they can best serve regional and rural communities and support them through challenges and opportunities such as shifting demographics, drought, technological advances and the demand for Australian produce. Following the community and customer feedback, NAB will open customer connect centres in Toowoomba, Tamworth, Bendigo and Bunbury to better serve regional, agribusiness and small business customers.
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.

The following data has been sourced from NAB’s 2018 Annual Review.

<table>
<thead>
<tr>
<th>KPI</th>
<th>2017</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>Net profit</td>
<td>$5.29b</td>
<td>$5.55b</td>
</tr>
<tr>
<td>Cash earnings</td>
<td>$6.64b</td>
<td>$5.70b</td>
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<tr>
<td>Priority segments net promoter score</td>
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<td>-16</td>
</tr>
<tr>
<td>Employee engagement score</td>
<td>59%</td>
<td>54%</td>
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</table>

Looking at these KPIs, NAB has improved its profit between 2017 and 2018. However, it has experienced falls in both its net promoter score (i.e. there are increasingly more detractors than promoters) and its employee engagement score (i.e. fewer employees are strong advocates, thereby demonstrating a reduced commitment to NAB).

In 2018, when announcing NAB’s full year results, then-CEO Mr Thorburn said:

“We are making progress to be a better bank for our customers, employees and owners. While 2018 has been a challenging year, our transformation is on track and benefits are emerging as we become simpler and faster.”

It was noted that the decline in employee engagement reflected the impacts of the Royal Commission on the bank’s external reputation and the restructuring announcement in November 2017. It was also noted that the fall in the net promoter score reflected an overall industry decline.

As we saw in CPAP Update 3, NAB announced in May that its first-half profit in the six months to March rose 4.3 per cent to $2.7 billion compared to the corresponding period a year ago. At a media conference, NAB acting CEO Mr Chronican said that the transformation program was progressing well. NAB will announce its full year results on 7 November.

**REVIEW QUESTIONS**

1. Outline the details of NAB’s transformation program.
2. Describe leadership and explain its importance in change management using NAB as an example.
3. What qualities will Ross McEwan bring to NAB as its new CEO?
4. Describe and justify two management strategies that NAB has introduced to respond to its key performance indicators.
5. Outline the management strategies that NAB is using as it seeks new business opportunities domestically.
6. Outline the management strategies that NAB is making use of to seek new business opportunities globally.
7. Identify the principles of Senge’s Learning Organisation.
8. Outline how NAB may have made use of the principles of Senge’s Learning Organisation.
10. Using an example, explain how NAB has used one low-risk strategy to overcome employee resistance.
11. Apply Lewin’s Three Step Change Model to the transformation program at NAB.
12. Explain the effect of the transformation program at NAB on two stakeholders.
13. Outline two corporate social responsibility considerations that NAB would have made when introducing its transformation program.
14. Why is it important for a business to review key performance indicators?
15. Referring to NAB’s key performance indicators, in your opinion how effective has NAB’s transformation been at this stage?

**APPLICATION EXERCISE**

**Case Study on implementing change – Stitch me up**

Stitch me up is a fast growing family-owned business that provides services in dressmaking, and clothing repairs and alterations. The owners of the business take pride in offering customers speedy, high quality and inexpensive tailoring. The Stitch me up store is conveniently located in a major shopping centre. Five staff are employed by the business, all of whom have been trained in custom tailoring and the provision of great customer service. The owners of the business are seeking to expand the business locally. If the expansion is successful, they are interested in the idea of seeking global opportunities.

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

1. Stitch me up will implement increased investment in technology and lean production techniques to position the business for the future. Identify one key performance indicator that each strategy could be used to respond to and explain how each strategy would position Stitch me up for the future.
2. Identify one strategy that the owners of Stitch me up could use to seek new business opportunities domestically or globally. Discuss how this strategy could be applied in relation to Stitch me up.
3. Analyse the effect that the strategy you identified in question 2 may have on Stitch me up’s employees and one other stakeholder.
4. Propose and justify one low-risk strategy and one high-risk strategy to overcome employee resistance at Stitch me up.
5. Apply Lewin’s Three Step Change Model to assist Stitch me up with to overcome employee resistance at Stitch me up.
6. Describe two corporate social responsibility considerations that a business, such as Stitch me up, will need to address as change is implemented at the business.
7. Explain why it will be important for the owners of Stitch me up to review the business’ key performance indicators.

**INTERESTING INFORMATION**

**Aldi Australia announces plan to reduce plastics and packaging**

In June, Aldi Australia announced a new scheme to cut down the use of plastics in its stores. The company plans to cut at least 25 per cent of all its plastic packaging from its product range by 2025. Amongst several other new sustainability targets, Aldi also plans to phase out problematic single-use plastics such as cotton buds, plastic plates and straws from its stores by the end of 2020. It committed to publicly report against all of its new sustainability goals from 2020.

Managing Director of Buying at Aldi Australia, Oliver Bongardt, said reducing the amount of plastics in store would assist in supporting Australia’s circular economy (a trading system that focuses on reducing, reusing and recycling products). He noted that while Aldi wanted to remove plastics immediately, the process would take years and not weeks. In a statement, he said:

“We are completely invested in the important journey of reducing waste and we stand committed to quantify our progress over the coming years.”
Woolworths in profit following plastic bag ban

CPAP Business Management Update 4 last year explored Woolworths’ announcement in April 2018 that its supermarkets, BWS, Metro and Woolworths Petrol stores would stop offering free single-use plastic bags to shoppers nationally. Despite a backlash from some customers, the company persisted with the ban.

In August 2018, Woolworths announced a 12.5 per cent rise in profit for the 2018 financial year. Its net profit after tax for 2018 was $1.72 billion, up from $1.53 billion in the 2017 financial year. However, the company noted that sales growth had slowed early in the 2019 financial year after it stopped providing free single-use plastic bags across the country.

It is very important that Woolworths reviews its KPIs following the implementation of its transformation to determine whether the strategies, used as part of the transformation of the business were successful, or whether there is a need to make any further changes or modifications.

In announcing the increase in profit, Woolworths CEO Brad Banducci flagged the impact of the removal of single-use plastic bags. He said:

“Sales have been impacted by customers adjusting to the phasing-out of single-use plastic bags, a competitor continuity program, meat and fruit and vegetable deflation, and the cycling of our successful Earn and Learn program in the prior year.”

Woolworths expected that sales momentum would improve. After reviewing its KPIs in February this year, Woolworths discovered that this had actually occurred. It reported a $979 million first-half net profit after tax (a 1 per cent increase on the 2018 half-year result). The business’s Australian Food division increased sales for the half by 2.3 per cent. Woolworths will announce its full year results on 29 August.

BHP sets emissions targets

In 2013, BHP, the world’s largest mining company, was listed as one of 90 global companies responsible for producing nearly two-thirds of the greenhouse gas emissions generated since the beginning of the industrial age. However, the company’s CEO, Andrew Mackenzie, recently told a business breakfast in London that the company was spending $US400 million over the next five years to create a climate investment program to reduce emissions from its own operations as well as those generated from its products such as coal and iron ore.

In his Financial Times’ Climate for Change speech in July, Mr Mackenzie committed BHP to work actively with customers on mitigation of emissions generated when they use the minerals and energy they buy from the company. He said:

“...we will also increase our focus on scope 3 emissions. These emissions are generated as customers transport, transform and use our products to serve the needs of billions of people and they are almost forty times higher than the emissions from our own operations.”

Mr Mackenzie said that BHP would set “public goals” and take on a “stewardship” role in reducing all emissions across its value chain.

BHP has been setting targets to reduce its emissions from its operations since the 1990s, however, the company’s operations directly produced 16.5 million tonnes of carbon dioxide-equivalent emissions in the 2018 financial year. The business has set a new target to cap 2022 at 2017 levels. Its long-term goal is to achieve net zero emissions from its own operations.

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