The Capacity to Manage Index

A business tool to address risk

Many factors determine whether a business succeeds or fails, but the ‘people factor’ is the most important. People are a business. Everything a business does, from product and service development, production and delivery, investment, expansion and use of technology, to marketing, sales and account control is people-dependent. How people are managed in a business is critical to its success. If managers do not have a capacity to manage, either through poor skills or externally imposed restrictions, the businesses they attempt to manage are at risk of underperformance. But if an incapacity to manage is unknown, it is hard to fix. The unknown constitutes a serious risk in itself.

Rarely has the capacity of Australian managers to manage staff been assessed using objective and publicly verifiable data. Plenty of studies have focused on other aspects of management—Total Quality Management, information technology, strategic planning, levels of research and planning—but labour studies have tended to overlook assessments of managerial decision-making capacity. In the absence of such assessments, the ability to judge a firm’s current and future performance is patchy and constrained. For investors, analysts, managers themselves, shareholders, consumers, employees, governments and other interested parties, this gap in knowledge increases risk.

The Institute of Public Affairs’ Capacity to Manage Index seeks to flesh out and measure how firms’ formal labour relations agreements impact on performance. The Index provides a path-breaking window into the internal functioning of businesses. Through the use of the Capacity to Manage Rating of businesses listed in the Index, stakeholders can obtain an independent and objective measure which gives an insight into the extent to which business performance is a function of workforce management.

The simple question being addressed is: to what extent do managers in any given business have a capacity to manage the staff of the business? The analysis is based on the Enterprise Bargaining Agreement (EBA) into which a business has entered.

**HOW THE CAPACITY TO MANAGE INDEX WORKS**

Enterprise Bargaining Agreements—industrial relations agreements between a business and its employees—were introduced into the Australian industrial relations setting as part of the attempt to modernize the system of regulating labour. EBAs were introduced to enable employees and managers to construct formal working arrangements suited to the specific needs and demands of each business. EBAs are underpinned by the industry ‘awards’, which set minimum labour standards that apply across all businesses in any industry. EBAs are supposed to build on awards to improve the capacity of a business to compete in its markets and to deliver improved incomes to employees. The idea behind EBAs is that of win–win. They are to enable businesses to be run better, and to enable employees in the business to share in the benefits.

EBAs are often examined from the perspective of the increased remuneration they deliver to employees. The IPA examination is from a different perspective: whether or not they deliver in enabling a business to better manage itself and compete in its markets. Looked at from this angle, EBAs are valuable windows into the internal management of businesses, indicating whether those responsible for signing off on the agreement have enhanced or restricted the capacity of the firm’s managers to manage the enterprise.

The process of establishing the Capacity to Manage Index has involved careful study of specific clauses in large numbers of EBAs. A pattern emerged which showed that EBA clauses could be divided into two broad
categories: those that relate entirely to employee remuneration and those that relate to managerial issues. Only those clauses not dealing exclusively with the employees’ remuneration form part of our analysis. The management related clauses conform to a broad pattern that has enabled an assessment ‘grid’ to be established. Management-related EBA clauses are assessed as having a negative or positive influence on the capacity of managers to manage.

For example, the following clause has been assessed as increasing the capacity to manage:

Employees may be transferred between sites commensurate with their skills levels and abilities.

and the following clause has been assessed as reducing the capacity to manage:

The total number of … employees shall not fall below these minimum employment levels other than with the written agreement of the union.

Clauses have been given a value, usually of plus or minus one, with a small number of clauses rated at minus two. In our assessments, all businesses began with a zero score and points were added or deducted. Where the end score is in the positive range, businesses have been assessed as having an enhanced capacity to manage in comparison to general industry awards and other regulation. Businesses with a negative end score are assessed as having a reduced capacity to manage. The size of the end score indicates the degree to which enhancement or reduction of managerial capacity has occurred.

In this first Capacity to Manage Index, 85 EBAs have been assessed: 35 from the commercial construction sector and 50 from the food manufacturing sector. Work sites of some of the largest companies in Australia are listed.

This first release of results is the beginning of a process that will continue during 2003 and beyond. Over time, the Index is to be expanded to cover every major industry and significant numbers of businesses in Australia.

As well as offering economy-wide insights into labour relations, the index is likely to prove a useful tool for investors, managers, shareholders, policy makers and other persons interested in the management of particular firms and sectors.

[Qualification: It is important to note that the Index does not measure actual management behaviour but only the capacity to manage.]
Capacity to Manage Index
Overall Ratings, Construction Companies

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Party to agreement</th>
<th>Year applies</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aust Wide Electrical</td>
<td>ETU</td>
<td>02-03</td>
<td>-20</td>
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<tr>
<td>Boulderstone Hornbrook (Vic)</td>
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<td>01-03</td>
<td>-2</td>
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<tr>
<td>BMD Construction (NSW)</td>
<td>CFMEU</td>
<td>2002</td>
<td>-11</td>
</tr>
<tr>
<td>Complete Concrete Services (Vic)</td>
<td>CFMEU</td>
<td>99-02</td>
<td>-18</td>
</tr>
<tr>
<td>Cabra Electrical (NSW)</td>
<td>No union</td>
<td>2001</td>
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<tr>
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<td>0</td>
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<tr>
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<td>-18</td>
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<tr>
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<td>GMT Construction &amp; Carp (NSW)</td>
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<td>Grocon (National)</td>
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<td>-18</td>
</tr>
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<td>-22</td>
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<td>AWU</td>
<td>2002</td>
<td>-5</td>
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<tr>
<td>John Holland (Tas)</td>
<td>AWU</td>
<td>01-04</td>
<td>-6</td>
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<tr>
<td>L Serafin (ACT)</td>
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<td>QR Brisbane Airport Rail (Qld)</td>
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<td>Rightway Electrics (NSW)</td>
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<td>Rivergum Constructions (Vic)</td>
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<td>Walter Construction (Vic)</td>
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<td>Westfield (NSW)</td>
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<td>Westfield Maintenance (Vic)</td>
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<td>00-03</td>
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</table>

Average score: -12.0

MAJOR FINDINGS
Our early data has indicated the following tentative conclusions:

1) EBAs are ostensibly about the improvement of employee incomes with a commensurate increase in the capacity of a firm to respond to market demands. There is, however, little evidence in the EBAs we studied of enhanced operational responsiveness to market demands.
2) Approximately half of the EBA clauses related to employee incomes and half related to management issues.
3) The bulk of the clauses relating to management issues reduced the capacity of managers to manage. Many clauses seemed to neuter the capacity to manage in critical areas of firms' operations.
4) There are wide variations in the ratings achieved, but unfortunately for Australian firms, those variations are predominantly in the range of a reduced capacity to manage rather than an enhanced capacity to manage.
5) Some firms have achieved a marginal increase in their capacity to manage, but increases were comparatively small.
6) The food industry fares better overall than does the commercial construction industry.
7) Agreements in Victoria bring about a significantly lower capacity to manage than in other States.
8) Non-union EBAs appear to result in a higher capacity to manage than do union EBAs, although the sample size of non-union agreements is too small at this stage to be definitive.
9) Some large companies showed a significant divergence in the range of scores achieved.

COMMENT: CAPACITY TO MANAGE IS ESSENTIAL FOR EFFICIENCY
In the mid-1980s, considerable community debate began on reform agendas for the Australian industrial relations system. A central agreed principle emerged that workplace relations should be determined to the greatest extent possible at the enterprise level between employers and employees.

The idea was that an enterprise focus would: help erode the ‘them versus us’ mentality that plagued workplace relations in Australia; give workers an incentive to accept and gain from productivity
changes; provide management with a greater capacity to
manage and compete both by reducing the external
constraints on what is possible and by breaking down the
barriers with workers.

While some groups where initially reluctant to
support a shift away from a centralized system, the logic
slowly and steadily took hold and is now supported across
business, unions and political parties.

The Hawke Government began the shift to an
enterprise focus in 1987 with the introduction of
centralized minimum wages and the idea of increases
being achieved above the minimums through
productivity gains determined at the enterprise level.
This was advanced further with the introduction of
certified agreements in the Industrial Relations Act
1988. The Keating Government introduced collective
enterprise agreements as an alternative to centralized
agreements in the Industrial Relations Reform Act
1993. The Workplace Relations Act 1996 introduced the current
enterprise agreements (EBAs) along with a number of
other changes, including the policy of reducing awards
coverage to ‘20 allowable matters’; limits on tribunal
powers to regulate and intervene; limits on third parties’
rights to intervene; and individual or workplace
agreements. Although the shift towards an enterprise
focus was initiated at the federal level, the States have
steadily followed.

As a result, most workplaces of significant size are
now covered by a collective enterprise agreement. The
questions are: has the shift to an enterprise-based
regulatory system produced the goods? Has it broken
down barriers between workers and employers; has it
produced a workforce better focused on greater
productivity, and has it given managers a greater capacity
to manage?

There is little doubt that the reform process
undertaken over the last 20 years has generated major
benefits, including higher productivity, higher real
wages, fewer disputes and days lost, as well as
contributing to lower interest rates and greater
employment.

But some key questions remain: Are employers and
employees getting the most out of the system? What is
best practice? Does the system have design faults? Is the
system being undermined by strategic behaviour,
regulation or other factors?

There are clear signs that all is not well with both the
workplace relations system and, specifically, with
enterprise-based agreements. The food manufacturing
industry—Australia largest manufacturing sector—is
being undermined by poor labour relations.¹

The Cole Royal Commission into the construction
industry has exposed a seriously flawed workplace
culture.

While others have examined EBAs most often with
an eye to equity and more regulation, no-one has
undertaken a systematic assessment to see if EBAs are
delivering greater managerial flexibility, that is, the
capacity to manage.

OBTAINING SUBSCRIPTION TO THE FULL
INDEX
This launch of the Capacity to Manage Index is the
beginning of a long-term, detailed analysis of the
operations of Australia’s labour relations system. It will
eventually cover all industry sectors in Australia. The
database will form the basis for a new wave of business
and management analysis to be undertaken.

The IPA is making its analysis available through yearly
subscription. Subscribers will have access to:
• The full methodology statements and explanations.
• The master ‘grid’ sheets used in undertaking EBA
  analysis.
• Full documentation of each company ratings chart
  based on a clause-by-clause assessment, including
  brief commentary on clauses. Each analysis sheet is
  two pages in length.
• Access to all updates and new analyses undertaken.

Persons interested in subscription can make application
through the IPA office at:

Level 2, 410 Collins St
Melbourne VIC 3000
Phone: 03 9600 4744

An expanded version of this IPA Review information can
be found on the IPA Website at www.ipa.org.au.

¹ ‘Take Away, Take-Away: The Self-induced Destruc-
tion of the Australian Food Manufacturing Indus-