



The Capacity to Manage Index

Report 5: The Australian Petrochemical Industry

The IPA Work Reform Unit launched the Capacity to Manage studies in 2002 and this current study (Petrochemical Industry) is the fifth in the series. After detailed assessments of 237 enterprise agreements, there is evidence that, at long last, in at least one industry sector, the Australian enterprise agreement approach has delivered results that are benign in terms of their effects on managers' capacity to manage their businesses.

WHAT DOES THE CAPACITY TO MANAGE INDEX STUDY?

The Index looks at the individual, formal, industrial agreements that businesses enter into, known as enterprise agreements. These are registered with industrial relations commissions and are publicly available on the Internet. The Index does not look at pay issues. It looks at how each clause in an agreement affects the capacity of managers to manage their businesses in comparison to management rights under awards. For example, if a clause removes the control of rostering from managers, the clause is rated as -1.

Generally, the public perception of industrial relations involves debate over 'workers rights'. But the key to understanding Australia's industrial relations regulation systems is that the rights take two forms: remuneration and who controls operations. Remuneration is a cost issue. Operational control, however, directly affects the performance of firms and hence the

national and international competitiveness of the Australian economy. Management performance issues are never considered or assessed in the regulation systems processes because it is always assumed that managers can manage. That assumption is challenged by the results of the combined Capacity to Manage studies.

SYSTEMIC, INDUSTRIAL RELATIONS REGULATION FAILURE

The theory of the enterprise agreement system is that workers and management work together for the mutual benefit of workers and the firm. Higher pay for workers is achieved with higher performance for the firm. But between theory and practice something is going seriously wrong.

Based on the foregoing results, it is becoming apparent that the current industrial relations frameworks systematically reduce the capacity of Australian managers to manage their businesses.

This conclusion is tempered by the understanding that formal agreements only reflect one aspect of managerial performance. Direct relationships on the ground are perhaps more important than formal agreements. But it is legitimate to ask why managers would agree to reduce their formal capacity to manage if this did not reflect the informal worker-manager relationships. Perhaps one reason is that middle, and even senior managers, do not normally own the businesses—

they are simply employees, like the workers. Consequently, these managers' motivations may not be directed to business performance, but rather to career and self-advancement.

The implications of reduced capacity to manage can only be guessed at, but it is safe to assume that the effects on economic performance, on firms' profitability and on worksite safety must be negative. If managers do not have clear authority to manage, what happens to decision-making and accountability?

PETROCHEMICAL INDUSTRY

The petrochemical industry has long suffered from structural decline. Old infrastructure, poor profitability, reluctance to reinvest, a small domestic market and the rise of highly efficient, modern competitive processing facilities in Asia have placed many of the domestic businesses at risk. The more recent, dramatic increases in global oil prices have, however, assisted greater profitability.

Nevertheless, in this less secure environment of the last decade or so, it appears that most companies have negotiated enterprise agreements which at least do not *decrease* their capacity to manage. Perhaps one motivational factor is that petrochemical management has always involved a high risk of catastrophic disaster, as witnessed at Esso's Longford plant in Victoria a few years ago. The Longford plant enterprise agreement, signed after the plant explosion, rates only a minus 2.

Full details of the Petrochemical assessments and all Capacity to Manage Index studies, including methodology, are available by subscription. Contact the IPA office on 03 9600 4744.

Avg Score	Industry	Best score	Worst score	EBA's assessed
-8.1	Food	+1	-20	51
-11.1	Construction	+4	-21	36
-8.7	Automotive	+3	-27	47
-5.6	Transport	+7	-16	53
-1.5	Petrochemical	+3	-12	50

Capacity to Manage Index Overall Ratings, Petrochemical Industry

Company name	Union/Party	Year Applies	Rating
Agility Services	AWU	2003-2005	-1
Albright & Wilson	AWU	2002-2004	-4
Australian Vinyls Corporation	AWU	2002-2005	-2
BASF	AWU	2001-2004	-1
BHP	AWU	2003-2006	3
BOC Gases	TWU, AWU, AMWU	2003-2005	-4
BP Oil	AMWU, CEPU	2003-2006	-1
Caltex	AWU	2002-2004	-8
Caltex/Linfox	TWU	2003-2005	-1
Energy Developments	AWU	2002-2004	3
Esso	AMWU, CEPU, AWU	2003-2005	-7
Esso	Various	2003-2005	-2
Gasnet	AWU, TWU, APESMA	2003-2005	2
Henkel Adhesives	AWU	2003-2005	-2
Huntsman	Various	2001-2004	-2
Incitec Pivot	AWU	2003-2004	0
Linfox -Shell distribution	TWU	2002-2005	2
Mite Constructions	AWU	2004-2005	2
Mobil	AMWU, CEPU	2002-2004	0
Mobil	NUW	2002-2004	2
Mobil	NUW	2003-2004	2
National Starch & Chemical Company	LHMU, AMWU	2002-2004	-3
Nuplex Industries	AWU	2004-2005	-2
Nuplex Resins	AWU	2003-2005	-2
Orica	CFMEU	2002-2005	1
Orica Specialty Chemicals	AWU	2003-2005	-3
Origin Energy	NUW	2002-2004	0
Pacific Petroleum	No Union	2003-2004	1
Pental a Division of Symex	AMWU	2003-2005	-2
Pivot	Various	2002-2004	1
Plaspak Contaplas	NUW	2002-2005	0
Plaspak PET	No Union	2003-2004	1
Power Petroleum	TWU	2002-2004	1
Qenos	AWU	2003-2006	-3
Qenos	AWU, CFMEU	2001-2004	-2
Queensland Nitrates Management	AWU	2002-2004	2
Santos	AWU	2002-2004	-10
Shell	NUW	2002-2004	-6
Shell	TWU	2003-2005	-4
Shell	Various	2003-2006	-12
Shell	AFMEPKIU	2004-2006	-3
Shell	AWU	2003-2004	-4
Thiess Nacap	AWU	2003-2005	2
Ticor Chemical Company	AMWU, CEPU, AWU	2002-2004	-1
Transfield Services	AMWU, AWU	2004	-1
TXU	AWU, APESMA	2002-2005	-1
Upstream Petroleum	AWU	2002-2005	2
Wattyl Australia	LMHU	2003-2005	-2
Woodside	AIMPE	2001-2004	-4
Woodside	AWU	2002-2004	0
Average rating			-1.5

Note: Comments are made within the context that the IPA Capacity to Manage Index does not measure actual management performance.