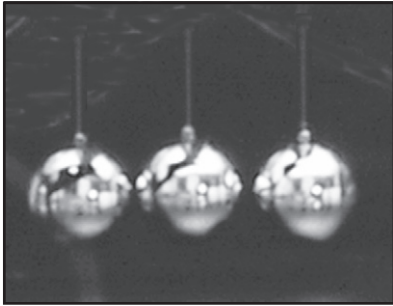


IPA WORK REFORM UNIT SPECIAL REPORT

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, Food Manufacturing Industry

Company Name	Party to agreement Union/other	Year applies	Rating
Arnotts - Burwood	CEPU	01-03	-10
Ballantyne	AMWU, CEPU	00-03	-10
Bonlac	NUW	01-04	-19
Cadbury Schweppes - Liverpool	CEPU, AMWU	01-03	-17
Cadbury Schweppes - Ringwood	AMWU	00-02	-4
Cadbury Schweppes - Ipswich	ALHMMWU	01-03	-9
Cadbury Schweppes - Mainten	No union	01-02	-3
Campbells - Lemnos	several	01-03	-15
Chiquitta - Mernda	AWU	01-03	-17
Coca-Cola - Operations (NSW)	ALHMMWU, CEPU	01-04	-12
Coca Cola No 2 (NSW)	ALHMMWU	01-04	-2
CUB - SE Qld (Fosters)	No Union	01-04	-6
Farm Pride	NUW	99-01	-9
Goodman Fielder - Footscray	NUW	02-03	-13
Health Snack Foods	No union	02-05	-1
Heinz Echuca	AMWU	01-03	-14
Jalna Dairy	NUW	01-04	-12
John Lewis Food	TWU	01-02	-1
Manassen Foods	NUW	99-01	-10
Meadow Lea Foods	NUW	2000	-11
Menora Foods	NUW	01-03	-1
Murray Goulbourn	NUW	01-04	-14
National Foods - Morwell	NUW	01-04	-10
National Foods - Vic	NUW	02-05	-11
National Foods - Vic Cream	NUW	02-04	-21
National Foods - Vic Engineer	CEPU	00-03	-8
Nestle - Altona	NUW	99-02	-7
Nestle - Echuca	AMWU, CEPU	01-03	-21
Nestle - Tongala	NUW	01-03	-10
Orlando Wines Engineering SA	AWU	02-05	-1
Pepsi - Huntingwood	ALHMMWU	00-02	-6
Pork Company	AMIEU	00-03	-6
Real McCoy Snack Foods	No union	02-05	0
Sanitarium - Moorooka	No union	01-02	+2
Sanitarium - Tuggerah	No union	98-99	0
Sara Lea	AMWU	01-03	-11
Simplat - Echuca	AMWU, CEPU	00-03	-13
Simplat - Kensington	AMWU, CEPU	00-03	-11
Simplat - National	many	2000	Not assessable
Southcorp Wines Barossa	several	01-04	-13
Southcorp Wines Distribution	NUW	01-04	-3
SPC/Ardmona Shepparton	AMWU	2001	-15
Tetley	AMWU	01-03	-12
Tetley	NUW	01-03	-12
Tip Top Bakers (Vic)	ALHMMWU	00-03	-7
Uncle Bens-Effens (Wodonga)	several	1998	+1
Uncle Tobys (Wahgunyah)	NUW	99-01	-18
Unibic	ALHMMWU	00-02	-3
Unifoods - Unilever - Mulgrave	AMWU, NUW	96-98	-9
Unifoods - Beverages (Vic)	NUW	97-99	-1
Westons - Abbottstord	ALHMMWU	01-03	-17
Average score			-9.0

Capacity to Manage Index Overall Ratings, Construction Companies

Company Name	Party to agreement Union/other	Year applies	Rating
Aust Wide Electrical	ETU	02-03	-20
Baulderstone Hornibrook (Vic)	CFMEU	00-02	-21
Barkley Mowler (NSW)	CFMEU	1999	-1
Bells Constructions (Tas)	CFMEU	01-03	-2
BMD Construction (NSW)	CFMEU	2002	-11
Complete Concrete Services (Vic)	CFMEU	99-02	-18
Cabra Electrical (NSW)	No union	2001	+2
Concrib Constructions (Vic)	No Union	2000	0
Didris Development Vic	CFMEU	99-02	-18
Fletcher Constructions (NSW)	CFMEU	00-04	-10
GMT Construction & Carp (NSW)	CFMEU	99-02	-15
Grocon (Vic)	CEPU	00-03	-20
Grocon (National)	CFMEU	01-02	-22
Holly Green Constructions (Vic)	CFMEU	99-02	-18
John Holland (Vic)	CFMEU	99-02	-22
John Holland (Mining Yandi)	AWU	2002	-5
John Holland (Tas)	AWU	01-04	-6
L Serafin (ACT)	CFMEU	01-04	-13
Lindore Cranes (Vic)	CFMEU	99-02	-18
Leighons NSW	CFMEU	01-02	-10
Mahashire (Vic)	CFMEU	00-02	-18
Multiplex	CFMEU	01-02	-19
Parfin Constructions (Vic)	CFMEU	99-02	-18
QR Brisbane Airport Rail (Qld)	CEPU	2000	-4
Rightway Electrics (NSW)	Non union	01-04	+3
Rivergum Constructions (Vic)	CFMEU	99-02	-18
Siemens Federation Square (Vic)	ETU	2000	-11
SJ Moran Constructions (Vic)	CFMEU	99-02	-18
Star Electrical (NSW)	ETU	00-02	-12
Thiess (Vic)	CFMEU	01-2	-21
Thiess (Qld)	CFMEU	02-05	-2
Total Concept Projects NSW	Non union	02-04	+2
Walter Construction (NSW)	CFMEU	01-03	-12
Walter Construction (Vic)	CFMEU	99-02	-17
Westfield (NSW)	CFMEU	00-02	-14
Westfield Maintenance (Vic)	CFMEU	00-03	-7
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 were 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. This was re-inforced by the recent admission by the new CEO of Grocon that his firm has allowed 'ancient Spanish customs' to be built into its production processes, particularly the productivity-sapping workplace arrangements in Melbourne.

Chris Corrigan, MD of Patrick Corporation, outlines the cultural and regulatory impediments confronting people trying to improve productivity under the current system (see pages 23–25 in this issue).

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 Destruction of the Australian Food Manufacturing Industry', *IPA Review*, Vol. 53, No. 4, December 2001.