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MGC1010: Introduction to Management

Week 3: Navigating through the waters – managing in and beyond corporations

Dr Mulyadi Robin, Department of Management



OVERVIEW OF TODAY'S LECTURE

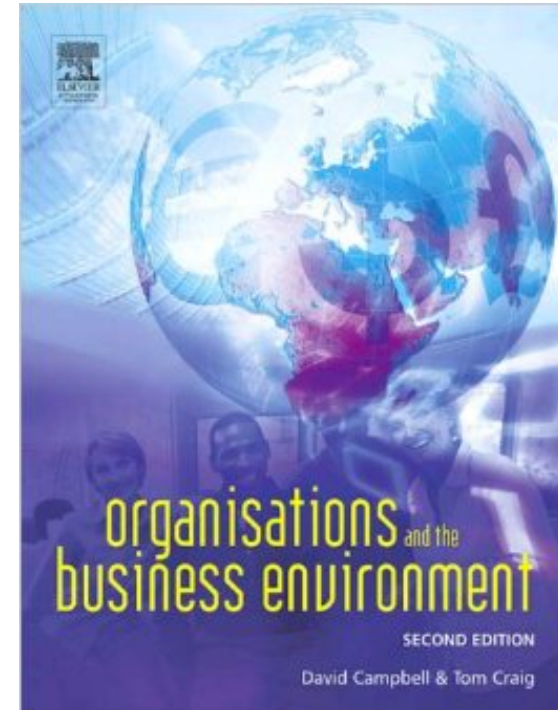
- Managing in and beyond organisations
 - Introducing organisations, the environment, and competitive advantage
 - Managing across different organisational contexts
 - Competing interests in organisations
 - Shareholder vs stakeholder perspective



POLL ANYWHERE (RESULTS)

Readings for this week

- Craig, T., & Campbell, D. (2012). *Organisations and the business environment*. Routledge. (Chapter 3 & Chapter 4)
- [Heras-Saizarbitoria, I. \(2014\)](#). The ties that bind? Exploring the basic principles of worker-owned organizations in practice. *Organization*, 21(5), 645-665.
- [Kasmir, S. \(2016\)](#). The Mondragon Cooperatives and Global Capitalism. *New Labor Forum*, 25(1), 52-59.



ORGANISATIONS

- Organisations are defined as “a collection of people working together to achieve a common purpose”

(Schemerhon et al., 2017, p.10)

- Social arrangement or phenomenon that allows its members to perform beyond the reach of individual accomplishment



ORGANISATIONS



- Generalizations:
 - People
 - Roles
 - Hierarchy of Authority
 - Purpose
 - Common set of goals / tasks
 - Performance
 - Borders / limits of an organisation
 - Clear definitions of who the members are

THE IMPORTANCE OF THE ENVIRONMENT

- **Hurt by increasing costs of production in Australia**
 - AUD/USD exchange rates (2010 – 2013)
 - Higher wage floor compared to other countries
 - Most automotive parts (i.e. Camry) were made in Australia
- **Low import tariffs**
 - One of the lowest in the world (5%)
 - Was at 60% in the 1980s
- **Changing customer demands**
 - Prestige, efficiency, reliability, and price



Australia's car industry on doors

October 17, 2015

Jared Lynch and Mark Hawthorne

From one of just 13 countries in the world capable of building a car from the ground up, Australia's 90-year history of assembling and building automobiles is coming to an end.

Comments 148

Read later



THE IMPORTANCE OF THE ENVIRONMENT



Terry McCrann

Dramatic oil price plunge rips into BHP Billiton but has Qantas soaring

BOTH the biggest-ever loss that ripped into BHP Billiton and the biggest-ever profit that poured into Qantas came from exactly the same source: the dramatic plunge in oil prices.

In BHPB's case, the lower oil price ripped just under \$4 billion from operating profit. In Qantas's case it added \$448 million — that accounted for almost all the increase in the airline's profit.

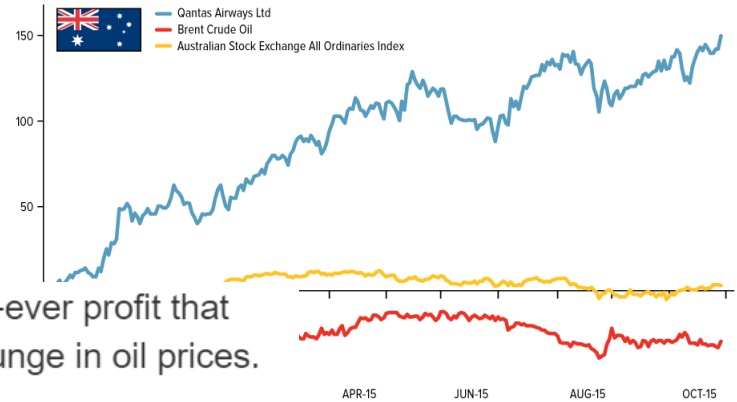
QANTAS has announced a record loss of \$2.84 billion for the 2013/14 financial year as it has emerged the airline was losing \$89 per second.

The figures are far worse than what analysts had predicted, which was a loss of \$800 million to \$1 billion.

Qantas chief executive Alan Joyce has insisted this does not spell the end for the Flying Kangaroo.

Qantas is blaming weak demand in Australia, subdued consumer and business confidence and high interest rates for the company's financial woes.

Qantas vs Crude Oil vs Australian Stock Market
Percent Total Return



Past performance does not guarantee future results.
Source: Bloomberg, U.S. Global Investors

ENVIRONMENT AND COMPETITIVE ADVANTAGE

- Companies need **capabilities** to compete, survive and thrive
- **Strategic capabilities**: Those that are difficult to imitate, are of value to the customer, and are better than those possessed by the majority of competitors.
- **Dynamic capabilities**: Physical (e.g. state-of-the-art equipment or advantageous location), organisational (e.g. outstanding sales force) and human (e.g. expertise in a specialised field).
- A **competitive advantage** allows an organisation to deal with market and environmental forces better than its competitors.



Source: tinobusiness.com

ENVIRONMENT AND COMPETITIVE ADVANTAGE: GENERAL ENVIRONMENT

- The general environment consists of **all the background conditions** in the external environment of an organisation and forms a general context for managerial decision making.
- The general environment comprises **cultural, economic, legal–political** and **educational conditions**.

Economic conditions

This includes the general state of the economy in terms of inflation, income levels, gross domestic product and unemployment and related indicators of economic health.

Sociocultural conditions

This includes the general state of prevailing social values on matters such as human rights, trends in education and related social institutions, and demographic patterns.

Political–legal conditions

This includes laws and government regulations and the general state of the prevailing philosophy and objectives of the political party or parties running the government.

Technological conditions

This includes the general state of the development and availability of technology, including scientific advancements.

Natural environment conditions

This includes the general state of nature and the conditions of the natural environment, including levels of public concern expressed through environmentalism.

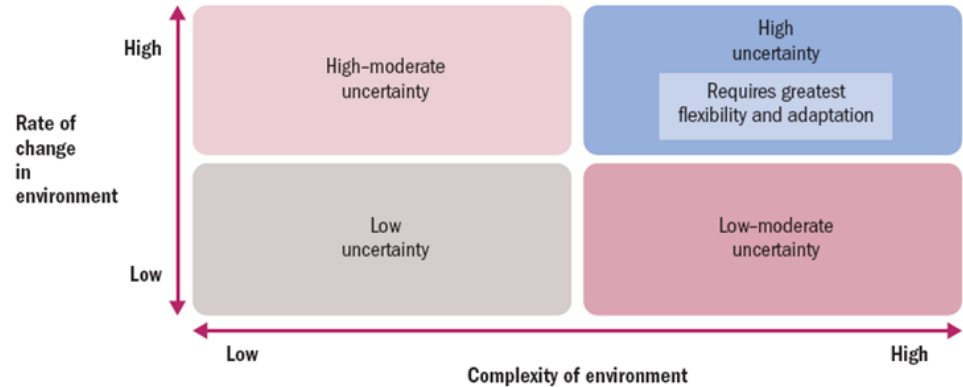
ENVIRONMENT AND COMPETITIVE ADVANTAGE: SPECIFIC ENVIRONMENT

- The specific environment includes the people and groups with whom an organisation interacts.
- The specific environment is often described in terms of **stakeholders** — the individuals, groups and institutions who are affected in one way or another by the organisation's performance.



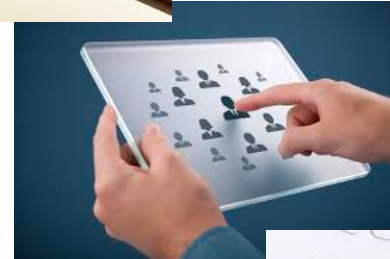
ENVIRONMENT AND COMPETITIVE ADVANTAGE: ENVIRONMENTAL UNCERTAINTY

- **Environmental uncertainty** is a lack of complete information about the environment.
- When environmental uncertainty is **high**
 - Management need to direct more attention towards external environment
 - Need for greater flexibility and adaptability within the organisation



TYPES OF ORGANISATIONS

- **Sole trader**
 - An individual who runs a business
 - No difference between the person and the business
- **Partnerships**
 - Two or more individuals, corporate, or other entities do business together
 - No separate legal existence from the partners who make up the partnership



TYPES OF ORGANISATIONS

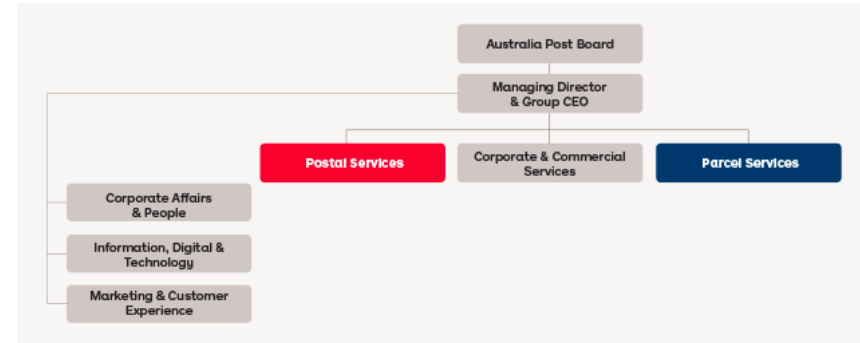


- Companies
 - Legal entity separate from its owners and those who manage the affairs of the company (directors).
 - Regulated by ASIC and under the Corporations Act
- Companies limited by shares
 - Public or Private
- Companies limited by guarantee

CASE IN POINT: AUSTRALIA POST



- Australian-Government-Owned entity
- 1809 – first postmaster of New South Wales
- 1825 – postal act leading to first organised postal service across the colonies.



BUSINESS

Ahmed Fahour quits Australia Post

Your browser doesn't seem to have the latest version of Adobe Flash Player installed. To view this video, please download the latest Flash Player version [here](#).



Ahmed Fahour quits as Australia Post CEO

JOHN DURIE, DAN PALMER

The Australian - 3:10PM February 23, 2017

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The political storm over his \$5.6 million pay packet has fast-forwarded the departure of Ahmed Fahour from the top job at Australia Post.

Following his resignation, the Turnbull government today announced a new plan to crack down on pay at Australia Post, ramping up the pressure on the government-owned company's board.

Mr Fahour maintains that after seven years it is time to move on, which is true, but prior to the recent salary furore he had not previously given any indication that he planned to leave soon.

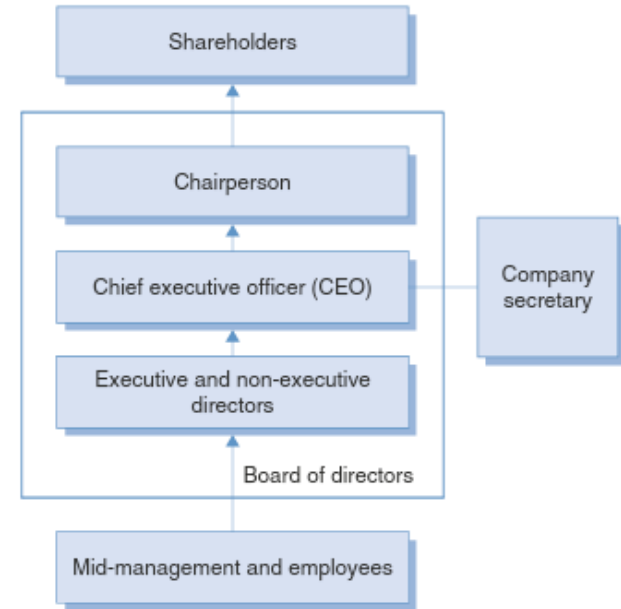
CHANGING ENVIRONMENT: PARTNERSHIPS

[Greenwood, R., & Empson, L. \(2003\).](#) The professional partnership: Relic or exemplary form of governance? *Organization Studies*, 25 (6), 909-933

- Partnership was the dominant form of organizational governance up to the 19th Century
- Today exists mainly in the professional services sector (i.e. law firms).
 - Suits the demand of the workforce, and provides a superior incentive system for professionals
- Agency theory
 - Avoid the external principal-agent problem (shareholders vs managers)
- Tournament theory
 - “up or out” career advancement
 - Superior work ethic, high commitment and productivity
- Limiting factors
 - Size
 - Nature of changing environment (i.e. increasing threat of litigation)

MANAGEMENT OF LIMITED COMPANIES

- Often the context within which we conceptualize management
- Three levels of management
 - Top Team Management
 - Middle Managers
 - Front-line Managers



COMPETING INTERESTS: SHAREHOLDERS VS STAKEHOLDERS

■ Shareholder theory

- “There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it ... engages in open and free competition, without deception or fraud.”

■ Stakeholder theory

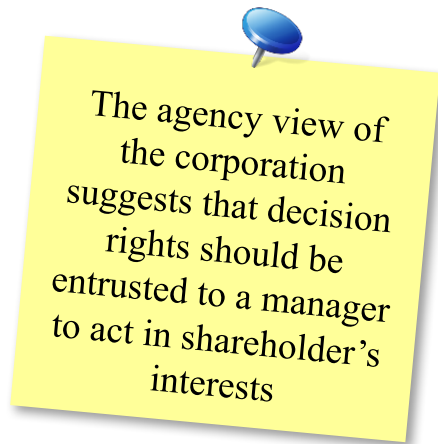
- Argues that organisations have a social responsibility.
- Managers’ duty is to balance the financial interests of shareholders with employees, customers, and the local community
- Even if this reduces shareholder returns

CONFLICTING INTERESTS: AGENCY PERSPECTIVE

- Recall Weber's perspective (c.f.

Week 2 slides)

- Managers and owners should be separate



- Corporate governance

- System of rules, practices, and processes in controlling and directing a company.
- Maintaining balance of interests

- Agency costs

- Occurs when ownership is separated, or when managers have objectives other than shareholder value maximization.

CONFLICTING INTERESTS: AGENCY PERSPECTIVE

- Shareholders tend to concede most of their control rights to managers.
- Conflict of interests often face managers
 - Self-dealing
 - Expand individual power
 - Corrupt practices
- Corporate governance aims to eliminate or minimize the outcomes of conflicting interest.
- Some argue that this hampers efficiency.

ALTERNATIVE STRUCTURE: MONDRAGON CORPORATION

[Heras-Saizarbitoria, I. \(2014\).](#) The ties that bind? Exploring the basic principles of worker-owned organizations in practice. *Organization*, 21(5), 645-665.

[Kasmir, S. \(2016\).](#) The Mondragon Cooperatives and Global Capitalism. *New Labor Forum*, 25(1), 52-59.

- The pressures of a 'capitalist system'
(Alvesson & Willmots, 2012)
- Mondragon is a corporation and federation of worker cooperatives.
 - Worker-owned cooperative
 - Employees have a voting right
 - Manager – employee wage ratio are discussed and agreed upon



- Proponents
 - Good wages for employees
 - Empowering ordinary workers in decision making
 - Equality for women in the workforce
 - Alternative to the capitalist system
 - Better governance
- Opponents
 - Still embedded in a capitalist system with regards to decision-making (not worker-managed)
 - Employees : worker-owner ratio is increasing
 - Internationalization – three-tiered wage system

REFLECTION POINT

- How should managers react to the changing environment?
- Is the welfare and well-being of employees the duty of managers?
- What do you think the future will be like for organisations?



SUMMARY

- Understand the different types of organisations and how they impact on governance
- What is the environment, and how does it relate to competitive advantage
- Understanding competing interests in organisations
 - Shareholder vs stakeholder perspective





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Next week: Power and Authority

