
The Foenander Lecture in Industrial Relations has been established to commemorate the life of Dr. Orwell de Ruyter Foenander. Orwell Foenander had a long and distinguished association with the University of Melbourne which began with his attendance as a student of law in 1909 and ended only with his death on February 22, 1985 at the age of ninety-four. Throughout this long period of association Orwell served the University with great distinction. He obtained first-place and the award of the Supreme Court Prize in the final honours examination in law in 1914. Thereafter he occupied a number of University positions, including a part-time lectureship in Economics and Industrial Relations, and eventually Associate Professor and Head of the Department of Industrial Relations in the Faculty of Commerce. For much of this time he was also a tutor in Ormond College.

Apart from his teaching and administration, Orwell's main academic achievement was in pioneering the study of Australian industrial regulation, and in particular the study of the operation of the systems of conciliation and arbitration. This interest developed from advice given to him by the founder of federal arbitration, Henry Bournes Higgins, during World War I. In the period from 1937 to 1970, Orwell published no less than eleven books on industrial regulation. To this splendid achievement must be added the numerous papers and articles published by Orwell in international and local journals.

Orwell Foenander continued his formal association with the University and the Faculty of Economics and Commerce after his retirement in 1957. He worked as a part-time teacher in the Faculty until 1969, and thereafter continued to give the benefit of his extensive learning and experience to Faculty members through his frequent visits to the University.

ACHIEVING COMPETITIVE ADVANTAGE THROUGH ORGANISATIONAL CHANGE: MANAGING WITHIN THE AUSTRALIAN INDUSTRIAL SYSTEM

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The seventh Foenander Lecture in Industrial Relations was delivered by Bruce Rowe, at the Copland Theatre, Faculty of Economics and Commerce, The University of Melbourne on Tuesday, 27 October 1992



Having completed my Bachelors Degree and my Masters Degree within the Faculty of Commerce at this University, it is indeed an honour for me to present the seventh Foenander Lecture in Industrial Relations.

Relevant to this evenings lecture is the comment made by Professor Keith Hancock in the Inaugural Foenander Lecture. While... "Foenander's central interest was, of course, the conciliation and arbitration system"... he... "later... discussed the alternative of relying on collective bargaining instead of conciliation and arbitration he seems to have perceived it as a remote goal...". Professor Hancock went on to quote Foenander on this point as saying:

"... compulsory arbitration, or a system of regulation of any other category, should not be regarded, or relied upon, as the final solution of the industrial problem of the country. It should be contemplated rather as being in the nature of a half-way house, or accommodation, on the road to an ultimate full freedom of genuine collective bargaining – negotiation inter partes and making of agreements that ensure justice to both employers and employees, without inflicting damage upon the community."

Firstly, I believe this indicates how flexible and resilient the industrial system is and how the parties involved can utilise it to their mutual benefit. To this extent I trust that Foenander would not be too unhappy about the theme of my lecture tonight which will argue that the competitive advantage for organisations in Australia can be achieved within the current legislative framework by building the relationship between employees and employers. It is a theme which follows last years lecture by Steve Harrison which dealt with the unions response to changing nature of the business environment confronting Australia.

As we all know, today's business environment is turbulent and uncertain. Most organisations are in survival mode. Many have never before experienced these circumstances. These circumstances, of course, had their genesis in the 80s when it was decided to reduce tariffs, de-regulate the financial markets and float the Australian dollar, thus exposing Australian industry to international markets and competition.

Gradually we learned that we were not going to return to what we understood as normal (safe, protected, regulated market in Australia). What was happening, of course, was that we were entering a new phase in our development... a phase that we are beginning to understand is based on continuous improvement. It is this concept of continuous improvement which I believe is central to my paper this evening... A concept where artificial barriers to further improvement have been removed, and where management and employees are co-operating to get on with the job and do it better every year.

At the recent Congress of the IIRA held in Sydney in September 1992 the Prime Minister in opening the Congress made the observation "...in the last couple of years we have had more change in the workplace than in the decades before." He went on to say that 'we have a couple of hundred agreements registered already, and there are many more coming forward... By this time next year we will have half the workforce under workplace bargains and within a few years it will be... the normal way in which our industrial relations are conducted'.

The Prime Minister's comments could well have been interpreted by many as indicating that workplace bargains (or enterprise agreements as others might describe the process) were the solution for organisations facing competitive challenges resulting from the opening up of the Australian economy to world competition.

The challenge for Australian organisations of course is to become world competitive. The achievement of this business or economic objective is not whether the workforce is converted to enterprise agreements, but whether or not the organisation can in fact reform its work processes, attitudes and practices to a level of performance which equals or surpasses world best practice. The issue is not just one of reducing labour costs and improving process efficiency so as to increase product margins. The challenge is to lower overall supplier costs to our customers who in turn lower their costs to their customers. In this process margins are retained with overall efficiencies flowing through to the marketplace in the form of lower prices. You will quickly observe that our objective is not whether or not we achieve an enterprise agreement, but whether or not we can change our whole approach to work in this country. The only role that an enterprise agreement might have in this overall change process is to document the important changes that have been worked out by the various players involved in fundamentally changing the approach to work in their organisations. A process which needs to be localised to a work area within an organisation, where discussion of issues, processes and outputs can directly involve the employees. Localised enterprise agreements enable a great deal of innovation to occur, as compared to the inflexibility of Industry Agreements.

The key point to note is that there are no short cuts to building a fundamentally changed and competitive workforce in Australia. If there is any thought by governments, unions or employers that enterprise agreements are today's flavour of the month vehicle for wage increases then we are in great danger of losing out in the big challenge facing industry in Australia today.

I trust the Prime Minister in making his comments has not missed the

significance of the change that is required of us in industry, and that while enterprise agreements have a role to play, they are really only an outcome of the process. A process that is requiring all of us in Australia to change our attitudes and behaviour towards work. It is an immense task because in effect we are needing to change our mindset from one which has been built around controlling work and people to one where people are committed to the task. Underlying the control mindset is a distrust of employees which had led to management focus on controlling all the input factors associated with work, such as time clocks, time cards, absenteeism, special allowances and overtime. Underlying the committed employee mindset is that employees can be trusted and in fact they have a lot to contribute towards the improvement of work processes. This mindset leads managers to focus on work outputs, such as does the product quality specification meet that of the customers; are our products or services reaching the customer on time; are we meeting our customer service targets. My paper this evening is aimed at making clear the step change that has to be made for our approach to work... our mindset... and to outline my views on how we should be going about making this significant change in our attitudes and behaviours.

At this stage I should probably make clear my view with regard to legislation. It is my view that the fundamental mindset change that is required will not occur through legislation, it can only be achieved through the absolute involvement and commitment of the people in the workplace. This is not to say that legislation does not have a role. However, its role is more in supporting the new work environment rather than leading the change.

This view may have been more aptly described in the Financial Review on August 7 this year... "Many commentators have prescribed labour market deregulation as a simplistic panacea for all economic ills. While they have been arguing, a growing number of companies, such as ICI Australia, AMECON, Tubemakers of Australia, Concrete Constructions, Mission Energy and ITT Sheraton, have showed that significant reforms can be made at the workplace from within the existing industrial relations system. It will be a sad irony if opportunities are missed yet again because of a naive belief that a stroke of the legislative pen is all that is required to achieve genuine change at the workplace".

I think there is also a need to clarify the difference in thinking that exists between enterprise agreements and enterprise bargaining. While the difference in meaning is substantial both expressions are often used interchangeably. For example, it was reported in the Age on 20 October that the "building workers would get (a) 10% pay rise in (an) enterprise

deal". The report went on to say "an enterprise agreement will deliver a 10 per cent rise to building workers in exchange for changes including more flexibility on when rostered days off are taken, and more productive use of time lost due to bad weather". What has occurred in this example is bargaining. The employees have conceded some changes to work practice in exchange for a wage increase. The assumption is therefore that improvements in work practice will only occur if some money is put on the table. This episodic practice is based on the traditional conflict model and indicates little change in the mindsets of the parties involved.

I believe enterprise agreements have a different interpretation and are based on employees understanding of the organisation's purpose and what needs to be done to achieve it. It suggests that the organisation and the employees have begun to understand the importance of building the bridge between them to the extent that improvements to work process are implemented immediately so as to improve efficiency/service to customers, rather than employees keeping an idea "up their sleeve" for the next wage round. To me enterprise agreements are an indication we understand and are working towards the concept of continuous improvement.

To become world competitive through concentrating on the business imperatives of the organisation, I am suggesting the focus of industrial relations in Australia must move away from the traditional approach embodied in the industrial relations system we have known – one built on institutions and structuring legislation, law and conflict. Organisations can no longer be driven by such a system. Our purpose and focus, must change to one of building competitive enterprises and workplaces through our people.

My talk tonight is therefore concentrating on the challenge facing organisations in Australia today and my views on the processes that should be adopted for the challenges to be successfully overcome.

These views have been formed over a number of years in ICI Australia where I had the responsibility for developing the Company's employee relations strategy. During the 1980s it became increasingly clear to a number of organisations where Australia's economy was headed. Government policy to reduce tariffs and deregulate the financial markets were clear signals that the days were over for Australian industry operating within a closed market. We were going to be confronted with strong world-wide competition. Later we began to learn that organisations which were operating in the traded goods sector were not the only areas to be impacted. The flow on costs from such areas as government intervention/charges, power, transport, construction and other such

services to the traded goods sector were also in urgent need of reform. The challenge was going to affect all Australians.

Looking back on what has been done in ICI there are a number of key ingredients to the process of change. The first is for the organisation to have a vision about what it wants to be – a key responsibility of the chief executive. At the time ICI were fortunate to have such a chief executive who saw clearly the need for the company to change and change significantly. Essentially the vision was to move from an inward focused organisation (one based on production and technical excellence) to one with an outward market driven focus (one based on servicing customer needs).

The second ingredient is closely tied to the first and that is the value the organisation places on its people. In reshaping its business strategy ICI held the belief that building a strong relationship with its employees was an essential ingredient for the company to improve its performance and become competitive, world competitive. Making people a key strategy for the company was based on a belief that on the whole the company's employees were an untapped resource of skill, experience and innovation. Discovering how to utilise fully the talents of all employees throughout the company was the challenge. To build the bridge between the company and its employees we decided on a 'simple' strategy – eliminate distinctions between wage and salary employees and develop a common purpose and commitment. By eliminating these distinctions the company was seeking an objective of single status employment.

In pursuing this strategy the company did not develop a centralist approach. Rather they encouraged the managers of the businesses to adopt this approach and wherever the opportunity arose seek common conditions of employment in such areas as sick leave, superannuation, common access to the company's share plan, pay for performance and annualised pay.

At an early stage the company realised it did not need government legislation or the industrial relations tribunals to initiate this strategy. What was needed was leadership, decisive leaders who were able to communicate a clarity of purpose. This is the third ingredient in the process of changing the culture of the organisation. The task for the company's managers was to create an environment where there could be open communication about the business, customers and generally build employee understanding of the economic environment and its impact on their business and specific area of work. Communicating with the relevant unions and their leaders was also an important part of the process. The more people could relate to the challenge facing the company the greater was the chance that they would work constructively with the company.

This is the process of building trust; of moving employees attitudes away from control and conflict to one where they could identify with the Company's challenge and be committed to it. This was, and still is, a significant learning step. One of understanding each others role and how it contributes to the organisation; the survival of the organisation being paramount. It takes managers with sound leadership skills to do this well. There is a lot of talking to do; meetings with employees; meetings with union officials. This is not an easy process and in fact it takes a good deal of commitment by managers. When ICI's Botany manager decided he and his managers would communicate directly with the employees on the site, and not through the union committee, it resulted in a two-day stoppage. It might have been easy to have given in to the site union committee and avoided the stoppage, however, if the aim is to change attitudes and old behaviours then some reaction to the change is to be expected and budgeted for. Commitment is required by managers to stick to the plan otherwise you end up behind where you started. Managers on Botany site now talk directly with employees and the two-way communication is welcomed by all. The Botany manager calls these incidents or steps in the process "moments of truth..." where actions by managers demonstrate clearly that things are now different. All parties have to become involved, learn their new role and develop new attitudes. Changing from an industrial society based on conflict to one based on trust and commitment requires skilled leadership. It cannot be legislated. Politicians and those interested in promoting structural reform need to temper their enthusiasm for legislative leadership. Rather they should ensure they provide the appropriate structures that will support and assist the processes I am outlining. For example, recent amendments to the Conciliation and Arbitration Act as in S134 was in response to the needs identified by those involved in enterprise agreements. Changing behaviours and attitudes positively is a delicate process. The initiatives we have seen over the last few years can easily revert back to conflict and adversarial processes where governments become overly enthusiastic in pursuing legislative reform.

The difficulty in pursuing the process of change is that managers and employees change while the process remains on-going. Many people, managers and employees, have vested interests in ensuring that things continue as they were, either because the past represents a comfortable framework which they know well, or because their power within the organisation has been built upon traditional "them and us" politics. ICI's Botany site, which I briefly referred to earlier, is widely noted for its successful transformation in workplace culture. However, few people remember that the company's operators engaged in a strike which closed the site for 10 days in 1988. In reality, the strike was a reaction against the

process of workplace change. The company's change strategy budgeted for a strike and a shutdown of the Olefines cracker at a cost of around \$1 million (previous strikes had seen non-union employees keep the cracker operating); there would be no special overtime payments to employees when they returned to work; there would be no back-up employees available for when other employees went on strike. It was as I mentioned earlier, one of those "moments of truth" particularly as you approach days 5, 6.. of the stoppage. The stoppage was brought to a head by the company issuing writs against the union delegates on site (the company's own employees) in the NSW Supreme Court. The writs were eventually shelved after the union, the FIA at the time, and our employees agreed to return to work and constructively contribute to the change process. Employees realised two very different behaviours with this strike; the company was losing a lot of money and they did not get paid on returning to work. If the company had not held a clear vision for its future, the strike may well have succeeded in stopping the process of workplace change. Incidentally it is worth noting that the main antagonists in 1988 are now among the strongest advocates, and contributors to, the new relations that characterise Botany site today.

As trust builds some very interesting and positive things begin to occur. Time clocks disappear; we are now more interested in what people do at work than how much time an employee spends in the washroom; we are interested in output, quality, customer service and we want to reward people for these outputs being achieved rather than paying them just to turn up for work. As the change process progressed, it was and continues to be a learning process, the focus of employees and managers moved from traditional issues of conflict to issues to do with work process. Within the learning process emerged the idea of annualising the employees pay. This step, combined with all the other work that has been going on, is critical to the building of relationships within the company. On the one hand employees received a more secure income and on the other the company began to see that overtime had been an incentive for employees to be inefficient. At Botany now the focus is more on the job than on hours, for example, you will find maintenance employees responding to get a pump back in action without thinking of overtime. The priority is to get the pump repaired.

As I have said, this is an evolving process – one in which you learn as you try new ideas. What will suit one work area, may not suit another. It is also a process where there are no short cuts to changing the attitudes and behaviours of employees and managers. It should be remembered that the company's objective was to improve its performance and that annual salaries and enterprise agreements are only an outcome of the process.

You only get to this stage by working through all the steps I have mentioned, viz. to have a vision about what you want your organisation to be; build a bridge of trust and commitment with your employees; ensure the organisation is being led by managers who are decisive and who are able to communicate a clarity of purpose.

A fourth ingredient in the process of changing the workplace is Training. Traditionally, workplaces have been highly demarcated with employees being restrained to the use of a narrow range of skills. As you build trust and commitment employees are much more interested in improving work processes and the outcome of products and services for their customers. The demand for flexibility rises as does the desire of employees to learn new skills.

This further leads to the concept of 'no unskilled employees' and of employees being employed for a career rather than just a job. In traditionally employing people for a job (and in some cases this was for a lifetime) we actually created a significant demarcation in our workforce, together with a practice that only graduates had the opportunity for a career. The company has put considerable resources into skill development programs such as the Electrical/Instrument TAFE course that was developed on Botany site and Competency Based Training on Deer Park site. Two years ago the company developed a career structure for those entering the company as an operator. After considerable work with TAFE colleges in Sydney and Melbourne the company now has operators enrolled in a Technicians Certificate course. Once you believe in unleashing the talent of all employees and giving them the opportunity to build and use their skills the concept of a career for all employees begins to be a reality. You also receive some surprises. One manager discovered one of his operators to be a qualified accountant, while in other areas literacy and numeracy problems have emerged. The result for ICI is that flexibility has been created and a large proportion of the workforce are learning new skills and are working outside traditional job boundaries.

As I have indicated earlier this process of reforming the workforce does not require government legislative intervention. More appropriately governments should be aiming to support and encourage the process of change, with enabling legislation and provide resources to such organisations as TAFE and management colleges which will enable much more to be done in training employees (including senior management) in how to develop a commitment "mindset". This will be particularly important to smaller organisations (and who employ most people).

Furthermore, the demarcation between industrial relations and human resources is redundant with organisations needing to develop integrated

strategies for their people resources. This is a further challenge to the roles of government departments and the various industrial tribunals. Traditional responses based on an adversarial system are no longer appropriate as organisations and industries seek to learn new ways of working.

So what progress has been made in ICI. A good example of what has been achieved is at the 'greenfield' site at Yarwun (an \$80m chlorine/sodium cyanide plant in Gladstone, Queensland). This plant employs 80 people, there is only one union, FIMEE; one super fund; one medical benefits scheme; one employee share plan; same lunch room, car park, protective clothing; no time clocks or time cards. This plant was commissioned on time in July 1989; there was no industrial disputation throughout commissioning; there has been no time lost since commissioning; costs of operation have reduced since commissioning; work patterns vary to meet business needs; there are positive attitudes by employees in dealing with unexpected breakdowns and getting the plant back on line. There are no artificial demarcations, plant technicians are responsible for all operations and maintenance duties, and they determine the shift roster, start and finish times, and participate in review of performance. Absenteeism is low (0.7 days per person per annum) as is overtime, and the site's safety performance is excellent. The arrangements on Yarwun site were documented in a S115 Agreement in May 1989. The Yarwun agreement was renewed recently via S134. The renewal was the result of extensive consultation with the employees on the site. All employees (including FIMEE members) signed off the new agreement before it was lodged with the Commission.

A key message ICI are learning at the site is that 'greenfield' sites become 'brownfield' over time and that the task of maintaining the new working environment requires continued commitment and a lot of hard work. Having created an empowered workforce on-going refresher training is required to maintain team skills and employee understanding of the site vision. Being empowered is something they value and so management are conscious of the need to ensure their on-going understanding of business dynamics and how the business is performing. The bottom line for management is to ensure they deserve the trust of the employees. Employees come from a variety of sites and can easily fall back to old behaviours of distrust and cynicism if given the opportunity. Management have to be genuine and absolutely serious about maintaining the newly created work environment.

I could go through a number of other ICI sites, 'brownfield' and well as 'greenfield', and I would be recounting similar outcomes. In the company's paint business re-working their products has reduced from 17% in 1990 to

3% today. Much of Dulux's focus and employee training has been on customer service and leadership.

The overall plant performance at Botany is also an indication of what can be achieved. The Olefines cracker is shutdown for maintenance every 2 to 3 years. Comparing the 1989 shutdown with that of 1992, the 1989 shutdown ran \$5 million over budget, compared to \$1.4 million under budget in 1992. (a 20% improvement in real costs). In 1989 the shutdown took 45 days (including a strike) against a planned 35 days, while in 1992 they took 32.5 days against a plan of 33 days. Correspondingly manhours worked in 1989 were 176,000 against a plan of 119,000 compared to 136,000 in 1992 (plan 147,000 hours). From the aspect of quality, on start up there were leaks in 1989 but none in 1992. Finally, but most importantly, safety; in 1989 there were 8 Medical Treatment Injuries (MTI) and 309 first aid injuries; in 1992 there was 1 MTI and 10 first aid injuries.

The Botany site manager believes this improved performance is the result of everyone now working on how to make the plant work better. For example, the Polypropylene plant has recently achieved a record annual production despite the shutdown of 32 days. This is another indication that the mindset is changing on Botany where little thought is now given to industrial action and improving the business is increasingly the priority.

There are also areas within the company where much progress is still to be made – even at Yarwun. For what ICI's managers and employees have learned over the last seven or eight years is that: the more you understand about the process of developing a competitive workplace, the more you realise the changes and improvements that are still to be made. This has led to the concept of continuous improvement being implemented throughout the company.

Without careful management such a concept is in danger of being classed as rhetoric in a similar fashion to the classic organisational rhetoric: 'Our employees are our most important asset'. To avoid this occurring ICI has spent considerable time developing its understanding of what it means to be classified as a continuous improvement work area. For ICI continuous improvement is where consistent commitment to improving quality, process and productivity are not restricted to events such as wage negotiations which encourage a culture of trade-offs or bargains. As changes are identified and agreed, they are implemented and wage increases apply automatically on a regular review basis. The development of this concept and the growing understanding of it is central to the development of the Company's commitment to a single status salary and remuneration policy. It means that the Company's recent initiatives to move all wage and salary reviews away from dependency on National Wage

outcomes to a company managed process based on performance, community economic factors and market forces will have a sound basis on which to develop such a policy.

To be classified as a continuous improvement site in ICI means that the majority of the changes in attitudes, behaviours and performance that I have talked about tonight are in place. Wage and salary movements on those sites are no longer episodic events based on a culture of trade-offs. They occur automatically within the company's annual salary review process.

A recent survey of 28 sites/plants within the company evaluated 12 parameters of continuous improvement. The survey indicates that continuous improvement in employee relations is taking place on all sites, with significant improvement occurring over the past two years. The integration of Total Quality Management, manufacturing strategy and customer focus initiatives into the change processes are key factors contributing to the progress that has been made. What many organisations now realise is that there are several strategies which contribute directly to the achievement of the organisation's business plan. Further, they need to be integrated as they impact on each other.

Despite all the work and achievements to date, there is still much to be done to build trust, eliminate demarcations, and to break down artificial barriers between management and employees. Old habits are hard to change and are often reinforced by hierarchical organisation structures, promotion and reward systems. This simply means that we cannot afford to slow down. We cannot afford to underestimate the need to hold the vision of what needs to be done; nor how important it is to have good leaders in place throughout our organisations. Also there is the need to reinforce the commitment to our employees by remembering that it is not what you say that is important, but what you do; and to continue all the processes that work towards building an integrated workforce, with a strong emphasis on building career streams for all employees. As all these strategies have emerged over recent years, the gap between traditional industrial relations and human resource management has closed as we have learned to move away from managing by control to managing by commitment. Clearly you cannot legislate for commitment. Rather, a set of integrated strategies are required to build the competitive workplaces that are needed now and increasingly in the future.

Dealing with these issues and overcoming them is what continuous improvement is all about... the building of a world competitive organisation through our people.