

# AGSM

## Trading talent

How good are traders' decisions?



**MANAGING  
CUSTOMER MIGRATION**  
How do you safeguard  
relationships?

‘In planning the process you have to think about what it is you are going to offer that will provide some value.’ See page 16

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ISSUE: 1 ★ 2004

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## DEAN'S MESSAGE

During my first six months as dean I have made contact with many of our alumni in Australia and overseas. Common themes expressed by alumni are a desire for the AGSM to continue to be relevant to the business community, and for the school to build on its position as the region's leading business school.

Many of you expressed a desire to remain closely involved with the AGSM – through lifelong learning, networking and social activities, as well as participation in our mentoring, recruitment, placement and fundraising programs.

While we have an active alumni community in each state and significant opportunities for continued professional development, there are three areas where your participation will contribute to the continued growth of the school's capabilities and reputation – encouraging highly talented individuals to study at the AGSM, assisting graduates to enter the workforce and fundraising.

You can encourage potential students to enrol by sharing your own experiences and raising awareness of the career and salary progression resulting from your AGSM qualifications. AGSM qualifications are a sound investment. For example, the average salary of AGSM MBA graduates three years after graduation is \$US98,760, representing an ROI of more than 30 per cent a year. This is consistent with the payback from other leading business schools around the world.

The AGSM also has a strong placement record. The recent *Financial Times* (UK) 2004 MBA rankings placed AGSM 28th worldwide for placement success, representing an improvement of 21 places.

Corporate recruitment programs are common overseas but are not widely practised in Australia – Boral is one of the few Australian companies investing in a structured MBA recruitment program. Boral's practice of recruiting talented MBA graduates during the past 10 years has become an integral part of its recruitment and succession planning processes.

You can help by encouraging your employer, colleagues and friends to introduce MBA internship and recruitment programs. We will support your efforts through our career centre.

I am very pleased to announce the AGSM is in a stronger financial position than this time last year. Our previous budget deficit has been replaced by a surplus in 2003. We are forecasting a surplus in 2004, after making investments in promotions and programs to secure the school's future.

However, continued growth of the school and maintenance of our internationally recognised research and teaching programs require high levels of funding. We will need to increasingly raise these funds through our own efforts as we face a gradual reduction in the \$3 million contribution from our founding universities over the next three years. This is consistent with the terms of the revised joint venture agreement, which we expect to sign in the next few months.

Overseas business schools generate significant revenues from a variety of initiatives – Harvard's flagship publication, *Harvard Business Review*, Chicago's large undergraduate program and Stanford's alumni giving program.

Interestingly, 37 per cent of Stanford's alumni contribute 45 per cent of its annual operating budget. In comparison, AGSM raises 1 per cent of revenues through alumni contributions and endowments.

Over the next few months we will explore a variety of initiatives to encourage financial and non-financial support from our alumni – and I welcome your ideas and feedback.

I want to thank you for your ongoing support of the AGSM. I look forward to working with you during the next few years.

Regards

Rob McLean  
Dean and director  
Australian Graduate School of Management

### READERSHIP SURVEY

It is important that *AGSM Magazine* keeps you interested and in touch with the school's activities, community and leading research and thinking. Please tell us how we are going by filling out the enclosed readership survey. And don't delay, because the first 20 respondents whose completed surveys we receive will win a 10-line classified advertisement in the next issue of the magazine worth \$220!



### BETTER THAN EVER

New for *AGSM Magazine* in 2004 are a redesigned colour cover and masthead in line with the AGSM's new logo.

The winner of our first letters competition, sponsored by McGraw-Hill Professional, is Patrick Moulton, who writes about the downside of linking bonuses only to financial targets. Thank you to alumni and students who took the time to write – it is great to have an opportunity to publish your views. Please keep the letters coming.

You can also have your say via a new column called 'perspectives' designed to give AGSM alumni an opportunity to write about a management issue in greater length. See page 29 for Barbara Wilby's perspective on leadership and the value of self-actualisation.

You'll also see that we have expanded our alumni at large section to feature alumni who are making the news (see pages 24 and 25). If you would like to nominate your classmates for upcoming features, write to the editor at: [magazine@agsm.edu.au](mailto:magazine@agsm.edu.au).

## Ahead in the rankings

The Financial Times (UK) 2004 ranking of full-time MBA programs placed AGSM as the leading business school in Australia and equal first in Asia. AGSM shared the position of top Asian business school with CEIBS (China Europe International Business School), located in Shanghai.

“This very strong result reinforces the AGSM’s long-held position as Australia’s and Asia’s leading business school,” said AGSM dean Rob McLean.

“Our prestigious reputation attracts talented students from Australia and around the world – half of the 2004 MBA class originates from overseas, representing 24 nations. With an average GMAT of 655, this year’s class is the best ever, putting our students in the top 13–15 per cent of the

245,000 students who complete the GMAT worldwide.

“Over the past year, the AGSM’s ranking improved by 16 places from 69th to 53rd on the strength of our faculty, alumni and research. The AGSM scored consistently across all criteria, particularly in the areas of alumni salary, placement success and research.

“Our 26th-in-the-world ranking for research is impressive. The talent of our faculty is a key driver of this result.

“A member of our faculty, professor Roger Collins AM, was recognised in this year’s Australia Day Honours list for his service to education, particularly in the fields of organisational behaviour and human resource management.

“Last year, AGSM professors



A tiered theatre at the AGSM’s Sydney CBD campus.

Philip Yetton, Lex Donaldson and Robert Wood received international acclaim for their organisational behaviour theories, which were rated among the world’s most influential in their field.

“Professor Simon Sheather was listed in the top 200 mathematicians worldwide, and professor John Roberts won the American Marketing Association’s Advanced Research Techniques Forum best paper award.

“I am very excited by the year ahead as we build on the successes of last year, prepare our

students to be future business leaders and advance management skills through research, discussion and debate,” McLean said.

### OTHER FACTS

- 73 per cent of graduates are employed within three months
- A post-MBA salary increase of 111 per cent
- best value-for-money in Australasia, 32nd worldwide
- AGSM alumni recommend their school more highly to others for recruitment, compared with other Australasian business schools.

## Women’s business



JOIN THE CLUB Anne Keating (left) and Patty Akopiantz.

Women should see their femininity as an advantage when entering the business world, according to Anne Keating, company director and AGSM advisory council member.

Keating helped relaunch the student-led AGSM Women in Management club last December and told her audience: “You have a situation where most companies are under pressure to

take on women and at this stage it’s a tremendous advantage to be different”.

Keating was joined at the launch by another advisory council member, Patty Akopiantz, also a company director and guest speaker at the event.

Keating gave students three other pointers: enjoy what you do or change it; work with people with integrity and

choose your workplaces and colleagues carefully; and find a mentor whom you can trust.

The Women in Management club’s co-president, Julia Kent, said the club aimed to support AGSM women in achieving their full professional potential.

“Our main tenets are to provide mentorship, a forum for education and the exchange of ideas,” she said.

“We will build strong ties with the business community and other women’s organisations to help us achieve this.

“In the longer term we hope Women in Management will be in the position to fund scholarships to encourage more women to undertake MBAs at the AGSM,” Kent said.

by Carolyn Boyd

## UPCOMING EVENTS

Alumni are invited to attend Women in Management events in Sydney. For further details or to book your place, contact: [ellen.watson.03@student.agsm.edu.au](mailto:ellen.watson.03@student.agsm.edu.au).

**29 April** Breakfast with Narelle Kennedy, chief executive of the Australian Business Foundation.

**11 May** Meet Kerry Chikarovski, former NSW Opposition leader, and Penny Carl-Nelson, director, Moneypenny Wealth Management Services, 5.30pm to 9.30pm, AGSM Randwick campus.

**9 June** Join Corban & Blair director Gillian Corban, and Capricorn Cruise Line managing director Sarina Bratton, 5.30pm to 9.30pm, AGSM Randwick campus.



**GLOBALISATION CHALLENGE** The Boeing Company's senior vice-president Tom R. Pickering (centre) with Booz Allen & Hamilton chairman Ian Buchanan (left) and AGSM PhD candidate Michael Collins. Pickering, who heads up Boeing's international relations, was invited to the AGSM by the Centre for Corporate Change to talk about the challenges of moving from a US-centric organisation to a globalised business. Pickering is a former US under secretary of state for political affairs and career diplomat.

## Future directions

Leading corporate and consumer branding consultancy LKS Landor has teamed up with the AGSM to sponsor an annual competition to explore the future direction of brands and ideas in marketing.

"The initiative is aimed at producing an innovative and creative crystal ball into marketing drivers of the future," said LKS Landor's chief executive Michael Graham.

A total of 12 MBA student teams competed for \$3000 in prize money, donated by LKS Landor, in the first competition held last November. The teams were asked to present and articulate their ideas about the future direction of brands.

Graham said the presentations were highly creative and gave his company an opportunity to tap into original ideas that would be documented for LKS Landor's clients to access.

"The competition got us talking to future leaders of organisations and thinking differently about some of the business concepts that

you can tend to take for granted," Graham said.

Contestants had 15 minutes to pitch their ideas to a panel of judges comprised of Michael Graham, LKS director of brand consulting Damian Borchok, and the AGSM's professor of marketing John Roberts and marketing senior lecturer Giana Eckhardt.

The winning team of Vikram Kotibhaskar, Bilal Somra and Djati Suryotomo explored their idea of how the future would see companies moving towards selling their products on the basis of offering lifestyle experiences associated with their brands.

The competition will run again later this year.



**ORIGINAL IDEAS**

Michael Graham

## For your diary

**27 April** (Hong Kong) and **5 May** (London) Come and join the AGSM at these information evenings to hear an update about the school, catch up with fellow alumni and talk with prospective students. The school will be hosting information sessions in several cities around the world this year. If you would like to attend these events or know of anyone who is interested in studying at the AGSM, contact Lara Brauer, Tel: (+61 2) 9931 9412, [larab@agsm.edu.au](mailto:larab@agsm.edu.au).

**30 April, 28 May, 25 June** 'Last Friday of the month' (LFOTM) is a social networking initiative started by Austin Lachlan and Ole Houe (MBA '03) for alumni living in or visiting Sydney. The monthly gatherings are held at various hotels in Sydney's CBD. For details visit: [www.LFOTM.com](http://www.LFOTM.com).

**6 May, 3 June, 1 July** Gather with fellow alumni, students and instructors in Canberra for social drinks held on the first Thursday of every month from 6.00pm to 7.30pm at The Brassey Hotel Garden Bar, Belmore Gardens, Barton. For further details visit: [www.agsm.edu.au/alumni-events](http://www.agsm.edu.au/alumni-events).

**6 May** Set this date aside for an alumni function in Adelaide with guest-of-honour Robert Champion de Crespigny, former mining magnate and leading South Australian businessman. Alumni, students, instructors and guests are welcome at this event, hosted by the Adelaide alumni branch committee. Further details and invitations are to follow. Contact: [adelaidealumni@agsm.edu.au](mailto:adelaidealumni@agsm.edu.au).

**13 May and 8 July** Keep both these evenings free for a social drinks gathering featuring a local speaker in Perth. Alumni and students are welcome. Hosted by the Perth alumni branch committee. Further details and invitations to follow. Contact: [perthalumni@agsm.edu.au](mailto:perthalumni@agsm.edu.au).

**10 June** Join the University of Sydney's Dr Anthony Grant, as part of the 2004 Lifelong Learning series, for his views on the art of

performance coaching. This session will be held at the AGSM Sydney CBD campus at 6.00pm. Further details to follow. Contact: [philippa.rogers@agsm.edu.au](mailto:philippa.rogers@agsm.edu.au).

## EXECUTIVE EDUCATION NEWS

Acquire the key principles that underpin strategic thinking in professor Bob Marks' **Thinking Strategically** program (29–30 April), AGSM Randwick campus.

Improve your business performance by interpreting and using financial information in professor Mark Hirst's **Financial Decision Making** program, 3–4 May, AGSM Sydney CBD campus.

Act fast to claim a place for yourself or your high-potential managers in the AGSM's two-week **Accelerated Development Program**, 9–14 May (module 1) and 25–30 July (module 2), conducted in Sydney. The program includes executive coaching to help participants embed the learning. Scholarships are available for women and the not-for-profit sector managers and applications close 9 April.

Don't miss Silicon Valley's Tony Seba, who returns to the AGSM to teach his **Strategic Marketing of High Technology Products and Innovations** program (10–11 May) at the AGSM's Sydney CBD campus.

If you are located in or near Brisbane, take the opportunity to improve your communication style in the popular **Emotional Intelligence and Leadership** program (9–11 May) at the Chifley on Lennons, 66–76 Queen Street.

In Melbourne, the AGSM's Executive Skills Series offers three upcoming programs: **Negotiation and Conflict Management** (26–27 May); **Competitive Negotiations** (28 May); and **Managing People for Performance** (2–3 June), all held at the Eden on the Park Hotel, 6 Queens Road.

For details on any of the above executive programs, call client services on: (02) 9931 9333, or e-mail: [enquiries@agsm.edu.au](mailto:enquiries@agsm.edu.au).

# Letters

## COMMON GOALS?

Setting annual bonus targets is an age-old problem: CEOs have financial targets in mind for the board, managers know what is achievable, and bonuses invariably ride on the higher figure. This often leads to indiscriminate cost cutting during the year, which can have adverse affects in future periods.

It is not hard to see that while bonuses remain financially based it will never be possible to align the goals of the business as a whole with those of all business units and their managers.

Financial targets are fine but should be combined with other measurable targets such as customer retention, market share, business continuity plan activation, IT and business projects completed to time and budget, and product launch dates met. Any manager meeting these targets can only have a positive effect on the business!

Companies develop corporate strategies and align individual business plans to them to create a common direction. Bonus schemes are no different and should be developed in conjunction with business strategy.

PATRICK MOULT

(ASSOCIATE MEMBER '03)

TAPIR CONSULTING

Stanmore, Sydney

## RISK MYTH

The recent forex loss at the National Australia Bank has clearly debunked the myth that banks have better risk management procedures than do corporations. In fact, the enterprise risk management systems at banks form the model for many corporate risk management systems.

The NAB incident has proven that even the best of systems have loopholes. There is no best system and risk management will have to evolve to meet the increasing complexity of business. It is essential to realise that having a system alone does not guarantee compliance to procedures. The NAB episode proves that individuals or people acting in concert may be able to beat the system. Finally, the loss throws up a question with regard to the valuation of forex options in financial reporting. Financial

regulators may well note the lacuna in this aspect of financial reporting.

Post 9-11, corporate risk managers across the globe were concerned with country risk, system risk and all other possible external factors. It seems they had forgotten one fundamental internal peril – financial risk. Hopefully it shall once again get its due share of attention!

AADIL LAKDAWALLA

(FULL-TIME MBA STUDENT)

Randwick, Sydney

## CRISIS OF CARE

A recent Australian employee survey found that 60 per cent of people seeking new employment hate the quality of management in their current organisation. The survey company's chief executive commented that it is not difficult for employers to boost employee satisfaction: "It's about empowerment, recognition, communication and honesty."

Newly promoted executive managers should be wary of ignoring this message.

Being promoted to an executive position brings with it not only more responsibility and prestige. It also means adopting a whole new approach to employee communication.

In their book *Corporate Culture and Performance*, John Kotter and James Heskett point out that in the best organisations leadership happens at multiple levels of management. Kotter describes leaders as those who deal effectively with change and adapt quickly to competitive threats by setting direction, aligning people, motivating and inspiring.

All managers need to act as leaders. But how leader communication is put into practice changes with the climb up the ladder.

Many senior executives do not know how to foster a productive communication culture to avoid the bottom-line damage that high rates of employee dissatisfaction can cause.

Read more about communication competencies at:

[www.agsm.edu.au/communicating](http://www.agsm.edu.au/communicating)

INGRID JACKSON

(MBA '79)

EXECUTIVE MANAGEMENT SOLUTIONS

Cremona, Sydney



## Get involved!

The AGSM has developed a new national advertising and public relations campaign to further promote its programs and reputation as the leading business school in Australia and Asia. The campaign highlights the achievements of individual alumni, featuring testimonials about their AGSM experiences and career progression.

"Alumni testimonials send a powerful message about the AGSM experience and the value of an AGSM qualification. I am delighted with the way alumni have enthusiastically embraced this campaign," said AGSM dean Rob McLean.

If you would like to participate please contact Marie Kelly at: [mariek@agsm.edu.au](mailto:mariek@agsm.edu.au).

## New brand rollout



The AGSM has developed a new logo and re-branding campaign to be rolled out between March and May this year, to more strongly communicate the school's vision and values.

"A critical part of the visual identity with which the school expresses itself is the logo, and after a thorough analysis we have come up with a logo that gives us continuity with our previous imagery by use of a star, but which is also distinctive and fresh," said the AGSM's professor of marketing, John Roberts.

Roberts said the re-branding responded to recognition that for the school to maintain its leadership role it had to not only continue to improve its performance, but think how it signals its market leadership to stakeholders. ★



**WINNER:** Congratulations to our letters competition winner Patrick Mould, who receives \$100 worth of books from McGraw-Hill Professional.

Keep your contributions coming, because the best letter submitted to the editor by 31 May 2004 (for publication in the July issue) will receive McGraw-Hill books worth \$100.

Please keep letters to a maximum of 200 words and include all your contact details.  
E-MAIL: [debram@agsm.edu.au](mailto:debram@agsm.edu.au) MAIL: The Editor, *AGSM Magazine*, Australian Graduate School of Management, UNSW, SYDNEY NSW 2052 FAX: (02) 9931 9539

## OPINION

GARY LILIEN,  
professor, Smeal College of  
Business Administration



# ENGINEERING THE NUMBERS

**"M**arketing as a discipline is under siege globally," says Gary Lilien, distinguished research professor of management science at The Smeal College of Business Administration, Pennsylvania State University in the US.

"Marketers have been feeling the heat of leaner times through downsizing and reductions in marketing spending because they have been undisciplined in showing how their programs deliver a return on investment," says Lilien, who is Freehills visiting professor and instructor on the full-time MBA program at the AGSM until June 2004.

"Consider these facts," says Lilien. "A recent study by Accenture reports that the Global 1000 companies spend more than \$US1 trillion in marketing, and yet 68 per cent of the study respondents could not articulate, much less measure, the ROI on their marketing spending.

"The most recent Trends Study by my research institute, the Institute for the Study of Business Markets, reports that demonstrating ROI is the top issue facing US marketing managers today.

"Yet the proper use of marketing analytics can add 5–15 per cent to the bottom line with little or no additional investment," he says.

To help marketers move with the times, Lilien develops computer-assisted analytics and processes in the form of concepts, methods, models and software to support marketers' segmentation, targeting and positioning needs. He is the co-founder of US-based DecisionPro, which offers its services both offline and on the Web to give users access to marketing software and resources.

Lilien knows a thing or two about analytic and systematic methods for solving marketing problems, having coined the term 'marketing engineering' in his 1997 book *Marketing Engineering: Computer-assisted Marketing Analysis and Planning*. In fact, he completed the manuscript at the AGSM while on sabbatical from the US and taught the world's first MBA class on the subject to AGSM students.



## WHY USE MARKETING ENGINEERING?

"The point of marketing engineering," says Lilien, "is to gain the benefits of high-end modelling without having to employ a large consulting company." Marketing engineering translates complex marketing models and analytics into practical tools for marketers, and "is a systematic and disciplined way to do marketing – what I call fact-based marketing versus conceptual marketing," he says. "It's marketing with ROI inside."

For example, one tool Lilien has co-developed is a response model analysis-based approach for allocating resources to market segments. He used this tool to help a US power utility, Pennsylvania Power and Light (PP&L), to determine where to allocate its sales force and its advertising and how to set prices (across residential, commercial or industrial markets) following deregulation. The tool he used includes a combined judgment procedure to process the knowledge and experience of marketing executives where there is a lack of historical data.

"We calibrated the knowledge and best judgments of the utility's marketing executives and the modelling results recommended no spending at all in the residential segment," says Lilien.

Initially, the utility doubted its own best judgments and kept changing the inputs, but it couldn't come up with a defensible business case for operating as an unregulated provider in the residential market. "The modelling took only a few days and helped the utility to solve a market entry decision problem without having to commit significant resources to conducting new market surveys," says Lilien.

This case, says Lilien, is not unique. "For example, ABB Electric in the US used past customer purchase data to determine which customers to target with a new campaign. By targeting those customers most vulnerable to the campaign they were able to increase sales by 27 per cent with no additional spending."

## TRENDS IN ANALYTICS

Lilien points to two main trends in marketing analytics. The first is that models are getting embedded in smart recommender systems at an increasing rate – particularly in areas such as call centres, where agents are surveying customers to better align product and service offers with customer needs. "Even the US Postal Service is now using such a system to recommend offerings to its commercial customers," he says.

The second notable trend, according to Lilien, is growth in the provision of 24x7 marketing analytics and tools via the Web for providing just-in-time analysis. This offers marketers a leasing (versus purchase) option for obtaining software and processes via application service providers (ASPs), for solving new or existing marketing decision problems.

"The bottom line is that the ASP model of marketing engineering now enables even the smallest organisations to engage in ROI-based marketing. It's the ROI-way or the highway for today's marketers," says Lilien. ★

*Professor Gary Lilien is the author or co-author of 12 books (including *Marketing Models with Phil Kotler and Marketing Engineering with Arvind Rangaswamy*). For more information on marketing engineering tools, go to: [www.marketingIQ.com](http://www.marketingIQ.com)*

# Navigating cultural conflict

Having flown the public service coop to Sydney Airport, Max Moore-Wilton has a thing or two to say about business-to-government negotiations. **Lachlan Colquhoun\*** reports.

As a senior bureaucrat in Canberra, Max Moore-Wilton's job was to implement an aviation policy that protected Qantas, regulated the number of carriers flying major international routes and gave serious consideration to the long-term benefits of a second Sydney airport.

Now, after leaving his position as head of the Department of Prime Minister and Cabinet, Moore-Wilton is chief executive of the privatised Sydney Airports Corporation, and his task is to "give my sweet bippy" to get more airlines into Sydney.

He has had cause to remind the federal government that after paying \$5.6 billion for the privilege, it is the Southern Cross consortium that now operates Sydney Airport, and not the federal Department of Transport, he told an AGSM audience at a lecture on business-to-government negotiation.

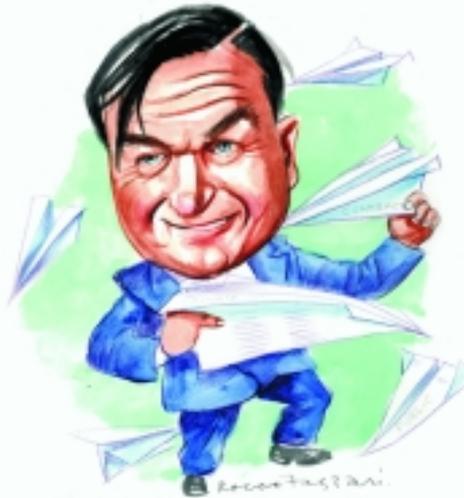
"I had to gently explain to the Minister of Transport that if he decides an airline will go to Melbourne rather than Sydney it actually shows up on my bottom line next week, but it doesn't show up on his."

The ironic polarity of his former and current roles gave rare and entertaining insight into the culture of conflict between private- and public-sector agendas and what could be done to bridge the gap.

Some commentators have called Moore-Wilton's transition a "St Paul like conversion" on the road from Canberra to Sydney, but he refutes suggestions that the change of jobs has turned his thinking around "by 180 degrees".

Rather, he describes the switch as simply "a change of emphasis" and debunks any view that the public and private sectors are locked in an eternal conflict of interest where "never the twain shall meet".

"One of the things that I see as my role, apart from running Sydney Airport, is to say to our brightest and best that there is a real national interest in developing people who can bridge the gap between the cultures, and who can communicate to one another and have a commitment which is both commercially sensible but also has some degree of understanding of the longer term objectives of this country," he said.



MAX MOORE-WILTON

“When private sector people communicate their corporate objectives, ministers tend to say ‘that’s okay for you but what’s in it for the public?’”

## BRIDGING THE CULTURE GAP

Moore-Wilton's presentation focused on what he called the "three Cs" – the differences in culture, ways of communication and commitment between the public and private sectors and how they can be breached.

There were impediments on both sides. On the one hand, private sector deal makers too often focused on optimising commercial results without "leaving something on the table" for other stakeholders. On the other hand, public sector decision-makers operated in a political arena where often the imperative was to throw out and oppose everything the other side had done simply to achieve the goal of attaining government.

"When private sector people come to Canberra they communicate their corporate objectives and ministers tend to say 'that's okay for you but what's in it for the public?'" he told his audience.

"[Nevertheless], there is a significant public interest test that when the economy

grows the public benefits, and public sector people do realise this – although this may come as a surprise to business people who believe that government sits down to work out ways to frustrate them."

Business people often made the mistake of thinking that bureaucrats and politicians were guided by the same tenets of self-interest as those in the private sector, or that they were remote from day-to-day realities.

"Business [people] also tend to think that if you have an issue you deal only with the ministers, but in many cases they can deal directly with the bureaucrats and have their issues resolved," said Moore-Wilton.

"Many issues between business and government are regulatory and you need to have an understanding of the differentiation between the role of the bureaucracy and decision-makers in regulatory frameworks, on the one hand, and advisers in the political frameworks on the other."

While progress had been made in recent times, there were still some questionable decisions being made as a result of the public-private compromise.

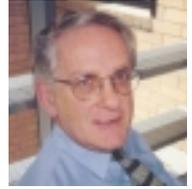
Moore-Wilton identified the Alice Springs to Darwin rail link as an example of a project that was "an aberration which I suspect will never be commercial, but people will vehemently defend as being in the national interest".

One example of public-private partnership of which Moore-Wilton is proud, however, are Sydney's Eastern Distributor and M2 motorways – both of which he was involved with in his days as head of the former New South Wales Department of Transport.

"They have both achieved the desirable objectives of public-private partnership, of being soundly based commercially and also significantly improving public amenity," he said.

In the best interests of business and country, the public and private sectors had no choice but to work towards understanding and respecting the other's culture and its aims, Moore-Wilton said. 🌟

\* Lachlan Colquhoun is a freelance writer.



# KEEPING IN FRONT

**E**ver fear that new knowledge and leading-edge practice are passing you by? In the HR area the half-life of our knowledge base is now estimated to be less than five years, which means that five years from now half of what you now know will be irrelevant or superseded by new knowledge. As practitioners and academics, our mutual problem is that we don't know which half will survive!

This urgency is compounded by the increasing centrality of this knowledge base to organisational performance and longer-term success. In more industries and organisations, the leadership and management of people is not only a primary source of competitive advantage but also a source of high performance.

So what's hot in this knowledge arena? Two key issues come readily to mind: the contribution and effectiveness of the executive team; and the emerging importance of an organisation's employment brand.

## EXECUTIVE TEAM PERFORMANCE

Two factors have nudged executive teams onto our radar. One is that when analysts value an organisation they now place greater emphasis on executive bench strength. They assess the ability and potential not only of the CEO but also the top team and how effectively it formulates and executes strategy.

The second and related factor has its origins in the increasingly complex demands of corporate leadership. In many organisations it is more appropriate to think about leadership as corporate capability – the capacity of the leadership team to develop alignment and act in concert – rather than leadership as just personal achievement.

The executive team can offer the diversity of perspective and competence to handle the ambiguity, uncertainty and complexity that often characterises this level of contribution. Thus the

capability and effectiveness of the executive team reflects the talents and dynamics of the whole rather than just the sum of the individual roles and contributions.

Yet, as Jon Katzenbach<sup>1</sup> points out, when managers are appointed to an executive team, few arrive well prepared to focus on team rather than individual contribution. On the contrary, the earlier career success of many managers is determined by patterns of thinking and behaviour that can be dysfunctional on an executive team.

## COACHING THE EXECUTIVE TEAM

In many organisations there is an opportunity for the HR leader to coach the executive team to develop and seek alignment within its ranks. Coach and team need to focus on the team's *agenda* (whether the team is working on the right issues with appropriate priorities) as well as the *dynamics* of the team (whether teamwork is sufficiently functional to support the agenda and necessary collective actions to which the team must commit). In turn, the HR leader must have sufficient credibility in terms of understanding the company's business model and have the requisite coaching skills.

After a decade of increasing emphasis on individual performance reviews, performance management and development, it is time to recognise that collective behaviour can be an even more important determinant of organisational performance. The executive team is a case in point.

## EMPLOYMENT BRANDING

A second development worthy of attention is employment branding. Two considerations deserve attention. First, talent is in stronger demand in an increasingly competitive and international labour market. An organisation's reputation as an employer is becoming

a more critical factor in attracting and retaining talent. HR leaders need to ask why a talented person would rather work for their organisation than a competitor, and whether their organisation has recognition in the marketplace as an employer.

As with branding of products and services, employment branding is quite complex. In large, diverse organisations it can be more effective to consider a family of employment brands, which reflect the sub-cultures, capability and competency demands of different organisational units. In turn, it is necessary to consider what conditions and benefits will draw the people you want to attract and retain.

A second aspect of branding is the need to align individual and collective employee behaviour with client experiences and the company's market positioning and brand. For example, in a professional services company, the HR branding challenge is to implement practices that will foster consistent employee behaviour throughout the organisation and, particularly, on the client interface. The aim is to have one team going to market to generate optimum client experiences consistent with the organisation's brand promise.

This approach requires the creation of more cross-functional roles and opens up opportunities for people with hybrid knowledge and skills. The traditional functional silos of HR and marketing must be broken down to achieve the levels of integration that deliver higher organisational performance and effective employment brand creation. Here lies an opportunity to create hybrid vigour and career renewal! 🌟

*Professor Roger Collins is the program director of the AGSM's forthcoming executive education program, The Advanced Strategic Human Resource Management Masterclass, which addresses executive team performance and employment branding. The program also explores how to lead organisational change and integrate corporate, business unit and HR strategy.*

## FOOTNOTE

<sup>1</sup> J. Katzenbach, 'The myth of the top management team', *Harvard Business Review*, 1996.



Is online trading rational?  
 Professor **Robert Wood\***  
 reports on a research team's  
 exploration of individual  
 biases and effectiveness in  
 online trading behaviour.

# Fast

**W**hat rules the stock market, rationality or psychology? Are individual investors rational in their buy and sell decisions or are they driven by (mis)perceptions and biases? Are markets efficient?

These are increasingly important questions in a market where growing numbers of novices are trading, owing to the ease of online access and lower fees. This has changed the nature of our financial markets.

According to trading technology provider, Global Banking & Securities Transactions, online trading in Australia is estimated to be growing at around 230 per cent a year and currently involves about 86,500 active investors. Online trades account for between 10 per cent and 15 per cent of total Australian Stock Exchange (ASX) trades, or about 25 per cent of retail trades.<sup>1</sup>

To understand what impact this is having on trading behaviour and the efficiency of our markets, the AGSM, in collaboration with the University of New South Wales (UNSW), RMIT University and the Australian National University (ANU), has won funding from the Australian Research Council to examine the behaviour of novices in our financial markets.

The research team, of which I am a member, will apply behavioural finance

theory and the psychology of financial decision-making to the task of analysing novice traders' behaviour. We want to discover why online traders are so confident about their ability to pick winners and why they trade so frequently when there is evidence that overtrading leads to lower returns.

## A TEST OF RATIONALITY

Every MBA graduate who has studied finance has learnt about the efficient markets hypothesis (EMH), which revolutionised the study and practice of finance in the 1960s and is still the central proposition in the teaching of finance. Now, the EMH is under challenge from behavioural finance, an alternative paradigm and body of research that studies the influence of psychology on the decision-making of financial practitioners, such as portfolio managers, financial advisers, strategists, corporate executives and analysts.

In 1997, one of the leading writers in the application of psychological ideas to economics and finance, Chicago University economist Richard Thaler, proposed a now-famous contest in the *Financial Times* to illustrate how failures in individual rationality can have cumulative effects on the inefficient pricing of an asset.

Just a few years later the market brought spectacular proof of Thaler's views on

rationality and efficiency when the dotcom bubble revealed a plethora of examples of stock prices that were not justified by the information available or realistic expectations of future returns. Another example is provided by an analysis<sup>2</sup> of Cisco Systems in 1999, conducted by the AGSM's dean, Rob McLean, and his former McKinsey & Company colleagues. Their investigation showed Cisco would need annual earnings growth of 30 per cent through to 2012, or 11 per cent a year in perpetuity, to justify the prices being paid for its stock in 1998, highlighting that such great expectations were unrealistic.

In Thaler's *Financial Times* contest the winner was offered a prize of two business-class return airfares between London and either New York or Chicago.<sup>3</sup>

The game required readers to choose a whole number between 0 and 100, and advised that the winner would be the entry that was closest to two-thirds of the average of all entries submitted. For example, if there were five entries that selected the numbers 10, 20, 30, 40 and 50, the average of all entries would be 30 and two-thirds of that average would be 20.

*Before you read on, write down the number you would choose if playing the game.*

The point to the game in the context of the rationality of financial decision-making is that it has some features of a money market. In order to win you have to understand how

## THE PLAYERS

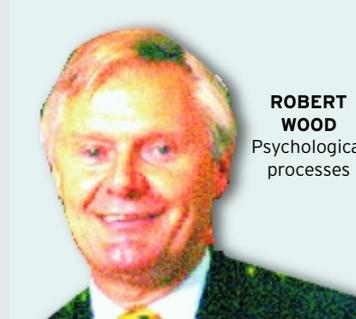
Does the nature of online trading set people up for failure?



**DOUG FOSTER**  
 Market  
 microstructures



**TERRY O'NEILL**  
 Statistical  
 analyses



**ROBERT WOOD**  
 Psychological  
 processes

# trading

other players are thinking and then think about how they would use the same knowledge or insights that you have.

For a start, let's assume that everyone else chooses 20. In that case the winning entry is the whole number closest to two-thirds of 20, or 14. But if everyone else is thinking the same as you (and for what follows it does not matter what you use as a starting point), then the average will be close to 14 and the best choice for you is 10. But, everyone else, if they are rational, should be doing the same calculation and therefore the average will be 10. If you keep thinking along these lines and all other contestants do the same, then you and all of them will end up choosing 1 and that will be the winning entry. Of course, this assumes everyone thinks rationally about the processes of selecting the number, makes full use of the information available to them and makes no mistakes in their calculations.

However, the results of the *Financial Times* contest showed that in a group of normal, well-educated *Financial Times* readers people were not completely rational. The winning entry was 13! When the AGSM's professor Bob Marks ran the contest in his session on strategic pricing at last year's pricing game workshop, the average was 23.

In the *Financial Times* contest, the market for the two transatlantic round-trip tickets created by the contest was not fully efficient

in that the winning entry (think of it as an offer for the purchase of stock or some other asset) did not fully represent the information that was available to the players in the market.

The results of Thaler's contest are not evidence of stock market inefficiencies. However, they do illustrate how individuals make choices that are often not rational, and how markets can behave in ways that are not consistent with the assumptions of the EMH. Evidence from behavioural finance studies has begun to show that the EMH paradigm is an incomplete description of the behaviours of investors or markets.<sup>4</sup>

Many studies that have examined the determinants of asset prices have found that the behaviour of returns does not match that predicted by the EMH. This has occurred for different types of assets including stocks, bonds, options, foreign exchange, real estate and sports betting.

Studies of financial practitioners have shown them to be systematically biased in their investment decisions. These biases, which often lead to irrational behaviour, include overconfidence, loss aversion, misattributions of reasons for price movements, trading too much, and holding on to losing stocks too long while selling winners too early. It has also been observed that traders who make losses in morning trading often take larger risks in the afternoon.

In summary, studies now show what

many people have long believed to be true: that investors often trade for irrational reasons and that their decisions are influenced by heuristics and emotions.

## THE ONLINE FACTOR

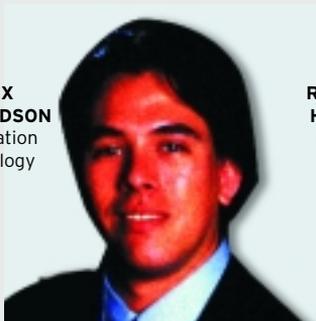
This emerging perspective on finance has been emerging at a time when the nature of investing is undergoing significant change owing to the growth in electronic or online trading. Financial markets are moving from the trading pit, or trading floor, to electronic trading. In the US, \$100 billion worth of assets were traded online in 1997.

Trading that used to be conducted by shouting out offers and bids in a crowded trading pit is being replaced increasingly by more impersonal computer-based processes. Trading has become easier and cheaper. Housewives, plumbers, dentists and lawyers now go online to trade and manage their personal portfolios, sometimes as members of investment clubs. A growing number of people have quit their regular jobs to trade full time online from home.

These new types of traders are bypassing brokers and other experts to make buy and sell decisions based on their own research and analyses of individual stock. The majority of them are novices and less well informed than the financial practitioners who are typically studied.

Online trading seems particularly susceptible to the effects of heuristics and

**ALEX RICHARDSON**  
Information technology



**RICHARD HEANEY**  
Finance theory



**SHIRLEY GREGOR**  
Information systems design



**BILL NORTHCUTT**  
Finance theory



# “We want to see if training programs can be

biases that have been found to lead to irrational behaviour in other areas. In one study<sup>5</sup> of the effects of overconfidence on the behaviour of online traders, male and female day traders were found to pick similar types of stock, but men were found to trade about 45 per cent more than women.

The returns on the stocks picked by men and women were similar, although men had an annual turnover of 77 per cent in their portfolio compared with 53 per cent for women. The added costs of these more frequent trades, when subtracted from the returns, led men to underperform compared with women, even though the women did not pick better stocks.

However, both men and women underperformed when compared to the market average: men by 2.65 per cent and women by 1.72 per cent.

It is believed that overconfidence in one’s ability to pick winners leads to higher levels of trading and higher costs.

But there may be other reasons. Some online traders might consider the cost of frequent trading a fair price for the enjoyment of playing the market in preference to buying and holding a market-indexed portfolio.

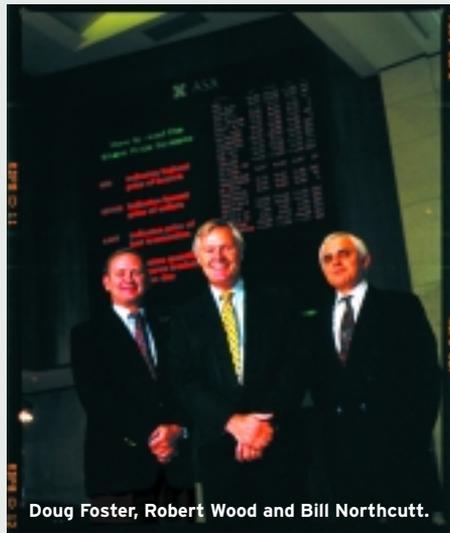
## COLLABORATIVE STUDY

Our research team includes professors Doug Foster (UNSW), Richard Heaney (RMIT), Shirley Gregor (ANU), Terry O’Neill (ANU) and myself (AGSM), plus research students Bill Northcutt (UNSW) and Alex Richardson (ANU). Our expertise covers finance theory and market microstructures (Foster and Heaney), the design of information systems and technology (Gregor), statistical analyses (O’Neill), and my input on psychological processes in decision-making.

By studying trading in a laboratory setting, using realistic market simulations, we hope to get inside the psychology of online traders and understand their strategies and motives, as well as their biases and limitations. We want to see if training programs can be developed to make people more rational in their trading activity.

## THE STUDY METHOD

Over the next few years, our research team plans to study how trading online affects investor strategies and performance. The



team is particularly interested in how individual psychology influences the investment strategies of novice traders and what these novices learn as they become more experienced at trading.

Online trading will be compared with outcall trading. One stream of our study will examine how the cognitive abilities and motivations of traders impact on their performance. Another stream will focus on the impact of changes in the trading environment due to changes in the market rules. This will include, for example, studies of the effects of short selling, borrowing to fund acquisitions, length of the trading period and the number of active traders in the market. The team will analyse, for example, how the opportunity to short-sell stocks and borrow funds to finance decisions impacts on confidence and levels of trading.

One interesting question that the team plans to study after it has collected more data on novice traders is: ‘How do the decision processes of experienced financial practitioners compare with the processes of novice investors?’ By studying novice investors, we hope to understand the processes by which they learn and develop their expertise.

Understanding how novices differ from experts will help build training programs to develop the skills of novices. The information gleaned from these studies should also give professional financial advisers some ideas about how to package their advice to novice clients.

All of our studies will be conducted in trading room simulations in which

participants are given the market ground rules and asked to trade on a computer system. The simulation uses a trading screen very much like the limit order trading screens found in modern electronic financial security trading systems. This will ensure that students who play the game can examine the price setting process as it occurs.

As is the case in real markets, prices are dynamic and are determined through the trading behaviour of participants. The use of a trading simulation will allow experimental control of the market conditions, financial information and other conditions that may influence individual strategies.

In addition, the simulation software provides our research team with considerable flexibility in terms of experiment design. Most importantly, the simulation logs every offer, purchase and sale that each trader makes. This means we can identify the novice traders’ strategies from objective analyses of their trading behaviour. We will not have to rely on our participants’ after-the-fact reports of their strategies, which are more likely to be biased.

The large data sets that result from recording every action in the market create particular difficulties for analysis, but they also provide an important resource for learning more about trading behaviour.

## RESEARCH SO FAR

In a pilot experiment, we studied the effects of different types of confidence on novice traders’ earnings over several trading periods. The preliminary results show that the source and type of confidence makes a difference to earnings.

General self-confidence about abilities, which is what most people mean when they refer to confidence, can have a negative impact on trading performance. This contrasts with self-efficacy, a more task-specific judgment of confidence based on an individual’s experience with online trading, which has a positive effect on earnings. This is consistent with studies of other decision-making tasks, where strong self-efficacy has been shown to lead to more effective information processing.

The lesson is that we have to be careful when we refer to overconfidence. Strong self-confidence of the type that is measured by self-efficacy is a good thing for the types of decision activities required in trading,

# developed to make people more rational in their trading activity. 7

particularly when the assessment is based on sound understanding of the operations and vagaries of the market. A general self-confidence or a belief in one's ability to pick winners can be a personal liability.

People who have a well-founded confidence (self-efficacy) in their trading ability do better than those who lack this confidence, irrespective of how smart they are. Being good at trading is not just a matter of being smart. You do need some level of cognitive ability to be able to process the information required to make trading decisions. However, even smart people with a misplaced sense of general self-confidence can perform poorly.

Many of the cases of traders who run up large losses, such as the recent losses by traders at NAB, are smart people who retain a belief in their own capabilities as they are making the losses. Had they at some time paused to reflect on their trading performance and adjusted their confidence in their ability to pick winners, they probably would have pulled out earlier and made smaller losses.

### FUTURE STUDIES

Planned future studies will examine the strategies used in buy versus sell decisions and their impacts on portfolio earnings. There is evidence that day traders overtrade. They frequently sell one stock in order to buy another one and the stocks sold are subsequently worth more than the stocks bought. If these traders had simply held their portfolio of stocks, they would have been better off by several percentage points, and they also would have saved the brokerage fees paid each time they traded.

These findings raise questions about why people sell winners. One hypothesis for testing is: 'Do online traders put more effort into their buy decisions, selling existing stocks from their portfolio to finance new stock purchases, with much less thought or calculation of the implications for their future returns?'

The research program also has an education focus. Understanding investor psychology provides a basis for helping people to become better financial decision-makers. Over time, as we accumulate knowledge of the strategies used by day traders and the types of biases and errors that lead them into irrational choices, we will be able to develop training programs and advice for students. Understanding the biases and errors of individual investors is also important for financial advisers and policy-makers.

Further, as financial markets move from the trading pit, or trading floor, to electronic trading systems, there is a need for MBAs and other students of finance to gain an understanding of how these new markets work. Electronic sharemarket games of the type the research team will use provide experience in the operation of modern trading systems. They also give students the benefits of experiential learning as part of their studies.

Participants in the research experiments gain experience in the process of buying and selling shares and the market terminology associated with this process. They also gain a deeper understanding of how prices come to reflect information in uncertain environments.

A few things seem clear about online

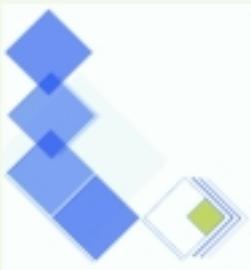
trading. One is that people overtrade. A second is that online traders often do not beat the market. For example, earning 10 per cent in a year when the overall market rose 15 per cent is not a winning strategy, although many may judge it so because they finished in the black. Do online traders compare their performance to a market-indexed portfolio or do they ignore comparative standards?

Finally, online trading behaviour seems particularly susceptible to human biases, such as overconfidence. The research will examine whether the nature of online trading sets people up for failure because it caters for such biases. ★

\* Robert Wood is a professor of management at the AGSM and a member of the financial decision-making research team.

### FOOTNOTES

- 1 Global Banking & Securities Transactions: [www.gbst.com/articles/november\\_1999/gbstonline.htm](http://www.gbst.com/articles/november_1999/gbstonline.htm)
- 2 K. Bruckner, S. Leithner, R. McLean, C. Taylor and J. Welch, 'What is the market telling you about your strategy?', *McKinsey Quarterly: Anthologies on Strategy*, pp. 157-166, 2000.
- 3 This contest is the same one used by the AGSM's professor Bob Marks to illustrate strategic thinking in the article 'Fighting price wars with game theory' by Lachlan Colquhoun in *AGSM Magazine*, issue 3, pp. 20-21, 2003. The contest is described in H. Shefrin, *Beyond Fear and Greed: Understanding Behavioral Finance and the Psychology of Investing*, pp. 5-6, Harvard Business School Press, 2000.
- 4 Overviews of current research in behavioural finance can be found in: A. Shleifer, *Inefficient Markets: An Introduction to Behavioral Finance*, Oxford University Press, 2000; and H. Shefrin.
- 5 B.M. Barber and T. Odean, 'Boys will be boys: gender, overconfidence and common stock investment', *Quarterly Journal of Economics*, pp. 261-292, February 2001.



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**Keith Dawes** is an Organisational Psychologist and Management Consultant. He teaches Managerial Skills and Organisational Behaviour with the AGSM.

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# Knowledge prophets

Too few managers capitalise on the money to be made from the strategic management of intellectual property. **Alan Valvasori\*** reports.

A collaborative study by the AGSM's Centre for Corporate Change and law firm Freehills has found that "the general state of intellectual property (IP) management in Australian companies is inadequate and ad hoc".

The *Management of Intellectual Property in Australian Organisations*<sup>1</sup> study indicates that Australian businesses have been slow to realise the value IP can contribute to company profits. This is despite the fact that by 1999 the value of the global IP licensing market had reached about \$US100 billion.

Freehills partner Adam Liberman, co-leader of the study, says that IP is used as often to license products and technologies as to prohibit others from using them. These licences provide revenue streams to the IP owners.

Licensees in such transactions could also gain rights to create improvements or spin-offs to develop their own IP assets, which could then be cross-licensed or licensed to others – creating a productive cycle of innovation and commercial transactions.

"I think the reason why Australia is lagging is because managers haven't shifted their thinking – they haven't fully realised that there's money to be earned from properly identifying, managing and protecting IP," he says.

"If managers come to IP from a perspective that it is merely a legal right or an administrative duty, then they'll view it in a negative light.

"If, however, they view it from an economic perspective – that they can actually get monetary return from it – then they'll look at it as a legitimate and important part of business strategy and manage it appropriately," Liberman says.

The study surveyed nearly 100 major Australian businesses and organisations and found that although Australian companies had improved their aggregate IP performance, they remained well-behind world standards.

The data indicated that IP ranked lowest in priority among key management activities, and that the most diligent IP managers were those companies with multinational links.

Perhaps not surprisingly the technology and university sectors, which invest heavily in research and development and taking new ideas to market, were industries that ranked IP as a high priority. Those that placed least importance on IP were mining, manufacturing, transport, utilities and construction.

When it comes to who takes responsibility for IP in the corporate hierarchy, the study revealed that companies that placed a high priority on the IP function were those more likely to have senior managers and board members involved.

## BEST PRACTICE

It is not, however, all bad news for Australian organisations. The study identified three IP leaders that others can learn from: The Australian Nuclear Science and Technology Organisation (ANSTO), BHP Steel (now BlueScope Steel) and Foster's (all of which differ in size, market and orientation) were singled out for

demonstrating "exemplary" IP management practices.

For example, each of the three organisations examined in the study had senior managers dedicated to the management of IP – not just the legal department – and these managers were all part of a process that required sign-off from an IP perspective before new initiatives moved forward.

A good example of how to realise and manage the value in IP is a strip casting project at BHP Steel, where the licensing potential of the project was earmarked from the outset. The strip casting project team was asked to dedicate part of its activity to IP directly (with support of other areas of the company) to ensure that IP creation received top priority.

## VALUE TRENDS

In 1982, some 62 per cent of corporate assets in the US were physical assets. By 2000 that figure had shrunk to only 30 per cent. In Europe, intangible assets had already accounted for more than a third of total corporate assets by the beginning of the 1990s.

On average, 40 per cent of the value of a

## Managing and protecting IP: a checklist

- Identify all IP associated with your business and itemise it in your business plan.
- Check that you really do own all IP used in your business or that you have the right to use it.
- List registered IP and place a dollar value on identified assets.
- Identify unregistered IP and give it a dollar value.
- Record other valuable assets such as client lists and corporate knowledge.
- Identify key staff involved in developing, maintaining and protecting your IP and get them to sign agreements relating to confidentiality and competition.
- Educate staff on the nature of IP, how to protect it and their responsibilities.
- Consider ways you can use the IP system in your overall business strategy. Decide which markets (including overseas) you wish to pursue before going public.
- Develop an infringement strategy. Consider insuring your IP against infringement and against your infringement of someone else's IP.
- Search the patent, trademark and design databases, as well as other literature and the Internet to ensure your ideas are new and to avoid infringing the rights of others. You can also search for new business opportunities and keep a tab on what your competition is doing.
- Maintain secrecy and be first to market.
- Make effective trademarks the core of your brand- and image-building strategy.

(Source: IP Australia, [www.ipaustralia.gov.au](http://www.ipaustralia.gov.au))

company – that portion tied up in its intangible assets – is not shown on its balance sheet.

This fact was highlighted by the AGSM-Freehills study, which showed that only those companies that said they valued IP highly were likely to conduct periodic audits to identify the knowledge capital in

“ For many managers, IP begins and ends with trademarks or patents that have been duly registered through legal process. But such rights form only part of the IP that a company needs to protect. ”

their organisations. Even fewer companies did financial valuations to identify the dollar value of their IP. Of companies surveyed, only 23 per cent conducted IP audits and only 5.9 per cent did IP valuations.

The study also found that although companies said they were managing IP, what many really meant was that their legal departments ensured that the procedural aspects of patenting, trademark registration and so on were being met.

“Once these requirements were satisfied, the vestiges of management disappeared,” the study concluded.

In the 1990s, an increasing number of policy-makers around the world recognised the importance of IP in encouraging private investment in research and development, especially in the industrial and scientific fields.

One such initiative in Australia is the federal government’s five-year innovation strategy, *Backing Australia’s Ability*, which has a strong IP protection component. This includes a range of reforms to the Australian IP protection regime, such as implementing a 12-month grace period to protect a patent application against invalidation and several IP awareness and education initiatives.

IP is sometimes referred to as hidden value, but whether hidden or specifically valued, it is now clear that patents, copyright, trademarks and trade secrets are significant contributors to enterprise value.

The AGSM’s Centre for Corporate Change director and co-leader of the study, professor Timothy Devinney, says international stock exchange assessments of the

value of assets of listed companies invariably conclude that more than 60 per cent of a company’s assets are related to IP. “Yet most Australian organisations rarely conduct IP audits and few, if any, conduct IP valuations. It’s also rare for companies to have senior management and board members involved in IP management,”

Devinney says.

“The results of the survey suggest that managerial attitudes to IP management, and having the necessary skills to engage in [IP management], are what put Australian multinationals and local multinational subsidiaries ahead of local companies.

“This needs to be addressed by local Australian companies if they are to compete internationally,” he says.

#### HARNESSING VALUE

Lieberman says there is no one-size-fits-all strategy to best practice in IP management. Instead, there are various components that make up an IP management regime, comprising identification, education, leadership from the top down, and fitting those activities into the business strategy of the company.

Capturing the knowledge that is unique to any company through IP audits is only the first step in a properly managed IP strategy. It then has to be legally protected and converted into a marketable product that will deliver an economic return to the company, Lieberman says.

For many managers, IP begins and ends with trademarks or patents that have been duly registered through legal process. But such rights form only part of the IP that a company needs to protect. Other rights that should be claimed include copyright in packaging or other marketing materials, which can be overlooked.

Lieberman says that companies need to develop strategies that combine the management and legal perspectives and processes to get the full value from their IP rights.

“I think one of the most important things that managers can learn from this study is the need to get IP into the psyche of the company.

“Managers should include IP in the educational framework and ethos of the company, and they should do that from the top down, not just from the legal

department; it really is about trying to get a holistic approach, from the boardroom to the shop floor.

“Hopefully this study will encourage Australian companies to think more effectively about their most valuable asset – the intellectual capability of their organisation,” Lieberman says.

#### FUTURE RESEARCH

The next phase of the study will gather quantitative data, measuring the actual dollar value of IP, from a larger sample of Australian companies – the kind of data that CEOs could take to the boardroom.

Another important development is to teach IP courses in law and business schools – not from narrow litigation and administrative perspectives, but from commercial-transactional perspectives to raise the profile of IP among future business leaders. 🌟

\* Alan Valvasori is a freelance writer.

#### FOOTNOTE

1 *The Management of Intellectual Property in Australian Organisations*, November 2003, a joint research project of the AGSM’s Centre for Corporate Change and Freehills.

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# How to migrate customers

As technology advances with little sign of abatement, many companies are under competitive pressure to migrate customers to new technology or service platforms. The AGSM's **Kristin Rotte** and Goldman Sachs JB Were's **Colin McLeod\*** discuss the challenges of customer migration and the associated business risks.

**Kristin Rotte:** I define customer migration as the process of transitioning existing customers to the next generation of product or service, or to another channel such as the Internet. For example, a big issue right now for Telstra and other Internet service providers is how to successfully move customers from dial-up to broadband.

Customer migration, however, is not just an issue for Internet service providers, or big database management or computer software companies like Oracle and Microsoft, who need to innovate to compete. It is much more widely applicable to customer relationship management and customer profitability in an increasingly competitive global economy.

**Colin McLeod:** Many companies at some time face changes in the economics of their business model, and one of the costs of serving customers relates to issues of migration. Do we have our customers on the right technology platform? Do we have them on the right channel platform? Are we providing the right sort of service levels to particular customers? As a business you need to look at these things and decide if there is a misfit between the economics of providing services to particular customers and the benefits derived from them.

I think of customer migration in two ways. The first is natural migration, which is a more customer-driven process involving a company looking at the next generation of technology and products and figuring out what that might mean for its customers. The second is forced migration, where there is an incentive for a business to move its customers, which is somewhat business-economics driven.

## WHAT DRIVES CUSTOMER MIGRATION?

**KR:** When you consider what drives a company to initiate a migration, it often

seems to be shorter-term profit considerations rather than strategic customer management concerns. A company might be looking to make their less valuable customers more profitable, or trying to get everybody on a consistent service level so that its resources support one rather than multiple versions of its product or service.

For example, Microsoft is still struggling with people being on Windows 95, and it would be much more cost-effective if it didn't have to provide assistance on Windows 95, 98 or NT. If people moved to Windows 2000 or XP then it would be much easier for them as an organisation to service customers.

If you look at the banking sector, you could say there is a reason for moving customers to the Internet because that gives people the advantages of 24-hour access and so on. On the other hand, it also provides huge cost savings to the company.

I have found many citations by banks of the comparative costs of servicing customers through the different channels. The reported difference ranges from \$1.25 per transaction at a branch and \$0.54 cents on the telephone, to \$0.24 cents at the ATM and just \$0.02 cents on the Web. In the US, Charles Schwab claimed it saved \$15 million a year by getting customers to do basic transactions on the Web.

However, that's really just an ABC costing method rather than a measure of real profitability. Sometimes your most costly customers, who are highly demanding of your services, are your biggest spenders, while those who invest a small amount can cost very little because they don't request much of you except clicking on the Internet a few times.

**CM:** For a lot of businesses the cost of servicing customers is highly tangible. The promise of the value of a long-term customer relationship is far more abstract. On the one hand, companies have a highly

tangible cost of servicing a group of customers. On the other hand, there is a benefit promise that is perhaps 10 years in the future. That's a hard one to sell to managers and probably a much harder one to sell to your shareholders.

## OTHER MARKET FACTORS

Another driver of customer migration is the competitive environment in which organisations find themselves. Markets are much more mobile these days. There are substantially changing demographics, particularly in Australia, and I would include education as one of those changes. People have access to global information so their expectations as customers reflect a global rather than domestic market.

There is also the fast rate of change in technology, which has particular relevance to Australia because we have an international reputation as early adopters of new technology. These [market realities] make it necessary for companies to keep moving customers around to find the right service offering and channel.

**KR:** I agree that companies initiate customer migration in response to market realities such as mobility and technology advancement. However, a more general influence in the past few years has been a tough global economy. Companies have been actively looking for ways to consolidate their resources or to reduce the cost of servicing customers.

**CM:** Yes, there are many companies still struggling with the issue of revenue growth, and so they are largely delivering increased profitability through cost reduction, rather than through business growth. You can't help but speculate whether companies who have migrated customers for reasons of cost savings are going to reduce the likelihood of that relationship being valuable in the long-term.



**CUSTOMER  
MIGRATION  
STRATEGY**  
Dr Kristin Rotte  
and Dr Colin McLeod.

theory of customer behaviour that suggests that customers are focused on managing risk and minimising losses rather than optimising utility or satisfaction.

If you are thinking about taking customers to a new platform then most of them will face some sort of risk, which is often expressed as uncertainty. But I think there is a richer picture than just uncertainty. For example, what are the causes of those uncertainties, what are the potential losses that the customer sees, and how can you help your customers manage the risk and mitigate perceived losses?

For example, some of the recent work by Nobel Prize winner [in economics] Daniel Kahneman suggests that customers don't see \$10 of gain in the same way as \$10 of loss – they see the loss as being much more.

If we're not thinking about these things then we really don't have a strategy. Even when companies are initiating customer migration for cost savings, they are relying on customers to do something, so they really need to understand those customers.

One of the people whose view on strategy I have always liked is Harvard Business School's Tom [who?]. While everyone was thinking about how to craft strategy he was talking about how

you implement it. He used to talk about the difference between the strategy you'd like to have and the strategy you're capable of having. There is a lesson in that for companies that want to push customers to do a range of things in a certain way by a set date, versus assessing what is the likelihood the strategy will be effective.

**KR:** That's a really good point, and I think we see that a lot in business-to-business migration initiatives, where database management systems companies have said to their customers, 'We want you to be on a new platform by 2000', but by 2004 20 per cent of their users are still on the old platform.

What happens is that users unite, especially business customers. They push back to the supplier and say, 'We're not

**KR:** The other point is that companies ought to look at using customer migration more strategically as a tool to manage and segment their customer bases. By saying to customers, 'Listen, the way you are signed up now for your service isn't really beneficial to you or to us,' can create a new service offering that is more compatible and more cost-efficient for a new customer segment or less profitable existing group of customers.

**CM:** You certainly see that in telecommunications, where companies offer win-win migration solutions by reminding customers they can save money if they bundle their services in a particular way, or move onto another plan. Such strategies mean companies are finding ways to match

their costs to customer benefits.

An example at JB Were was the development four years ago of a business called Were on Call – which is an online and call-centre based business that provides a lower-cost general research service. We wanted to fill a gap created by the fact that the number of working Australians investing directly in shares had been growing significantly, and a lot of that new business was going to companies that didn't offer a full-service model.

#### **STRATEGIC ISSUES**

Some key issues to address when migrating customers are timing, which customers to target, and understanding the whole issue of customers and risk. There is an emerging

doing it, you have to give us more time, these are big initiatives and we don't have the money right now, or we don't have the time to plan it.' You see this with some of the big companies like Microsoft, Oracle and Novell. They are not able to implement their strategy in the way they want because their customers push back too much, which highlights your point about the difference between what you would like to do and what you can do.

### RESISTANCE AND UNCERTAINTY

I think that how companies deal with resistance will prove to be very important. For example, do you offer other incentives, whether it's personalised training or other support, or do you extend deadlines – which right now is common in business-to-business service industries, where suppliers just keep extending their deadlines. Dealing with customer resistance is a strategically important issue, especially

⚡ You can't help but speculate whether companies who have migrated customers for reasons of cost savings are going to reduce the likelihood of that relationship being valuable in the long-term. ⚡

if you want to accomplish a customer migration initiative in a short timeframe.

**CM:** A great motto I learned from Betsy Sanders, who is now a director of Wal-Mart, is what she calls, WAYMISH, which stands for: Why are you making it so hard for me to spend my money? She identified it as a key to her success. The lesson in that for customer migration is to ensure your customers understand what you want them to do and why you want them to do it. If you also make it easy for them, chances are they won't resist.

**KR:** Customer resistance grows from uncertainty – which is a big issue in customer migration. Any assets customers have previously committed, whether money, time or training, are potentially seen as lost, and customers need to go on and acquire new information and ways of doing things.

It comes down to value versus uncertainty, or value versus risk, and how a company communicates the value against what customers may perceive as dubious benefits. For example, telling customers they are going to get more value from interacting with a computer screen may not be that convincing to people who really want personal contact.

One of the main challenges, particularly in cost-driven migration initiatives, is being persuasive in the face of questionable benefits to customers. The only way you can do that is through some sort of communication strategy. It is possible to offset customer uncertainty by saying, 'Listen, we can't service you profitably in this way, but here's how we can and these are the benefits.' Companies need to be persuasive in terms of showing value because it's a gain and loss issue and you have to exceed the loss!

### FURTHER RESEARCH

There really hasn't been a lot of research in this area. My customer migration research focuses more on a process and a relationship evolution, whereas a lot of adoption-of-innovation research focuses on one-off projects.

There is really little known about the best way to migrate customers, the best way to communicate

the process to ensure the least amount of resistance, or what combination of factors would make an ideal migration. There is scope for more research on the psychological impact of migration on customers, as well as how suppliers should go about the planning process and the internal marketing and communication of a migration initiative.

**CM:** Any business that embarks on a migration program is knowingly putting their customer relationships at risk. I think you would want to be as informed as possible when you are doing it, and so research has a fundamental role to play in improving the quality of the business decision-making and the process of implementation. It is a brave call to embark on a customer migration program given that we know so little about how people will respond to it. 🌟

### STRATEGY MAP

I think of a customer migration strategy from the perspective of what, who, why, when and how. In planning the process you have to think about **what** it is you are going to offer that will provide some value. If your customers don't perceive a value in the new process it is going to be much tougher to get them there.

Then you have to decide **who** you want to target. Are you targeting all your customers, or just the less-profitable people. Are you targeting a segment for reasons not even based on profitability – such as high-technology customers who may go elsewhere if you don't offer the next generation of technology?

Then you need to ensure that people in your company understand **why** you are initiating the migration. If your key contact employees don't have a good grasp of why the company is doing this, they might not be the best people to be talking to your customers.

I was involved in a migration when I was in the financial services industry in the US, and the organisation didn't really communicate why migration was a better option for our customers, or why it was a necessary option for the organisation. As a result, the organisation had a hard time convincing customers they should migrate because its key contact employees weren't really convinced themselves that it was the best option for customers.

Then you need to decide **when** you are going to initiate the migration. Are you going to do it over a long period of time or a consolidated period? There are some companies that say to their customers: 'You have to do this in 12 months or we're cutting off your support.' This is not uncommon [in the database management or computer software sectors], where companies may also threaten customers with a penalty. On the other hand, some companies take a different approach and give their customers advance warning that changes are on the horizon – sometimes three or four years notice in bigger migration undertakings.

Then there is **how** you go about it. Do you dictate to your customers how it will be done, or do you help them through the process by providing information and support throughout the migration?

Kristin Rotte

*\* Dr Kristin Rotte is a lecturer in marketing at the AGSM. She has won a number of US marketing awards for her dissertation on customer migration. Dr Colin McLeod is executive director, marketing and brand management, at Goldman Sachs JB Were.*

# Motivational work

Professor Dennis Turner established a great reputation as an executive education teacher and communicator. He talks to **Lachlan Colquhoun\*** about his approach.

Professor Dennis Turner, who retired at the end of last year after 20 years at the AGSM, says his approach in the classroom was not so much to impart his own knowledge, but to facilitate the learning process among his students.

“The challenge is to make sure the communication is flowing and that right from the beginning there is a connection not only between you as the program leader and the participants, but also between participants and the program agenda,” says Turner.

“They’ve got to feel very early on that the course is going to be useful to them, and the way to do that is to use the combined knowledge and experience of the group, and use that to frame key learning aspects of the program.

“You need to take a lot of information from the participants and help them understand how it is relevant to solving their problems, and yet brings you the opportunity to influence the way they think,” he says.

Over 20 years, Turner’s Managing People for Performance course was one of the AGSM’s executive education flagships.

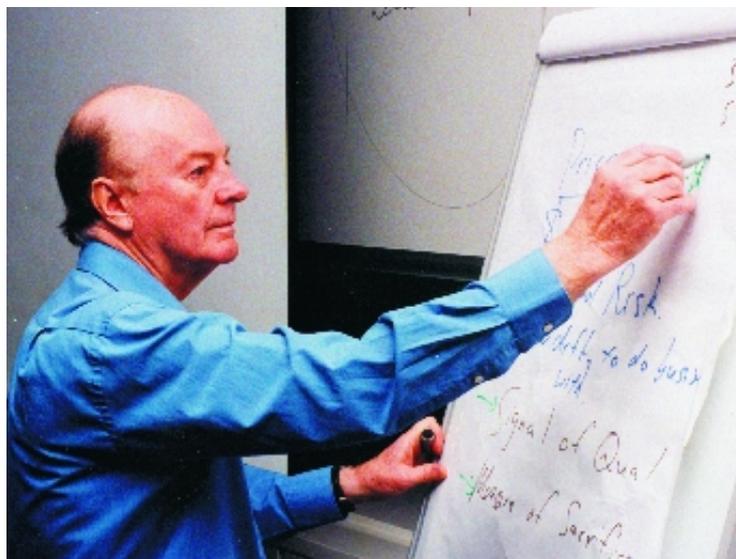
His book with Dr Michael Crawford – *Change Power: Capabilities That Drive Corporate Renewal* – drew on research conducted at the AGSM and established Turner as one of Australia’s pre-eminent thinkers in the area of corporate change.

Dexter Dunphy, a foundation director at the Centre for Corporate Change at the AGSM and now distinguished professor at the University of Technology Sydney, describes the book as “an outstanding and innovative research study of formidable scope”.

“I know of no other study in the field of organisational change, before or since, that has covered so many cases of organisational change in such depth,” Dunphy says.

## FROM PRACTICE TO TEACHING

Much of Turner’s expertise as an educator came out of his own experience. A lengthy career as a manager with the John Lewis Group gave him the foundation – and the



Professor Dennis Turner

stories – that made his executive education course such a success.

“Years after doing the course I still remember some of the stories, and have used them to explain concepts to my management team and colleagues,” says Meredith Rogers, now a PhD student at the AGSM. “Not only do the stories explain the research, they also illustrate professor Turner’s abiding concern for the success of organisations and the effectiveness of managers.”

Dr Rose Trevelyan, an organisational behaviour lecturer at the AGSM, also pinpoints Turner’s use of stories as one of his trademarks.

“By telling a story, either about himself or as a manager, or about other people, the listener is put in the actor’s shoes and is much more able to see the value in the issue being illustrated,” says Trevelyan.

“Many of Dennis’s stories are about mistakes he has made in his career and how he learnt from them, and that humility is very powerful.

“It puts the program participants at ease and says ‘let’s think about this together’.”

According to Turner, some educators fail to maximise their effectiveness because they believe it is their knowledge alone that has to be the focal point.

“It becomes much more understandable to the audience if they can contribute themselves, and their knowledge can be reassembled and sent back to the group in a relevant way,” Turner acknowledges.

“This then enables the creation of a learning framework.”

Turner says his aim with the course was to motivate participants to go back into their workplaces with a new commitment to manage their teams more effectively.

“But the first skill is the ability to manage yourself, because if you can’t manage your own activity, your chances of influencing the people beneath you are pretty slight,” he says.

A aim he worked on during the course was to improve the participants’ self-confidence to help them understand the experiences that created their current levels of confidence, and to help them build competencies to improve their performance.

While, in Trevelyan’s words, Turner never resorted to “managerial fads” in his courses, he does believe the corporate world has changed over his years of teaching.

“People are under much greater pressure than they were 15 years ago, and a lot of those pressures are around juggling home and work,” he says.

“Ten years ago people would go out of a program break and go downstairs and have a coffee – now as they leave the room they pick up their mobile phones to see if they are wanted at work.” ★

\* Lachlan Colquhoun is a freelance writer.

According to the AGSM's Dr Gal Raz, who has spent several years working on supply chain management in collaboration with leading academics such as Stanford Graduate School of Business's professor Hau L. Lee, supply chain management has captured the attention of many companies for delivering competitive advantage. "Seven-Eleven Japan [SEJ] posted record profits during the Asian economic crisis, and it did this by being one of the most innovative companies in the world in the management of its supply chain," says Raz.

SEJ focused on the demand side of the business and the smart use of information to achieve the efficient use of scarce shelf space.

major competitive advantages in the 1970s and 1980s. Today these are no longer a source of competitiveness but a basic requirement," notes Raz.

The biggest opportunity, says Raz, now seems to lie outside manufacturing: "Issues such as how do you coordinate your information flows and systems in a global world; what channels of distribution do you use; how do you design your supply chain and logistics structure; should you outsource your materials or produce them in-house; what kind of relationship would you like to have with your suppliers and customers; and how do you get direct information from your end consumers?"

The SEJ example illustrates two of the key issues for supply chain success: coordination and

# The business of supply chains

What makes companies like Seven-Eleven Japan, Wal-Mart and Cisco stand out from the crowd? They have in common the proven ability to create value by mastering supply chain management. **Debra Maynard** reports.

This was strategically important because of the high cost of real estate in Japan.

The company introduced systems to analyse hourly sales trends each day and make the results available to all stores and suppliers by early the following day. This supported efficient product replenishment – giving stores a high level of stock availability by determining the right quantity of the right products.

SEJ also created its own joint delivery program because it needed frequent deliveries in small lots across its chain of stores. It set up single supplier distribution centres in different geographical areas run jointly by suppliers, and to counter traffic problems it diversified its delivery vehicles to include trucks, motorcycles, ships and even helicopters.

By recognising that data was the key to success, and by developing elaborate information chains in tandem with agile logistics, SEJ achieved significantly higher sales per store than its competitors. Its systems delivered dividends: low operational costs, low inventories, short cycle times and high customer service, resulting in increased sales, better market penetration, higher profits and superior shareholder returns.<sup>1</sup>

It is a classic example of the ascendancy of supply chain management as a path to competitive advantage. "Companies have reached a level playing field in manufacturing efficiencies and quality, which were

collaboration; and the value of information sharing.

"By coordination and collaboration we mean that the whole supply chain operates as one entity. The idea here is that instead of each party trying to operate in its own interest, the parties will work together in the interests of the whole supply chain. The crucial requirements of this are the ability to share information among supply chain partners, as well as aligning the parties' incentives," says Raz.

## INFORMATION SHARING

SEJ demonstrates the importance of sharing information, but it is a case in which information sharing is not that difficult to achieve because the information remains within the boundaries of one organisation. The problems arise when companies need to share information among different organisations.

Some companies, says Raz, take information sharing to sophisticated levels of information coordination and knowledge exchange among supply chain partners. Such knowledge sharing can include capacity plans, production schedules, promotion plans, demand forecasts and shipment schedules.

"However, the thing with seeking a deeper level of information or knowledge exchange is that it demands a greater degree of trust, and your business conditions and supply chain partners must support that approach," says Raz.



Smart fashion companies use supply chain management to solve the endemic and costly problems of having too much stock over at the end of a season. Pictured are shoes on sale in Japan.

A good example of how this can work is the introduction of a program called Collaborative Planning, Forecasting and Replenishment (CPFR) by US pharmaceutical and healthcare products manufacturer Warner-Lambert (now Pfizer) in the mid-1990s. Its goal was to streamline product flow by sharing its strategic plans, performance data and market insight with key retailer Wal-Mart. The program also recognised that the manufacturer could benefit from the retailer’s market knowledge, which was incorporated into the CPFR model. As a result of this demand forecast collaboration, Warner-Lambert increased its products’ shelf-fill rate from 87 per cent to 98 per cent, earning the company about \$US8 million a year in additional sales.<sup>2</sup>

“In Australia, Coles Myer announced last June that it would launch a CPFR program for its Coles and Bi-Lo supermarket chains in collaboration with consumer packaged goods suppliers Procter & Gamble and Unilever,” notes Raz.

“This initiative is part of Coles Myer’s five-year investment plan to transform its entire supply chain, focusing on supply chain collaboration and online negotiations. This illustrates the importance of supply chain management to Coles Myer’s future success.”

Another example of using information collaboration to coordinate supply chain decision-making is Cisco’s 2000 e-hub initiative to put all its supply chain processes on the Internet. It wanted to find a way for everyone in its supply chain to be aware of

each other’s demand information to synchronise production, pricing and replenishment decisions.

“Cisco sought solutions to materials shortage and delivery problems known to cause product shortages, and it decided to involve not just first-tier suppliers but the second- and third-tiers, which could be responsible for the shortages,” says Raz.

“The importance of this is that if a buyer knows of shortages from its supplier in advance, it can decide how best to deal with them. One way is to go to another supplier, while another option is to increase the retail price in order to decrease the demand. This also highlights the importance of pricing decisions and their effect on ordering decisions and costs.”

### SYNCHRONISING PRICING AND ORDERING DECISIONS

“I think sharing information and synchronising decisions among supply chain partners can be crucial to optimising supply chain performance. In my recent research in this area I focus on how making price and ordering decisions simultaneously can help to improve supply chain efficiencies,” says Raz.

In many companies the marketing department sets pricing based on a marketing perspective, while the production people make quantity decisions based on their perceptions of market demand. “This means the marketers are making their decisions from a revenue perspective, while the production planners are making decisions based on the cost of

## Two main issues that companies have to solve relate to incentives and information.

inventories,” says Raz. “What I refer to as simultaneous pricing and production planning simply means that both the marketing and the operations departments need to make their decisions together, taking into consideration both the potential revenues and the resulting costs.”

The alignment of production planning and pricing decisions is most crucial in industries where the production lead time is longer than the selling season – such as for holiday or fashion products. “The reason is that inventories have to be built a long time in advance and prices can’t be altered much due to the short selling season,” says Raz.

The fashion industry has to forecast demand a long time in advance for a short season, and the question to ask is: How can I develop a supply chain to deal with these problems?

It is a question that Spanish fashion company Zara asked and found a solution to by developing a global fast-response system to counter the endemic and costly problems of having too much stock over at the end of the season and having to discount steeply to sell it.

Zara fundamentally changed the way it does business by making the supply chain central to its production and sales strategy. “Its fast-response system involves designing and manufacturing more styles of clothes than its competitors in one season,” says Raz.

“It makes its clothes in smaller lots and takes only 15–30 days to deliver new styles anywhere in the world (from design and production through to store delivery).”

The big advantage for Zara was that it could make its design and production decisions within a fashion season instead of well in advance of a season, resulting in a better response to demand. For the stores, Zara’s system gave them product soon after they ordered it, and something new to sell every two weeks without having to hold much inventory.

“The system worked because the cost of having stock over at the end of the season was more costly than the additional production cost of making a bigger range and the higher cost of transportation,” says Raz.

Zara was able to plan ahead more strategically, and its thinking incorporated all its

supply chain processes, including switching from sea to air transport to respond to market demands quickly.

### WHAT ARE THE IMPEDIMENTS TO SUPPLY CHAIN COORDINATION?

“We’ve seen that information sharing, knowledge exchange and aligning decision-making in the supply chain can lead to far improved supply chain collaboration and coordination,” says Raz.

However, coordination is not that easy to achieve. “Two main issues that companies have to solve relate to incentives and information. First, companies need to determine what incentives to offer both up and down the supply chain, to foster coordination. Second, they ought to decide what information can be shared in what way among which supply chain partners.

“Different companies offer and respond to different incentives as they try to maximise their own profit. Different companies also deal with information in different ways.

“For example, what if a retailer has information that it will benefit from if it doesn’t share it, or if it has an incentive to give false information?

“One way a supplier can deal with these differences is by using contract design to make it worthwhile for its retailers to reveal their information,” explains Raz.

### USING CONTRACT DESIGN STRATEGICALLY

When a retailer possesses better information about the customer demand, suppliers can offer quantity discount contracts to provide an incentive for retailers to provide accurate information and to help separate the different kinds of retailers in the chain.

“Many companies use straightforward wholesale contracts which set a unit price against which the supplier and retailer each take their margin. This contract results in what is called double marginalisation, which means that the total supply chain profits are lower than when the different parties in the supply chain work together. The question is how companies can coordinate the system so that both parties win.”

Companies can coordinate the system using other contracts such as a revenue-sharing scheme. This type of contract is used in the video distribution business. The movie studios and the big video rental chain, Blockbuster, use a revenue-sharing contract in which the studios provide

Blockbuster stores with videos at cost, and whatever margin is achieved is shared.

Because the initial product cost is low, there is an incentive for the stores to keep more stock, which results in a more profitable use of market demand, says Raz. When combined with marketing campaigns that offer consumers a free video if Blockbuster doesn’t stock what they want, the system can increase demand.

“Contract design is an important tool available for better managing and segmenting your suppliers, as well as managing supplier risks and relationships,” says Raz.

The leading global producer of cochlear hearing implants, Australia’s Cochlear, is a case in point. Raz recently worked on a project with Cochlear, together with AGSM MBA students, to assess the management and evaluation of the company’s supply chain management strategies. The project recommended strategies for the company to achieve a more focused, standardised and transparent supplier management approach in response to the rapid growth of its supplier network to more than 300 suppliers.

The first step was to analyse and find the key suppliers for Cochlear and then



### THE BIGGER PICTURE

How does government affect supply chain management? Raz says it is important to recognise that the government is a player in the supply chain, too.

Mastery of supply chain management creates value for companies, supply chain partners and shareholders. But what about creating and safeguarding value for the consumer and society? It is a question that interests another category of player in the supply chain – government and its public policy in the form of price caps, taxes and regulations on how products are made.

“You need to be able to estimate real demand in order to analyse the implication of public policy issues and, from the government’s perspective, the best actions for optimising benefits to consumers and society,” says Raz.

investigate the contract schemes and tools that could be used to manage supplier risks and relationships. The project involved an investigation into contract schemes and tools that could be used to manage supplier risks and relationships.

The contract assigns responsibilities and rewards for the parties to the relationship ... and can be used to encourage supplier performance and lower costs, and discourage under-performance.

For example, the management project recommended negotiated fixed price contracts for less strategic suppliers in circumstances where Cochlear was familiar with market prices and had previous experience with the product or service. This would allow Cochlear to shop around, find substantial cost savings and avoid paying more for commodity products.

For more strategically important suppliers, incentive contracts incorporating financial and non-financial benefits, drawing on both qualitative and quantitative aspects of the relationship, were recommended. A number of contract schemes in this category were identified, including a cost-reduction incentive contract to encourage the supplier to reduce costs and disclose cost savings to the buyer, and a value-creation incentive contract designed to encourage suppliers to develop or recognise process or product improvement for Cochlear.

“Contract design formed a central part of overall recommendations to provide incentives for suppliers to make cost reductions, meet performance targets and create value for Cochlear,” notes Raz.

“If you can run your supply chain as one tightly coordinated entity, for which you need a lot of information, trust and alignment of interests, that would be ideal,” concludes Raz.

“However, if this is not realistically achievable given the complex nature or competitive elements within your supply chain, it is still possible to achieve efficiencies by using supply chain management tools such as contract and incentive schemes to create value for everyone.” ★

### FOOTNOTES

- 1 Hau L. Lee and Sengjin Whang, ‘Data-rich demand chains: a tale of two retailers’, Graduate School of Business, Stanford University, 23 October 2000.
- 2 Jennifer Bresnahan, ‘The incredible journey’, CIO.com, 15 August 1998, [cio.com/archive/enterprise/081598\\_jour.html](http://cio.com/archive/enterprise/081598_jour.html)

# Composing a suite of statistics

Professor Simon Sheather puts statistics into play for the Sydney Symphony.

The Sydney Symphony is not spared the age-old problems that all Australian arts organisations contend with: how to best resolve the tension between artistic endeavour and commercial success. While the Symphony juggles this issue better than most, it is, nevertheless, eager for tools that will make it easier to balance these often opposing objectives.

This is where the AGSM's professor Simon Sheather steps in. A recent project he conducted for the Symphony (which is the AGSM's artist-in-residence) shows just how statistical modelling can guide effective decision-making and business planning for maximising revenue.

Sheather uses his statistical modelling to take some of the variability out of business forecasting.

Sheather describes the Symphony's revenue as a function of *ticket price* multiplied by *occupancy* (or tickets sold). "If we can accurately measure the main drivers of the business then we can predict the expected revenue for any individual concert," he says.

Sheather used ticketing data for concerts performed at the Sydney Opera House during 2001 and 2002 to develop his statistical models. "The aim of these models is to indicate how the orchestra can maximise future revenue within the boundaries of its artistic requirements."

The models account for the variation in ticket prices across all ticket types, including reserved seating, concert series, subscriber discounts and special offers. Other variables the modelling had to incorporate include: the main composer of each program; whether a program features one or more composers; whether the music is considered well-known; if a program features a famous soloist; the year, month, day and time of the performance; the number of performances; the number of subscription tickets sold; and the number of complimentary tickets provided.

"By analysing these variables we can discover what determines the average ticket price. This discovery allows the Symphony



to more accurately forecast its expected average ticket price and, thereby, have a more reliable budget for each program," says Sheather.

## FINDING KEY FACTORS

The models he developed contain all the potential predictor variables for which he received data. This way he could estimate the effects of each variable, having adjusted for the effects of all other variables.

His models revealed a number of key factors that affect the Symphony's average ticket price. For example, February is the most positive month and November the most negative – a discovery that makes it easier for the Symphony to identify the causes of such variations in price and revenue, and to adjust decision-making accordingly.

Tim Calnin, the Symphony's former artistic administrator, explains that one of the subscriber benefits is the right to swap concert tickets at no extra cost. "Often by November, subscribers who buy tickets at a discount realise they must use up their tickets quickly or risk losing them," he says.

"This results in a greater number of discounted tickets appearing in November, which affects the month's revenue."

The process also showed that customers are prepared to pay an average of \$10 more for a famous soloist. With this kind of information, the Symphony is better placed to decide whether the estimated increase per ticket will cover the extra cost of hiring a famous soloist. However, it also has to

factor in artistic purpose.

"Some soloists charge so much that the expense cannot be recouped because the Opera House just doesn't seat enough people," says Calnin. In such cases the Symphony has to decide whether the soloist's cost will be justified by sufficient additional benefits, such as publicity, prestige and musician development.

Sheather's pricing data included some interesting information but could not give a complete picture unless it was coupled with an analysis of occupancy. His occupancy modelling revealed that the most popular time to go to a concert (perhaps unsurprisingly) was Saturday at 8.00pm. "I then compared the positive effects on ticket price with positive effects on occupancy to show which times, evenings and months delivered higher revenues," explains Sheather.

## MORE INFORMED DECISIONS

The next step is to test his models' estimates against actual data. "We need to test the models by using them to estimate the average ticket price and occupancy for each performance in 2003 – that is, estimate the revenue and then compare the estimates with the actual data," he says.

"Once the models have been adequately tested they can be used to estimate the revenue for each performance in 2004."

The Symphony will be able to use the data for more effective programming and planning. For example, if the models predict that a program might struggle to cover costs, management could choose to market the program more aggressively. It might also use the data to offer more concerts in the most popular timeslots to meet market demand more consistently.

Sheather hopes his work will give the Symphony's management a valuable tool for making more informed decisions about artistic and market requirements that will fulfil cultural and stakeholder expectations as well as increase revenues. ✪

by Kirsty Harris

# alumni at large

## FAST COMPANY

**T**he problem with entrepreneurship is that people with big ideas are technical, and the real challenge is going to market,” says **Andrew Spicer (MBA '91)**, chief operating officer for data hosting company WebCentral, which was fourth in the BRW's Fast 100 list of companies last year.

If the optimum high-tech entrepreneur is a technologically-minded business person, then Andrew Spicer fits the bill. He started his career as an engineer but, frustrated by the limited scope for his profession in Australia, opted for a career in business.

After completing an MBA at the AGSM, he took a position at McKinsey & Company, working afterwards at Ernst & Young and Suncorp during the merger with Metway. These experiences gave him

a solid background in taking a business forward during uncertain times – useful skills after the dotcom crash.

Spicer says WebCentral made the Fast 100 list because it anticipated the need to diversify the business and upgrade infrastructure to achieve systems reliability ahead of its competitors. It also took an industry leadership role and was the first to innovate in key areas within the sector.

WebCentral investors Malcolm Turnbull and Sean Howard provided guidance to the start-up, whereas elsewhere, says Spicer, venture capitalists tend to throw money at entrepreneurs in place of strategic skills.

“Australia's problem is that we don't have the market size [that allows you] to specialise and just keep doing what you're doing and have that as a growth strategy.”

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“WebCentral made the Fast 100 list because it anticipated the need to diversify the business and upgrade infrastructure to achieve systems reliability ahead of its competitors.”

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## NANOTECHNOLOGY WATCH

**N**anotechnology is as much about transforming common industries as it is about morphing technology and nature into sci-fi inventions. It is as much about the birthplace of everyday products such as invisible sunscreen composed on minute particles as it is about the bionic ear.

But underlying both the mundane and the mind-boggling are ethical questions that need to be explored “before it's too late”, says Dr **Vijoleta Braach-Maksvytis (SMDP '00)**.

Director of CSIRO Global Aid, Braach-Maksvytis is at the forefront of this discussion in Australia. She heads up an array of peak bodies designed to shape the future of this technology and acts as a “catalyst for action” to bridge the divide between scientists, industry and the public interest.

She recently completed an 18-month term as head, Office of the Chief Scientist of

Australia and also served as chair of the CSIRO Science Forum.

She holds over 25 patents in nanotechnology, including co-inventing the world-first Ambri biosensor, a miniscule synthetic membrane capable of detecting a predetermined presence in blood or water by mimicking the way nature self-assembles molecules.

Nanotechnology's advantage is that its products are smaller, cleaner, cheaper, faster and smarter than conventional technologies. But the nascent technology's impact, in the longer term, is untested.

“Like the nuclear debate and genetically modified organisms, we need clear public understanding about who it benefits and what it's about,” says Braach-Maksvytis.

“It is possible to be a little smarter with this technology.”



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“Like the nuclear debate and genetically modified organisms, we need clear public understanding about who [nanotechnology] benefits and what it's about.”

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## CULTURE CHANGE

**W**hen *The Bulletin* named Transfield Services as one of Australia's top companies for its performance last year, those familiar with the adversarial approach of its industry of origin may have been surprised.

Transfield Services was spun off from construction giant Transfield Holdings in 1993 when a client, Melbourne Water, sought outsourcers to support its sewerage operations.

However, the dog-eats-dog approach of the construction industry made genuine service to clients an anathema.

"The predominant philosophy in construction is how to maximise the company's gain to the customer's loss or screw the contractor down to the minimum," says **Guido Belgiorno-Nettis (MBA '85)**, managing director of Transfield Holdings and non-executive director of the services company, which listed on the Australian Stock Exchange in 2000.

Transfield Services instead pursued an approach of alignment with its customers and this involved a major transformation of its culture.

Senior management underwent executive coaching and leadership courses and spent long hours conveying the lessons across the business.

As well, the company raised customer satisfaction by implementing online interface to the status of contracts, which are implemented with a focus on best practice. The initiatives led to a rapid growth and numerous awards for service.

"I can't speak for other industries, but for ours business performance has to be driven by transparency and a philosophy of customer alignment," says Belgiorno-Nettis.

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"I can't speak for other industries, but for ours business performance has to be driven by transparency and a philosophy of customer alignment."

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## RISKY BUSINESS

**T**here are few players in Australia investing in highly promising ideas at the early research stage. But one such player is university-based venture capital fund, Uniseed.

Dr **Peter Devine (MBA Exec '00)** is regional director for investment and commercialisation at Uniseed, where his job involves taking "research and ideas straight out of the laboratory and developing them into a form that others will want to invest in". He becomes actively involved in identifying further stages of research and managing the emerging business. "We have limited capital so we have to focus on developing value-critical milestones and rigorous due diligence."

He concedes that university culture doesn't always suit commercialisation but says Australia now has high-calibre

university-based commercialisation arms operating as separate companies.

Uniseed was established in 2000 as a joint venture between the University of Queensland and the University of Melbourne. In its short history, it has taken four investments to second round funding and two to potential licensing deals. It has more than matched every dollar invested with funding from other sources, says Devine.

Last year Devine received a Centenary Medal for making an outstanding contribution to the business of biotechnology. He has helped to commercialise various technologies, including a diagnostic tool for dengue fever while working for diagnostic products developer PanBio. 🌟

by Helene Zampetakis

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"We have limited capital so we have to focus on developing value-critical milestones and rigorous due diligence."

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# bush telegraph

THE AGSM ALUMNI BULLETIN BOARD

## MBA

### 2002

**Frances Yu** has recently transferred to the Deloitte Consulting Chicago practice in the US. Contact: [francesyu@deloitte.com](mailto:francesyu@deloitte.com).

### 2001

**Andy Huang** is currently working as general manager, Goldwiz Holdings (Hong Kong) located in Shenzhen, China. Contact:

[huangjh@goldwiz.net](mailto:huangjh@goldwiz.net),  
Tel: (+86 755) 2699 5838.

**Ian Dolling** is now director, Schering-Plough (China). Contact: [Ian.Dolling@spcorp.com](mailto:Ian.Dolling@spcorp.com),  
Tel: (+86 21) 6328 2886.

### 2000

**Conrad Burge** is delighted to report that his baby boy (Thomas Rupert) was born last 28 October. His daughter (Annikka Bonnie) is now two years old.

**Ashish Chaturvedi** has left FreeMarkets Inc to join British Petroleum Singapore as regional procurement manager. Contact: [ashish.chaturvedi@se1.bp.com](mailto:ashish.chaturvedi@se1.bp.com).

**George Bogdanovic** has joined QBE Mercantile Mutual as strategic analysis manager. Contact: [george.bogdanovic@qbem.com.au](mailto:george.bogdanovic@qbem.com.au), Tel: (02) 8275 9780.

### 1999

**Eric Chan** has started his own business (after two years at AMP), opening a paint-it-yourself ceramics studio in the lower north shore of Sydney. Contact: [econe@netspace.net.au](mailto:econe@netspace.net.au).

**James Albis** recently launched his new Web site, [everestworldwide.com](http://everestworldwide.com), and direct marketing division, **Everest Worldwide Direct**. In addition to consulting, James is an adjunct business professor at Pace University and Mercy College in New York. James and his wife Myriam are pleased to announce the birth of their first child Audrey Chole Albis. Tel: (+1 914) 4202 080.

**Michael Jacobsen** is winding down his involvement with

Longsarah Housing Group and embarking on full-time employment at University Senior College, Adelaide University, from January 2004. "My wife Jennifer and I are now the proud parents of Liam Sejong Michael Jacobsen, born 29 June 2003."

**Jenny Tian** has moved from an account manager role to manager, supply fulfilment at Johnson & Johnson Pacific. Contact: [jtian@jjpau.jnj.com](mailto:jtian@jjpau.jnj.com),  
Tel: (02) 8260 8318.

### 1998

**Darren Sayers** has been promoted to global productivity manager in General Electric's consumer finance business, based in Stamford, Connecticut, after 18 months in a similar role for the Australia-NZ business. He moved to the US in late January, where he will have responsibility for the strategic management of a US\$4.5 billion cost base, working with the regional CEOs (US, Europe, Asia and Australia-NZ) to identify opportunities to better leverage operating infrastructure globally. Contact: [Darren.Sayers@ge.com](mailto:Darren.Sayers@ge.com).

**Steve Braithwaite** has left Accenture to take up a position as head of strategy and corporate development at Mellon Australia. Contact: [steven.braithwaite.98@alumni.agsm.edu.au](mailto:steven.braithwaite.98@alumni.agsm.edu.au).

**Linda Chuk** has left AT&T Global Network Services Australia to take up a position as product manager with Telstra Wholesale. Contact: [linda.chuk@telstrawholesale.com](mailto:linda.chuk@telstrawholesale.com), Tel: (02) 9289 4482.

**Phyllis Lau** has joined IBM as principal consultant. Contact: [phyllis.sy.lau@hk1.ibm.com](mailto:phyllis.sy.lau@hk1.ibm.com),  
Tel: (+852) 2825 7430.

**Marc-Antoine Cousin** has been appointed a director of L.E.K. Consulting. Marc says: "This is a credit to the excellent education I have received at the AGSM".

### 1996

**Diego Villaveces** has moved on from McKinsey & Company (as a marketing specialist) to join Westpac in the implementation of

analytical CRM in the customer experience (marketing) team.

**Meng Woo** and **Roger Kennedy** (also **MBA '96**) had a baby girl in January 2004. "Her name is Samantha and she is the apple of mum's and dad's eye." Contact: [rogmeng@tpg.com.au](mailto:rogmeng@tpg.com.au).

### 1995

**Soon Teik Oon** is currently working at JOST Management Network in Malaysia as principal consultant. He reports that he is planning to return to Australia at the end of this year and will be looking for job opportunities. "I have more than nine years corporate and six years lecturing experience, and I have spent the last one-and-a-half years in China expanding business contacts, travelling and lecturing. I also have experience in Malaysia, China, Indonesia and Thailand." Contact: [soon.oon.95@alumni.agsm.edu.au](mailto:soon.oon.95@alumni.agsm.edu.au).  
**John Rotenstein** and his wife Jackie are proud to report the arrival of their second child, Jeremy, last November. Pictures are available at: [balgara.com/JL](http://balgara.com/JL).

**Stephen Tuffley** says his "better half, Justine, is expecting twins in April, and (being a dedicated triathlete), I am hoping to have the new arrivals all settled before heading off to compete in my fifth consecutive Hawaii Ironman later in the year."

**Vic Evan** is now working as head, facilities management unit with the SEAMEO Regional Center for Graduate Study and Research in Agriculture (SEARCA) in the Philippines. Tel: (+63 49) 5362 284.

### 1993

**Robert Antulov** is currently Fairfax's director of strategy. A short stint running his own strategy and marketing consultancy followed his dotcom experience with Internet start-up Peakhour, where he worked with a number of other AGSM alumni. Before that, Rob was with Coca-Cola, working in Europe, Asia and Australia, and he spent time living in Jakarta, Kyiv and Vienna. Rob reports that he has "four young children who understandably keep me very busy when I'm not at work. Jamie (aged five) is our eldest girl and the most travelled. Her brothers Matt and Lucas turned two last August, and

their younger sister Taylor is aged one and slowly learning to cope with the smothering attention of her three elder siblings".

**Michael Schildkraut** and his wife Natasha are "very proud to announce the arrival of our first child, Adam David, born 14 September 2003. Although he arrived six weeks premature, Adam is now fighting fit and looking forward to being drafted by West Coast in 2011!"

### 1990

**Peter Pang** has left Hong Kong Exchanges and Clearing to join CITIC Capital Markets Holdings as director and head of department. Contact: [the\\_pang@yahoo.com](mailto:the_pang@yahoo.com),  
Tel: (+852) 2237 6850.

### 1986

**Ross Sommerville** has left Baxter International to join ResMed Inc. as managing director UK/Ireland. Contact: [Ross5@resmed.com](mailto:Ross5@resmed.com),  
Tel: (+44 1235) 862 997.

### 1979

**Ingrid Jackson** now runs Executive Management Solutions, a successful consultancy specialising in organisational communication, change management, staff surveys, focus groups, strategic human resources management, team development, and executive career development. Read her Letter to the Editor on page 6.

## MBA (EXECUTIVE)

### 2003

**Stuart Braine** writes to announce the birth of Samuel in late 2003. He also reports that **Adam Degnan** was also expecting a new arrival, and that classmate "**Myles Talman** finally asked Sandra to marry him and she said yes".

### 2002

**Amanda Tober** has moved from her role as human resources manager, Asia-Pacific, with BMC Software to join GrainCorp as head of human resources. Contact: [atober@graincorp.com.au](mailto:atober@graincorp.com.au),  
Tel: (02) 9266 9210.

**Scott Chamberlain** has started up his own dotcom business, Machiavelli's Workshop, which merges entertainment and training

in the form of online multiplayer games involving strategy and negotiation. Go to: [www.machiavellisworkshop.com](http://www.machiavellisworkshop.com).

Contact: [scott@machiavellisworkshop.com](mailto:scott@machiavellisworkshop.com).  
**Suv Mohapatra** has left EDS Services to join National Australia Bank as a senior corporate consultant. Contact: [suv\\_mohapatra@national.com.au](mailto:suv_mohapatra@national.com.au), Tel: (03) 9601 7078.

## 2001

**Deborah Bodger** writes: "After nearly 10 years at Nokia, I got a great opportunity to join palmOne as sales director in December 2003. I'm really looking forward to the new role in which I am responsible for country sales for Australia and New Zealand, reporting to the vice-president in Hong Kong. Home life is going well, too. Marcus is now two-and-a-half and in May he will have a new baby sibling to play with!"

**Karen Jennings** took up a posting with BP Oil UK in Milton Keynes in March 2004 as the retail convenience director UK for two to three years.

## 2000

**Peter Hildebrandt** has been promoted from general manager to vice-president of sales at Robert Bosch (Australia). Contact: [peter.hildebrandt@au.bosch.com](mailto:peter.hildebrandt@au.bosch.com), Tel: (03) 9541 5488.

## 1997

**Neil Kafer** has left SAS and is now a director of a homegrown software start-up called Luceo Systems. Neil writes: "Luceo, which is based in Melbourne, has developed a unique Web-based application for enterprise risk and compliance management". Contact: [neil.kafer@luceosystems.com](mailto:neil.kafer@luceosystems.com).

## 1998

**Peter Cinelli** has moved to Queensland to take up his appointment as Queensland state manager with the Compass Group.

## 1994

**Geoff Walker** has returned to Sydney after spending five years living and working in London. In London he worked for GlaxoSmithKline. Geoff formed the AGSM alumni Europe branch while

in London, and recommends alumni travelling to London to check in with the branch there.

**Jonathan Wassell** is now working as executive director with the NSW Aboriginal Housing Office. Contact: [jonathan.wassell@aho.nsw.gov.au](mailto:jonathan.wassell@aho.nsw.gov.au), Tel: (02) 9849 9438.

After working at Boral and Origin Energy from 1996 to 2001, **James Hunter** now leads the consulting services practice, and Asia-Pacific supply chain consultancy at Cap Gemini Ernst & Young's Sydney office. James says: "Reversing the industry trend, Cap Gemini has grown significantly in the last two years and is widely regarded as the No. 1 supply chain and business transformation consultancy in Australia". James and Katrina have three children, Charlie, Lexie and Harry, and "if there is such a thing as 'spare time', we enjoy boating and travelling".

## GDM

## 1999

**Mark Chaston** has moved to Harburn Griffin and Associates. Mark's role as a financial adviser will include reviewing the existing portfolio of clients as well as new business development in the area of investments, superannuation and personal risk insurance. HGA is an authorised representative of Sagecorp Securities and focuses on the servicing aspect of both existing and new business. "It provides comprehensive advice on personal risk insurance, superannuation requirements and investments, including managed funds, direct shares and venture capital opportunities. HGA also assists with all aspects of property transactions and finance needs." Contact: [mchaston@hga.net.au](mailto:mchaston@hga.net.au), Tel: (08) 9425 5222.

## 1993

**Vesna Derok** has established a new venture in 2004 called Performance Fit, which specialises in human resource management, OHS, business coaching, executive recruitment, and training and consulting. To find out more, go to: [www.performancefit.com.au](http://www.performancefit.com.au). Contact: [s@performancefit.com.au](mailto:s@performancefit.com.au).

## GCM/GMQ

## 1999

**Frank McGowan** has joined Roberts Weaver Group as director, sales and marketing. Contact: [frank.mcgowan@robertsweaver.com](mailto:frank.mcgowan@robertsweaver.com), Tel: (02) 9249 2078.

**James Liang** has moved from the role of marketing manager with Philips DAP China-Hong Kong to national channel marketing manager with Whirlpool Home Appliance. Contact: [james\\_liang@email.whirlpool.com](mailto:james_liang@email.whirlpool.com), Tel: (+86 21) 5899 5550.

## 1998

**Ken Anderson** has been promoted from the role of vice-president, finance and human resources, with net-linx Asia-Pacific to president, net-linx Europe, based in Dresden, Germany. Contact: [ken.anderson@net-linx.com](mailto:ken.anderson@net-linx.com), Tel: (+49 351) 3187 5800.

## 1996

**Paresh Pandya** has opened up an Indian restaurant at Circular Quay. He writes: "A frequently asked question is, 'Why a Restaurant?' My answer is twofold: first is my passion for food and second is that I still remember the autobiography of Lee Iacocca (ex CEO of Chrysler) in which he wrote that one business where you can't go wrong is the food business (recession-proof, good cash flow and you could have fun running it). He advised that if you weren't having fun running your business then there was no point doing it." Visit: [www.indiaquay.com.au](http://www.indiaquay.com.au). "Those who are in Sydney or

visiting Sydney, please drop by and say hello to me and my staff," says Paresh. Tel: (02) 9251 7722 (India Quay) or 0408 234 742.

## DPM/SMDP

## 1990

**Judy Houston** has moved from the role of Oxfam's regional finance and program services director, South-Asia, to regional program manager, Southern Africa (based in Pretoria). Tel: (+27 12) 3622 098.

## GMP

## 2000

After six years with Elgas, **Alex Dronoff** has joined one of the company's parent companies, BOC Gases, and assumed the position of general manager, production, industrial and special gases (ISP), South Pacific, based in Sydney.

## ADP

## 1999

**Diana MacDonald** launched her own management consultancy business, Dynamic Leadership, in January 2003, employed one consultant in May and two more were expected to join early this year. Diana says she has not looked back and the business's core services include change management, building a knowledge and learning organisation, and coaching and mentoring managers in change. Diana is based in New Zealand. Contact: [consultant@dynamicleadership.co.nz](mailto:consultant@dynamicleadership.co.nz) ✪

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**THE BIG END OF TOWN: BUSINESS AND CORPORATE LEADERSHIP IN 20TH CENTURY AUSTRALIA**  
by Grant Fleming, David Merrett and Simon Ville (Cambridge University Press, 2004)

Reviewed by Stewart Fist

Looking at the top 100 companies through the filters of time, geography and regulatory environment is bound to expose the extent to which Australian business is controlled monopolistically and subject to the manipulation of dominant corporations. With our small population we have come to expect this, to a degree, but so much emphasis has been placed on the value of increased competition in recent years that the evidence comes as a shock.

After reading this 300-page historical outline of commercial strategies and achievements of our major companies, you are left with the impression of being tangled in a giant web of interlocking directorships, dominant shareholding, cartels and collaborative agreements,

with corporations guarding all escape routes.

The three authors (all Australian university professors) have collaborated in this significant review of our major corporations. Their focus is on the growth and protection strategies the largest companies have used over the past century.

They look at the value of early incumbency, tariff protection, patents and licences, and the various financial and expansion approaches – in particular the effects of mergers, acquisitions, collaborative ventures, vertical and horizontal integration and diversification.

While the historical detail is extensive and well presented, the book is light on analysis. It is one thing to expose the historical record, but another to analyse why these industry sectors are the way they are. The book lacks the deeper analysis needed to draw out generalisations as a guide to future directions.

It is always unfair to criticise a book for what it isn't, rather than what it is, but one can hope that the authors will follow this publication with an analytical volume. ★



**DECISION MAKING USING GAME THEORY**  
by Anthony Kelly (Cambridge University Press, 2003)

Reviewed by Robert Marks,  
professor of economics

This book uses a level of simple calculations that should scare no graduate who knows how to derive the optimum of a quadratic function and is interested in using game theory calculations to guide strategic decision-making. The study of how competitors act, react and interact in the strategic pursuit of their own self-interest is an increasingly useful tool in today's business environment.

The author explores two-person zero-sum strategic interactions, with information sets, two-person mixed-motive, or non-zero-sum games (the best known of which is the Prisoner's Dilemma) and repeated games. He also discusses multi-person games, coalitions and measures of power or influence, and concludes the book with a critique of game theory.

Despite the sophistication of his approach, Kelly does not clearly explain the practical use of payoff matrices and game trees for solving decision-making problems. Indeed, he ignores the strong tradition of Decision Analysis taught and developed by professor Ron Howard and his students at Stanford University over the past 35 years, especially their clear distinctions between non-strategic and strategic players.

I believe that the main value of game theory in decision-making is to foster strategic thinking: looking ahead to the responses of others and reasoning back to one's own decision. Nonetheless, Kelly's book might prove of great interest to MBA graduates who would like to get technical.



**THE GAME MAKERS: THE STORY OF PARKER BROTHERS, FROM TIDDLYWINKS TO TRIVIAL PURSUIT**  
by Philip Orbanes (Harvard Business School Press, 2003)

Reviewed by Pierre Richard  
(PhD candidate)

Parker Brothers were responsible for some of the classic games of the 20th century, including Monopoly and Risk, many of which have become enduring features of contemporary life. In *The Game Makers*, former Parker Brothers executive Philip Orbanes uses his insider understanding to carefully trace the company's evolution, with particular emphasis on its early years and how they shaped its culture.

Importantly, the story allows the themes to emerge naturally. Orbanes does not tell you what to think; instead he thoroughly examines Parker's corporate history and allows readers to draw their own conclusions. As the story unfolds we see how Parker Brothers built a strong position based on quality manufacturing and timely innovation. Successive waves of technological change and financial crises frame the story and form a potent theme: that a company must deal with external change or risk being overturned in an unstoppable tide.

However, the most interesting lessons from the book derive from the things that Parker Brothers failed, rather than succeeded, to do. Parker has been reduced to being merely a brand in Hasbro's extensive stable – a victim of the same careful culture that supported its early success. One wonders whether more aggressive expansion and acquisition strategies might have sustained this once-great business.

Stimulating and informative, this is a very enjoyable book, even if only to learn some of the history of the games that almost all of us grew up with.

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# THE VALUE OF AUTHENTICITY

An armadillo is an armour-plated animal that rolls up into a tight ball forming an impenetrable shell when threatened.

People do much the same: out of touch with their true selves and therefore fearful for their emotional safety, they develop defences or armour plating behind which they retreat to protect themselves.

It is a strategy that works for many people, says Barbara Wilby, life coach and director of executive development company, Corporate Wisdom.

But the consequences of making business decisions from behind an armour-plated barrier can be severe.

Ultimately, the armour plating creates limitations in thinking that restrict individuals from realising their potential. It also has a cost in terms of personal fulfilment, health and the quality of relationships, both at home and at work.

When that individual is a leader, the entire organisation suffers, says Wilby.

Failure to create effective relationships within a team has an impact on organisational performance. Wilby cites: “lost productivity, increased transaction costs in relationships because it takes longer to get things done, lack of motivation when people don’t see how things are linked to the bigger picture and lack of personal fulfilment” as having major impacts on performance.

These all have implications for retaining and developing key employees, which have important flow-ons for staff satisfaction and the image of the leadership, says Wilby.

“Leaders who are authentic within themselves create a high-quality corporate culture,” she says.

Over the years, bodies of behavioural science have developed that tie in with these concepts. Maslow’s theory of a hierarchy of needs, for example, outlines the path to self-actualisation by identifying foundation layers of needs, such as safety and self-esteem.

The rapidly growing area of behavioural economics takes this further by linking limitations in character to market outcomes. Observers point to executive greed as a



**“Leaders who are authentic within themselves create a high-quality corporate culture.”**

contributor to recent corporate collapses, and investor over-confidence in the rise and fall of the global technology market.

Wilby’s message to executives is clear: “The personal dynamic often affects how we drive the business”.

Wilby has worked since 1996 with executives looking for ways to deliver better results by becoming better leaders.

“In the last three to five years executives have been under a lot of pressure to deliver, with corporate collapses and layers of management cut out, yet growing demand to perform,” she says.

“We’re all on an evolutionary path, in my view, and executives get lopsided sometimes, so it’s a matter of how skilled you are in getting back on track. I assist them to develop their own wisdom.”

Wilby started working in the area of leadership and personal development after an

early career in advertising. In 1982 she decided to take an MBA course because she had managerial ambitions. “I figured this would save me five to 10 years.”

After completing an MBA at the AGSM, she worked as director of marketing both at Fairfax and Ayers Rock Resort.

She emerged from this period “wanting to help executives with answers to questions that I didn’t get answered when I was one”.

Now Wilby’s work is split evenly between providing strategic direction to executives as individuals and helping them thrash out corporate values.

Her clients include four of Australia’s Top 50 companies, with the most public figure John Akehurst, former chief executive of Woodside Petroleum.

Wilby says her work with Akehurst helped Woodside stave off a hostile \$10 billion takeover bid by Shell in 2000 by helping to strengthen the coherence of the management team and focus its vision.

She says there is a direct link between the size of a business and the size of the executive’s vision.

While much of Wilby’s work focuses on how the executive can become a better leader, it is often predicated on the development of the client on a very personal level.

She says most people are living out other people’s agendas, and the common first step is to identify one’s own value system. Wilby says she doesn’t have a predefined to-do list to achieve self-actualisation but rather a grab bag of ideas she can draw upon.

The ultimate goal is to become clear about what one truly values in order to live “the magnificence of life right now”. By shedding the armour plating, the individual can achieve true life-balance, says Wilby. 🌟

by Helene Zampetakis

Barbara Wilby presented a workshop, ‘Whose program are you running?’, with former ACNielsen Consult CEO Ramin Marzbani (MBA '92) at the last alumni conference.

## Australia Day tribute

Professor **Roger Collins** became a member of the Order of Australia (AM) in the 2004 Australia Day Honours. He was cited "for service to education, particularly in the fields of organisational behaviour and human resource management".

"I'm very pleased to be recognised," Collins said, "but the reality of any award system is that many others who are equally or more deserving often miss out. The award does serve to remind us all that teaching and learning at the AGSM have undergone a huge leap forward over the past 25 years.

"I think the award is indicative of this advancement and the school's great contribution to management education."

## Global research network

The AGSM's Centre for Corporate Change is developing a research network that aims to become a global forum for managerial and consumer decision-making research, training and thinking.

Known as Macademia, the network initiative is led by the Centre's director, professor **Timothy Devinney**, and has already attracted \$30,000 in seed funding from the Australian Research Council (ARC).

The network brings together a multi-disciplinary research group consisting of behavioural science/managerial decision-making (directed by the AGSM's professors **Robert Wood** and **Sharon Parker**), experimental economics (led by the AGSM's Dr **Anna Gunthorsdottir**) and consumer and managerial choice modelling (headed by professor **Jordan Louviere** of the University of Technology Sydney's Centre for the Study of Choice).

Already several world-renowned researchers have agreed to join the network, including 2002 Nobel Prize winner Vernon Smith, Colin Camerer from the California Institute of Technology (Caltech), Max Bazerman from Harvard University, Don Moore and George

## Making statistics count

The AGSM's professor **Simon Sheather** has been rated among the top 200 mathematicians in the world (across pure mathematics, applied mathematics and statistics disciplines) by citations, according to a 2003 International Science Index (ISI) ranking published in the *Australian Mathematical Society Gazette*.

Sheather ranked 185 for absolute number of citations and 193 for citations per paper. This represents significant recognition of his work by academic peers around the world.

Based on citations in the past 10 years, the ranking lists Sheather among the 10 best Australian mathematicians resident in Australia.



**Professor Simon Sheather**

Also listed in the ranking are former AGSM professors Robert Kohn and Matthew P. Wand, as well as Dr C.K. Carter (a former AGSM PhD student), all of whom ISI placed in the top 250 in the world, measured by number of citations.

Lowenstein from Carnegie Mellon, Amnon Rapoport from The University of Arizona and Ernst Fehr from the University of Zurich.

The next step for the network is to seek full network funding from the ARC to the tune of \$500,000 per year for five years. If successful, Macademia will use the funds to extend the network to comprise a global portal, conferences and meetings. The aim is to promote innovative research collaboration worldwide that will generate significant benefits for Australian researchers. The funding would also support the development of joint education initiatives, such as PhD courses, and promote the rapid dissemination of information, ideas and research findings.

Initial activities have included a meeting of 35 academics and research students to discuss plans for the network and coordinate the research agenda. The Web site ([www.macademianet.org](http://www.macademianet.org)) is already serving as a forum and infrastructure for discussion and an information source for researchers and students.

For more information, contact the network's convener, professor

Timothy Devinney, at: [timdev@agsm.edu.au](mailto:timdev@agsm.edu.au).

## On the move

Associate professor **Sharon Parker** (and academic director of the AGSM's Graduate Certificate in Change Management) has been promoted to the rank of full professor. Parker joined the AGSM in 1998 from the University of Sheffield and is highly regarded for both her research work and teaching.

Professor **John Lyon**, former head of the AGSM's finance and accounting faculty, has left to take up a position with Melbourne Business School. Lyon joined the AGSM in 1999 and has a distinguished record of research and teaching in the accounting field. He will continue to contribute to the school's academic research through collaboration with AGSM accounting and finance professor Greg Clinch and associate professors Baljit Sidhu and Garry Twite.

Dr **Marc Orlitzky** has left the AGSM to take up an appointment as senior lecturer at the University of Auckland. He was a valued member of the organisational behaviour cluster with particular

"If you think how big the world is and how many people are working in the field of mathematics, it is exciting to see one current and two former AGSM academics ranked so highly in the world," said Sheather.

Australian Mathematics Society treasurer, Dr Algy Howe, who sought evidence of how Australian mathematicians and universities were performing on a global basis, conducted the ranking.

"The results are significant because you are being compared with everyone else in the world," he told *AGSM Magazine*. He said the ISI Essential Science Indicators database is considered the most comprehensive tool in the world for ranking academics by citations.

The ranking covers the work of mathematicians around the world from January 1993 to 28 February 2003.

interests in organisational design and business ethics.

Professor **Dennis Turner** has retired from the AGSM after 20 years' service as one of the AGSM's most successful teachers. He created the popular Managing People for Performance course and inspired many by only starting his career as a management educationalist after retiring from business in his 50s. See our profile on page 19.

## International roles

Professor **Timothy Devinney** has been elected president for a five-year term of the international management division of the Academy of Management. He has also been named an international fellow of the London-based Advanced Institute of Management Research (AIM). The institute was founded in 2002 and is located at the London Business School. It is a national initiative of the UK's Economic and Social Research Council and the Engineering and Physical Sciences Research Council.

## Research grants

Professor **Timothy Devinney** is a member of research teams awarded

# publications & papers

PUBLISHED WORK AND RESEARCH PRESENTATIONS

two Australian Research Council (ARC) grants and one grant from the Cooperative Research Centre for Sustainable Tourism. The research projects are: 'Knowledge and networks: an evaluation of patent citation activity and active knowledge networks' (with Torben Pedersen and Markus Reitzig of Copenhagen Business School); 'Negotiation style choice and performance in non-equity business partnerships: an empirical assessment' (with Siegfried Gudergan of the University of Technology Sydney); and 'Consumers and tourism – modelling consumer choice in tourism' (with the University of Technology Sydney's Jordan Louviere, Monash University's Harmen Opperwal and La Trobe University's Geoffrey Crouch).

## Research collaboration

The AGSM is hosting several academic visitors this year. Professor Gary Lilien from The Smeal College of Business Administration in the US is the Freehills visiting professor at the school, and he is teaching marketing engineering in the full-time MBA program. He is working with the school's professor **John Roberts** (and former AGSM lecturer Dr Ujwal Kayande) on the structure of consumer beliefs.

The University of Sydney's Dr Natalie Gallery is working with the school's associate professor **Baljit Sidhu** on a project looking at the usefulness of quarterly cash flow disclosures as required by the Australian Stock Exchange.

Dr Julien Wang is a visitor from the University of Western Sydney until July. He is working with Dr **Sally Wood** in the area of extreme value theory, which has applications for predicting rare events such as natural disasters.

Dr John D. Roberts is a visiting senior research fellow from The Judge Institute at Cambridge University in the UK. He is writing up recent research on board dynamics and company institutional investor relations. ★

## BOOK CHAPTERS

Professor **Timothy Devinney**: (with David Midgley and Sunil Venaik), 'Managerial beliefs, market contestability and dominant strategic orientation in the eclectic paradigm' in John Cantwell and Rajneesh Narula (eds.), *International Business and the Eclectic Paradigm: Developing the ILO Framework*, pp. 152–173, Routledge 2003; 'The eclectic paradigm: the developmental years as a mirror on the evolution of the field of international business' in Joseph L.C. Cheng and Michael A. Hitt (eds.), *Advances in International Management Vol 15: Managing Multinationals in a Knowledge Economy: Economics, Culture, and Human Resources*, pp. 29–42, Elsevier, 2004; (with Tim Coltman and David Midgley), 'E-business performance: a latent class examination' in G. Fandel, U. Backes-Gellner, M. Schluter and J.E. Staufenbiel (eds.), *Modern Concepts of the Theory of the Firm: Managing Enterprises of the New Economy*, pp. 58–68, Springer-Verlag, 2004; and (with David Midgley), 'The role of knowledge quality in firm performance' in Haridimos Tsoukas and Nikolaos Mylonopoulos (eds.), *Organizations as Knowledge Systems: Knowledge, Learning and Dynamic Capabilities*, pp. 252–275, Palgrave MacMillan, 2004. Professor **Bob Wood**, P.B. Atkins and J. Bright, 'Bonuses, goals and instrumentality effects' in *Australian Research in Psychology: A Collection of Papers 1999–2002*, Australian Psychological Society, 2003.\*

## JOURNAL PUBLICATIONS

Professor **Murray Kemp** and Koji Shimomura, 'A dynamic Heckscher-Ohlin model: the case of costly factor reallocation', *Japanese Economic Review*, vol. 54, no. 3, pp. 237–252, September 2003; and 'International trade without autarkic equilibria', *Japanese Economic Review*, vol. 54, no. 4, pp. 353–360, December 2003. Dr **Peter Lok** and J. Crawford, 'The effect of organisational culture and leadership style on job satisfaction and organisational commitment: a cross-national comparison', *Journal of Management Development*, vol. 23, no. 4, April 2004. A. Carroll, S. Green, S. Houghton and

professor **Robert Wood**, 'Reputation enhancement and involvement in delinquency among high school students', *International Journal of Disability, Development and Education*, vol. 50, no. 3, pp. 253–273, 2003.

## CONFERENCE PRESENTATIONS

Professor **Timothy Devinney**, (with T. Coltman and D. Midgley), 'Strategy content and process in the context of e-business performance', presented at the Advances in Strategic Management Conference, INSEAD, 24–26 August 2003; and (with T. Pederson and C. Soo), 'The importance of internal and external knowledge sourcing and firm performance: a latent class estimation', presented at the Annual Meeting of the Academy of Management, Seattle, US, August 2003. Dr **Markus Groth**, G. Walsh and T. Henning-Thurau, 'Emotional labor: review of the literature and implications for service research', presented at the 12th annual AMA Frontiers in Services Conference, Washington, D.C., October 2003; and with K.P. Wiedmann, G. Walsh and V.W. Mitchell, 'Examining consumer behavior in the liberalized German energy market: the influence of customer satisfaction on customer willingness to switch public utility companies', presented at the annual meetings of the Association of Consumer Research, Toronto, Canada, October 2003. Dr **Gal Raz**, 'How to manage and

evaluate your suppliers: An application to biotech companies', presented at the INFORMS national meeting in Atlanta, Georgia, US, October 2003.

## CONFERENCE PROCEEDINGS

PhD candidate **Doan Hoang Cau Thai** (with professor **Eddie Anderson**), 'A co-evolutionary approach to the tacit collusion in oligopolistic electricity markets: piecewise linear bidding structure case', in the Proceedings of the 2003 Congress on Evolutionary Computation, vol. 4, pp. 2306–2313, IEEE Press, 2003. PhD candidate **Doan Hoang Cau Thai** and R.J. Kaye, 'Using constructive evolutionary programming to optimise multi-storage electrical power supply systems operation' in Proceedings of the 2003 Congress on Evolutionary Computation, vol. 2, pp. 1310–1314, IEEE Press, 2003. PhD candidate **Alan Thorogood** and professor **Philip Yetton**, 'Reducing the technical complexity and business risk of major systems projects', in Proceedings of the 37th Annual Hawaii International Conference on System Sciences, IEEE Press, 2004.

\* First published in the *Journal of Applied Psychology* (1999) and selected from 160 publications as "the most interesting or influential research by APS members in the period 1999–2002". ★

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# THINK BIG, ACT SMALL

Getting the best out of people, whether in a workplace of 10 or 10,000, is about fostering a performance-driven culture, says **Wal King**, CEO, Leighton Holdings.

A few years ago an American study found that large companies could boost their productivity levels by around \$13 million annually simply by creating a small company feel. Translating the advantages of being small – speed, flexibility, innovation, communication and commitment – with the market and financial strength, and economies of scale generally associated with large companies, can create the right environment for growth. The key to unlocking this potential is getting the best out of our most valuable resource – our people.

Our people represent the drive behind our reputation, the backbone of our financial strength and, most importantly, the foundation for future growth. Today, the Leighton Group employs more than 15,200 people directly, with another 20,000 subcontractors working on projects throughout Australia and Asia. Just 15 years ago the number was 6000. This growth trajectory has been marked by Leighton's ability to 'think big and act small', and structuring our management systems around teamwork within a performance-driven culture.

## MANAGING FOR GROWTH

At Leighton, we believe the key to success is fostering a performance-driven culture throughout the group, under a decentralised management structure.

Being able to work with people, individually and collectively, is vital to the successful delivery of projects, and ultimately our business.

While the board and executive team set the rules of racing – overarching operational standards, policies and procedures within the business planning process – the bureaucratic, hierarchical management style usually associated with companies of Leighton's size has been jettisoned in favour of a decentralised approach.

Our people operate in multi-skilled teams from preliminary strategic planning right



WAL KING

“A decentralised, performance-based culture pivoting around teamwork has given our staff the opportunity to thrive.”

through to the design, construction and operation stages of our projects. Within this environment staff operate with a high degree of responsibility and autonomy. It's an approach designed to encourage critical thinking where staff feel confident to express their views to ensure the right solution is achieved. By making our employees responsible for the business or project they manage, our aim is to empower them to reach their full potential and achieve the desired outcomes for all stakeholders.

To complement this approach, Leighton has developed a strong philosophy of recognising and rewarding performance and promoting within. And the formula seems to work, with a significant number of staff having worked for Leighton for between 10 and 20 years or longer – something of an oddity in business let alone construction contracting. As a result, the depth of management experience and expertise has proven invaluable to Leighton's success over the years. It also helps build and reinforce the key leadership characteristics – communication, responsibility, competence, decisiveness and integrity – within the company from the bottom up, creating influential mentors at all levels of the company, not just at the top.

Getting the right retention and recruitment procedures in place to support

this strategy is a high priority. To meet the changing needs of Leighton's business, particularly over recent years as the company has expanded into new operating markets, we have developed a broad and versatile skills base to support existing operations and new business opportunities. In particular, the integration of technology into management systems has significantly reshaped how Leighton goes about its business and how our staff communicate with each other.

## CAPITALISING ON TECHNOLOGY

Engineering has come a long way from the days of depending on a slide rule to estimate costs. By embracing technology such as e-mail, the Internet, CD-ROM, GPS, computer-aided estimating systems and new IT applications within our day-to-day operations, the Leighton group has been able to enhance performance and productivity levels.

Getting innovative communications and management systems in place to support a large and geographically diverse workforce is essential in achieving the inclusive spirit of a small company. We've facilitated the investment of intellectual assets in a number of ways, by investing in in-house research and innovation and creating strategic alliances with other companies to pool our collective know-how. This allows the group to roll out new technology and systems quickly and effectively, adding value to our business operations.

Several years ago we recognised that the Leighton Group's reputation, financial strength and future success was dependent on our ability to apply the skills, energy and ideas of our people, all 15,200 of them. A decentralised, performance-based culture pivoting around teamwork has given our staff the opportunity to thrive, innovate and continuously deliver for the company and its shareholders. As a result, we have avoided many of the pitfalls traditionally associated with a large workforce, while maximising the financial strength and market position that comes with size. ★