TEAMWORK RULES
A three-year research project is changing the way we work in teams

CHALLENGING STANFORD
Professor Lex Donaldson on what’s wrong with institutional theory
A very different outfit

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Institutional theory leads to the neglect of discovering which practices really improve organisational effectiveness.  

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Is the rush towards global abandonment of quotas and tariffs rational or even ethical?  

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Members of the AGSM community have made their mark during the past few months. AGSM alumni in the news included: Gary Flowers, who was appointed managing director and CEO of the Australian Rugby Union; Geoff Roberts, who became CFO of AXA; and Dr Graham Hellestrand, who was elected a fellow of the US Institute of Electrical and Electronics Engineers (see our story on page 22).

An elite group of Australia’s business leaders joined the AGSM’s advisory council, with Tony Berg AM appointed as chairman. Advisory council members Dr Helen Nugent and Wal King were appointed Officers of the Order of Australia (AO) in this year’s Queen’s Birthday honours list, and Reserve Bank governor Ian Macfarlane was awarded the honorary degree of Doctor of Science in Economics by the University of Sydney.

AGSM emeritus chairman John Reid AO was made an honorary fellow of the University of Sydney in recognition of his longstanding commitment and contribution to both the University of Sydney and the AGSM.

The excellent work of our faculty continues to underpin the AGSM’s prestigious reputation. Distinguished statistician, professor Simon Sheather, was appointed AGSM associate dean (research), and the Australian and New Zealand Academy of Management (ANZAM) announced it will award the title of fellow to professor Robert Wood for his outstanding contribution to management research and education in Australia.

Professor Lex Donaldson has been asked to write in a prestigious series of articles entitled Vita Contemplativa, in which distinguished scholars describe their life’s work in the context of their personal history. The series is published by Organization Studies, the leading academic journal on organisations in Europe. Lex will follow articles by renowned Harvard Business School psychologist, professor Chris Argyris, and the doyen of organisational behaviour, professor Karl Weick. (See our story about Lex’s work on pages 16–17.)

The AGSM’s corporate and executive education continues to perform strongly, being ranked number one in Australia and Asia by the Financial Times (UK) for the third successive year. The AGSM entered the top 30 worldwide for open enrolment programs, an improvement of two places from last year, and retained the lead in customised programs at 33.

Thank you to all those who participated in the recent AGSM Magazine readership survey. The results indicated that the magazine is highly valued, particularly for its role in translating AGSM research into readable articles of value to business practice. The magazine’s editor, Debra Maynard, has decided to pursue new opportunities and will leave the AGSM in August. Debra created the magazine, building it into a highly-respected publication. I would like to congratulate Debra on her achievements with the magazine, thank her for her contribution and wish her well for the future.

The next edition of the magazine will be published online and will be available through the AGSM homepage (www.agsm.edu.au). The new online magazine will be available via a sophisticated online communication platform that will eventually provide a 24x7 knowledge hub connecting the broader AGSM community. A strategic review of the magazine over the next few months will determine its format and frequency beyond 2004.

The program for the 2004 AGSM Conference on 5 November is now set. A range of high-profile business people and AGSM faculty will lead discussion and debate about current business issues. The School Dinner is being held the night before the conference, on 4 November.

I encourage you to read the new online magazine when it is published in November, and look forward to seeing you at the AGSM Conference and School Dinner.

Regards

Rob McLean
Dean and director
Australian Graduate School of Management
Thinking outside the board

In September, the AGSM will commence a program with KPMG that represents Australia’s first continuing education joint venture for the country’s senior non-executive directors – on leadership, culture and corporate governance.

Called the Directors’ Foundation, the initiative will offer senior directors an opportunity to meet with their peers to discuss the compliance and performance issues and challenges that lie ahead.

The role of the AGSM and KPMG is to facilitate the dialogue and provide academic and specialist input into the foundation’s discussion agenda.

“It is a unique partnership that is intended to bring the best theory and practice to the conversation,” says AGSM dean, Rob McLean.

“For some of our senior academicians, this is a fantastic opportunity to explore and debate real issues that some of Australia’s most senior non-executives face on boards on a day-to-day basis.”

Deborah Smithers, KPMG’s national leader, Board Advisory Services, who has longstanding experience working with Australian boards at the highest levels, developed the idea for the foundation.

“Until now, there has been a missing link in the market for senior-level non-executives to keep up-to-date on and talk about serious issues,” Smithers says.

“Recognising this, we undertook a survey of 20 very experienced directors last year, and one of the main responses was that they did not have somewhere they could discuss and calibrate critical ideas.” The foundation aims to fill that continuing education gap by bringing together small groups of experienced directors in a forum designed to allow private discussion.

“We talked to the AGSM because we felt it was important to involve a partner with a prestigious reputation for offering in-depth academic knowledge and input on issues of importance to boards,” she says.

The foundation will be run in Sydney and Melbourne. Initial topics for discussion will cover lessons from the M&A market, management of capital projects, stakeholder perspectives and corporate reputation, managing the board and CEO relationship, making sense of financial and taxation issues, and lessons from the liquidator.

For information on the foundation, contact Janet Payne, senior manager, KPMG Audit and Risk Advisory Services, Tel: (02) 9455 9521, e-mail: janetpayne@kpmg.com.au.

Partnership with DHL

The AGSM has formed a new partnership with freight and transport logistics company DHL to run a business strategy program for senior executives. DHL and AGSM have worked together to create a customised corporate program, starting from October, to achieve and embed executive performance priorities.

The program, ‘Shaping DHL’s Future: Asia-Pacific Business Leadership’, will initially train about 30 managers from 10 countries in Asia-Pacific. It is specifically designed to improve senior executives’ competencies in identifying and capturing strategic opportunities, building commercial acumen, creating a broader understanding of the customer value chain, and articulating senior executive leadership.

DHL’s HR director, Martin Wandmaker, points to the customisation of the program as one of the key benefits. “This executive development partnership provides us with an opportunity to review and use real DHL business issues as part of the learning experience.

“We also like the way the design of the program into two separate modules delivered five months apart gives our managers an opportunity to test the learning and apply it back in the workplace,” he says.
Business leader accepts council chair

Gresham Partners executive director Tony Berg AM took up the position of AGSM advisory council chairman in May.

Berg has been a longstanding supporter of the school and the contribution that management education makes to Australian society. He is also a director of AGSM Limited and has been a member of the advisory council for a number of years.

“The reason I am keen to do this is that I believe it is vital Australia has at least one top business school so that future managers can hone their skills,” he told AGSM Magazine.

Berg’s involvement in management education this year has extended to giving a mid-year address at the AGSM’s graduation ceremony for PhD, MBA, MBA (Executive), Graduate Diploma in Management, Graduate Certificate in Management and Graduate Certificate in Change Management awards, held at the University of Sydney.

He told his audience that it was important for those seeking to build their careers and make a positive difference to “distinguish between the things that change, such as knowledge and technology, and the things that don’t change, such as personal values and fundamental principles”.

He said important principles for him in business have been: “keeping your feet on the ground when the rest of the world is going mad; building your career in areas where there are opportunities for growth; applying common sense and a healthy scepticism to major decisions; and hitching your wagon to the best mentors you can find”.

In Brief

Benevolent Australian award

AGSM dean Rob McLean has received a Benevolent Australian award from the Benevolent Society, where he served as chairman from 1997 to 2004.

The Benevolent Society’s CEO Richard Spencer said McLean was instrumental in establishing new approaches to social challenges through Benevolent Society initiatives such as the Sydney Leadership Program and Social Ventures Australia.

Inside business research

To provide the latest information on effective business research methods, the AGSM Business Information Service is presenting a seminar called ‘Business Research on the Internet’ on 22 September. The seminar will feature speakers from the AGSM, CSIRO, ABN Amro and Australian Business, who will provide information on how search engines work, and searching strategies and sources of company, market and industry information.

For more information, contact Jennifer Bartolo on Tel: (02) 9931 9391, Fax: (02) 9662 2451, e-mail: bis@agsm.edu.au; or register and pay online at: www.agsm.edu.au/bisseminar.

Get connected

Alumni are eligible to participate in the AGSM’s 2004 business plan competition, which was launched last month. If you are interested in getting involved, you need to register by 27 August. For more information, contact Julie Filion at: 0409 940 007, julie.filion.04@student.agsm.edu.au, or check details at: www.connector.org.au.

World champions

The AGSM’s men’s rugby team, the Wombats, achieved victory in the World MBA Rugby Championship this year. Team captain, Chris Tziolis, said the win was “terrific” and “increased the AGSM’s profile among the world’s leading business schools”.

The Wombats remained undefeated in their initial pool games, prevailed against Harvard in the semifinal and defeated Wharton in the final, with a score of 31–6.

The Wombats’ participation in the championship was sponsored by Pacific Road Corporate Finance. Managing director Paul Espie said: “We are very proud to be associated with such a group of top-flight people punching above their weight on the world stage! “This is the first time in seven years of participating in the tournament that the Wombats have been able to knock off the heavy-weights and move beyond the semifinals,” he said.

Every year 25 of the world’s leading business schools from the US, Europe and Australia compete in the championships. Business schools represented this year included Wharton, Harvard, London Business School, Chicago, Stanford and Columbia.

For information on sponsorship opportunities for the 2005 MBA Rugby World Championships, contact: rory.fagan@student.agsm.edu.au or fiachra.sweeney@student.agsm.edu.au.

HONG KONG CONNECTION

AGSM dean Rob McLean addressed an Australian Chamber of Commerce in Hong Kong (AustCham) forum during a visit to the territory in July that took in the MBA program graduation and alumni meetings. Pictured (from left) are: AustCham chief executive Debbie Biber, Rob McLean, AustCham’s Georgia McCafferty and AGSM Hong Kong associate director Liddy Korner. McLean spoke at the AustCham event on the subject of how corporatons drive short- and long-term growth. To view his speech, go to: www.agsm.edu.au/corporateagenda.
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A passionate teacher

As a loved and dedicated educator at the AGSM for more than 12 years, Marcus Cohen knew how to inspire. Two of his colleagues pay tribute.

Loretta O’Donnell

For the past 12 years, Marcus was my personal benchmark for teaching. If a class went well, I would think, ’I wonder how Marcus would do?’ If it did not go so well, I would think, ’What would Marcus do?’

He was my colleague, friend and inspiration to give more of myself to my work. He was one whose passion for teaching and giving knew no bounds. He was special and gifted. Sometimes we filled in for each other’s classes. My students loved having him, he communicated soul-to-soul. His classroom was his theatre and sanctuary. His energy never failed and his spirit was strong.

He loved to hear and share news of family and friends we both knew. He drank in their joy and shared their hard times, too, offering wise thoughts.

And yet, he had depths I never knew. They lived behind his laugh, passion and endless work commitments. They were depths that could not be crossed. His friends tried hard, but they could not go there.

Vale, Marcus. We refuse to let your spirit fade.

Keith Dawes

Looking down into the morning tea area on a Saturday morning, Marcus was always surrounded by students. He was an inspiration to them for the way that he inspired them to press on to achieve their goals.

In the classroom he looked like a Darwinian intermediary as he strode across the carpet. Big shoulders, shaved head, heavy brows and piercing look – a physicality that few could match – like one of the great cats up close. He looked like a leader of industry as he spoke to audiences of business people. Sartorial elegance, smiling, weaving words like a master craftsman. I feel a little cheated, not only because he is not around anymore, but there was unfinished business, arguments still in motion, business ideas to discuss, teaching ploys to be explored. The sadness still lingers and will linger longer.

He was the master teacher, the leader of the group, and everybody was so pleased to have such a colleague in their midst. His face still lights up a thousand faces, such was the joy he extended.

MARCUS COHEN FUND

Many colleagues, students and admirers remember Marcus Cohen fondly as a man who never tired of sharing the fruits of his knowledge. To pay tribute to his legacy, his partner Stuart Langeveldt has donated $10,000 to the AGSM to start a Marcus Cohen Fund. The fund will be used to sponsor a teaching award and annual merit awards for students.

The annual teaching prize in the MBA (Executive) program will go to an adjunct faculty member who demonstrates excellence and leadership in teaching. In addition, six Marcus Cohen student merit prizes will be awarded, commencing in 2005 and annually thereafter, in the courses he regularly taught. These are Managerial Skills, Managing People in Organisations and Managing Change in the MBA (Executive) program, and Approaches to Change, Redesigning the Organisation and Change Skills in the Graduate Certificate of Change Management (GCCM).

The fund was launched on 2 July, when AGSM adjunct faculty and staff met to celebrate Marcus’s life. Many of his colleagues were touched by his passion for helping students to transform themselves. They hope the Marcus Cohen Fund will continue to grow so that annual prizes in his memory will remind them of his contribution for years to come.

To make a donation to the Marcus Cohen Fund, go to www.agsm.edu.au and look for the article on the home page.

For your diary

2 September Gain insights from IBM Australia CEO Phil Bullock, who will give a presentation at the AGSM as part of the school’s Distinguished Speaker Series. For more information, contact Christine Brierley on: (02) 9931 9303, or e-mail: christbr@agsm.edu.au.

10 September Join AGSM professor Chris Adam in Hong Kong for his Lifelong Learning presentation, ‘Volatility in international capital markets: coping with financial turbulence’.

6 October Don’t miss AGSM professor Roger Collins’ Lifelong Learning session, ‘From leadership as personal achievement to leadership as corporate capability’, to be held at the AGSM Sydney CBD campus.

4 November The AGSM School Dinner is the best networking event of the year. To book your place, visit: www.agsm.edu.au/conference.

5 November The AGSM Conference will get you thinking on a range of current issues confronting the business community. To book your place, visit: www.agsm.edu.au/conference.

10 November Join Craig Tapper in Hong Kong for a Lifelong Learning presentation on the latest insights into customer relationship management strategies. For more information on any of the above Lifelong Learning events, visit: www.agsm.edu.au/LLLevents or call Tina Hall on: (02) 9931 9443, or e-mail: tina.hall@agsm.edu.au.

WHAT’S ON AT ALUMNI BRANCHES? To find out what’s happening near you, visit: www.agsm.edu.au/whatson.

EXECUTIVE EDUCATION NEWS

Understand and experience the balanced scorecard framework with senior lecturer Dr Paul Walsh in The Performance Driven Organisation and the Balanced Scorecard (9–10 September), AGSM Sydney CBD campus. For details, visit: www.agsm.edu.au/rs.

Develop a rigorous and practical framework for making accurate investment decisions with associate professor Garry Twite in Investment Evaluation (20–22 October), AGSM CBD campus. For details, visit: www.agsm.edu.au/ie.

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

Despite more than a decade of reform, corporate governance failures keep happening. A repeated target for both blame and reform has been the non-executive director. For example, in the Enron collapse the non-executives were criticised for also having individual consultancy contracts with the company.

Although investors repeatedly look to the number, calibre and independence of non-executives for confidence in the conduct of a company’s affairs, surprisingly little is known or understood about what non-executive directors actually do. Their work is largely invisible to all but fellow board members – except, of course, where there is a board ‘leak’, or where they fall out with each other publicly.

Last year I was involved in a study that surveyed company executives and non-executives alike to tease out from their experience what makes non-executive directors effective and the conditions that support such effectiveness.

The study, Creating Accountability in the Boardroom, formed part of the UK government’s post-Enron Higgs review of the role and effectiveness of the non-executive. We interviewed 40 chairpeople, chief executives, non-executive directors and executive directors, mostly from FTSE 100 companies.

EFFECTIVENESS FACTORS

Our research identified six factors that underpin non-executive effectiveness: we suggested that non-executives need to be ‘non-executive but engaged’, ‘challenging but supportive’, and ‘independent but involved’.

Non-executives are often invited onto a company board because of the currency and relevance of their executive experience elsewhere. But problems inevitably arise if they then seek to play a surrogate executive role, second-guessing executive thinking. This blurs responsibility, frustrates executives and can encourage them to withhold information from the board. This in turn can feed non-executive suspicion and distrust.

Instead, our research suggested that the effective non-executive holds the executive to account both for past performance and current strategy. In practical terms this means challenging, questioning, testing and probing the executive in relation to their future plans and current performance.

In order to do this it is essential that the non-executive develops an adequate understanding of the business that they have joined. Inept or inappropriate questions frustrate and annoy executives, and provide them with a further incentive to minimise the role of the board. If non-executives themselves feel they lack knowledge of the business, this may also weaken their own confidence about challenging management.

Tailored induction processes, when an individual first joins a company, off-board work with the individual executives, board strategy development sessions and visits to operational sites all build a non-executive’s knowledge and confidence, along with executive perceptions of their value.

But relative to the executive, the non-executive will always be less knowledgeable. Those we interviewed highlighted the importance of non-executives being willing to ask the ‘stupid’ questions.

Non-executives are most able to add value when there is a climate of openness and trust in the boardroom and the opportunity for vigorous debate. Such a climate supports executive performance by allowing executives to draw upon the knowledge and confidence, along with operational sites, of both executive and non-executive.

Effective non-executives are indispensable to the board and can encourage other non-executives to perform. Both the chairperson and the non-executives remain disconnected from the board that is effectively then dominated by the executive.

From a distance, investors will only ever be able to count the number of non-executives, their background, attendance, track record and independence, and treat these as proxies for board effectiveness.

Actual effectiveness comes from the careful weaving of individual skill, motivation and knowledge in both executives and non-executives into a functioning team seeking to maximise business performance and development. As was reflected in the Higgs review recommendations, reform needs to go beyond board structure and composition to try to positively influence board relationships and dynamics.

To read a full report of Creating Accountability in the Boardroom, go to: www.dti.gov.uk/cld/non_exec_review. ☛

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

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OPINION

DR JOHN D. ROBERTS,
senior lecturer, The Judge Institute,
Cambridge University, UK

"The motion has been made and seconded that we stick our heads in the sand."

BRIDGING ACT

Our research also highlighted the pivotal role of the chairperson in creating the conditions under which non-executives can be effective. The chairperson’s close involvement in recruitment, non-executive director induction and board development can do much to build non-executive knowledge and ensure an appropriate mix of skills and experience.

The chairperson, even if part-time, should have a much greater degree of involvement with the chief executive, executive directors and senior management.

If, however, a chairperson is too part-time, leaves the board agenda to the chief executive and meets the chief executive only in order to plan the meeting of the full board, then he or she is simply unable to act as a bridge to the non-executives. Both the chairperson and the non-executives remain disconnected from a board that is effectively then dominated by the executive.

Despite more than a decade of reform, corporate governance failures keep happening. A repeated target for both blame and reform has been the non-executive director. For example, in the Enron collapse the non-executives were criticised for also having individual consultancy contracts with the company.

Although investors repeatedly look to the number, calibre and independence of non-executives for confidence in the conduct of a company’s affairs, surprisingly little is known or understood about what non-executive directors actually do. Their work is largely invisible to all but fellow board members – except, of course, where there is a board ‘leak’, or where they fall out with each other publicly.

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In order to do this it is essential that the non-executive develops an adequate understanding of the business that they have joined. Inept or inappropriate questions frustrate and annoy executives, and provide them with a further incentive to minimise the role of the board. If non-executives themselves feel they lack knowledge of the business, this may also weaken their own confidence about challenging management.

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But relative to the executive, the non-executive will always be less knowledgeable. Those we interviewed highlighted the importance of non-executives being willing to ask the ‘stupid’ questions.

Non-executives are most able to add value when there is a climate of openness and trust in the boardroom and the opportunity for vigorous debate. Such a climate supports executive performance by allowing executives to draw upon the experience and skill of the non-executives. It also ensures that any deficiencies in performance will be addressed quickly, if necessary, through changes in personnel.

"The motion has been made and seconded that we stick our heads in the sand."

BRIDGING ACT

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Actual effectiveness comes from the careful weaving of individual skill, motivation and knowledge in both executives and non-executives into a functioning team seeking to maximise business performance and development. As was reflected in the Higgs review recommendations, reform needs to go beyond board structure and composition to try to positively influence board relationships and dynamics.

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OPINION

DR JOHN D. ROBERTS,
senior lecturer, The Judge Institute,
Cambridge University, UK
The beauty of options

If your foreign exchange exposure is asymmetric, take a closer look at options for managing the risk, writes professor Chris Adam.

An Australian Industry Group report (January 2004) has found that Australian manufacturers have been severely hurt by the increased volatility of the Australian dollar. From a survey of 800 manufacturers conducted by the AIG in late 2003, a majority of respondents felt the market value of their companies had been adversely affected by the then appreciating dollar. Some 20 per cent took the view that a continuation of this change in currency value would be enough to drive them to shift some of their production offshore.

This is a clear example of a section of business that is unhappy with, and has failed to find an effective way to manage its exposure to, numerically bigger movements in our currency.

It is now common for the Australian dollar to move as much as one cent a day, which is a much bigger threshold than we were dealing with less than a decade ago. If the daily movement had been that big in the mid-1990s it would have been a signal for substantial concern. Now we have learnt to live with this new threshold and volatility. The foreign exchange risk management problem for many businesses is that while they have learnt to live with more volatility, they may not be managing their exposures to that volatility with the best hedging instruments available.

Our manufacturers are typical of many businesses that are asymmetric in their response to currency movements. This means their businesses generally will be hurt by volatility only in one direction. For example, a manufacturer that exports a substantial proportion of its output, produced mostly from local products and labour, will benefit from a depreciation of the Australian dollar but will suffer from an appreciation.

If the Australian dollar depreciates it reduces the manufacturer’s price (in foreign currency terms) and increases the Australian dollar value of foreign revenue received. An appreciation of the Australian dollar reverses these benefits, reducing Australian dollar revenues for the manufacturer. On the other hand, a company that is primarily an importer tends to prefer an appreciation.

If the Australian dollar appreciates it increases the manufacturer’s price (in foreign currency terms) and reduces the Australian dollar value of foreign revenue received. An appreciation of the Australian dollar reverses these benefits, reducing Australian dollar revenues for the manufacturer. On the other hand, a company that is primarily an importer tends to prefer an appreciation.

Only a company that is totally balanced in its transactions with each foreign currency will appear to be indifferent to exchange rate movements. A company that exports and imports in the same foreign currency for about the same amount will not care what happens to the exchange rate because its gains and losses from exchange rate changes are offset. This is an example of a natural hedge.

Even here, however, an apparent lack of exposure may be an illusion: although the company itself may be insulated, its competitors may not be similarly protected. Hence, exchange rate changes can affect a company’s strategic position by affecting its competitors.

The markets are also asymmetric in that we mostly see bigger currency falls than rises. For these reasons, it follows that businesses ought to consider using instruments to better match this asymmetry, such as options, in combination with or instead of symmetric instruments, such as forward contracts and swaps.

A classic example where it did not pay to use forward cover to manage foreign exchange risk is a case involving the Australian cotton industry in 2002. Australian cotton producers that exported had forward foreign exchange cover at a fixed US-dollar price. (Interestingly, few had taken forward or futures cover on the US dollar cotton price itself, although this was available.) When the US dollar appreciated, the cotton producers saw an opportunity loss and illegally abandoned their contracts in order to profit from the rise in value of the US dollar.

If the cotton producers had used options to hedge against the downside risk on their US dollar-denominated contracts, they could have legally abandoned those options when the US dollar appreciated and gone to the spot market to collect the upside gain. That’s the beauty of options: you are not locked in.

WHY NOT OPTIONS?

We know that about 70 per cent of businesses in Australia use some form of hedging against foreign exchange risk, but options have not been taken up much.

In global financial markets the trading of currency options has been thin, despite the contribution of the path-breaking Black–Scholes option pricing formula and related formulae that have given us the capability to price derivative securities more accurately. For example, the largest foreign exchange market in currency options is Philadelphia in the US, but this is small compared to markets in Chicago and New York, which trade spot and futures contracts on currencies.

I have little doubt that the technical complexity of options has dissuaded people from using them more. Options can be used to buy a currency or other financial asset at a future date at a price agreed now (the exercise price), or to sell an asset, just as options, in combination with or instead of symmetric instruments, such as forward contracts and swaps.
We will see the emergence of more instruments like currency options to manage risk in a more targeted, one-sided manner.

Because options give companies the choice of using the contracted price (exercise price) or abandoning it to use the spot price, they may be more valuable than forwards. They can reduce the costs of currency hedging by allowing opportunistic profits to be made when the contracts fall due.

Given the asymmetric impacts of exchange rate changes on many companies, it may be that the relative gains from using options for foreign exchange management could outweigh the seemingly lower costs of forwards.

UNDERSTAND AND MEASURE YOUR EXPOSURE

However, it is important to remember that no matter what combination of hedging instruments are available or used, dynamic hedging strategies first require businesses to understand their exposure.

Businesses should know how sensitive they are to unexpected changes in their value resulting from exchange rate adjustments or other factors such as interest rates. They should think about the impact of foreign exchange rates on imported goods and services, and remember that when measuring their total exposure and net position, factors such as interest rates and commodity prices can cancel one another out.

To measure the impact of exchange rate changes on current and future activities, it is a good idea to unbundle cash flows with foreign exchange components by type of cash flow, and to consider cash flows that may occur in the future. Businesses also need to understand what proportion of the business is exposed. For example, the impact of a large exchange rate variation of 20 per cent will be low if it only applies to 1 per cent of the business.

In a world of increasing currency movement volatility, currency risk management is undoubtedly an important strategic tool for safeguarding earnings. My prediction is that the established asymmetry of volatilities in the world’s currency movements, and the asymmetric impacts of exchange rate movements on corporate valuations, will see the emergence of more instruments like currency options to manage risk in a more targeted, one-sided manner, for lower overall cost to corporations.
Redefining how teams work

A program that integrates research with teaching and alumni development is providing some breakthrough ideas on teamwork. Helene Zampetakis* reports.

Teamwork has a place of honour in the successful enterprise, but ego, conflict and diverging agendas define the experience of teams more often than the dictionary definition of organised cooperation.

Despite efforts to assemble the right mix of personalities and support them with intermittent teambuilding sessions, effective strategies for advancing teams are thin on the ground.

As the AGSM’s dean Rob McLean puts it, teams formed on the basis of personality fail to accommodate organisations that “have to make do with the hand they’ve been dealt”.

An AGSM research and teaching program on teamwork is providing breakthrough ideas on how teams evolve and succeed, or recede and derail, that will help companies to develop effective teams, with or without the right mix of personalities.

Led by organisational behaviour professor Sharon Parker and senior research associate and PhD candidate Catherine Collins, the research is challenging incumbent theoretical models of teamwork by demonstrating that a team’s progress can be radically altered with regular feedback and guiding processes. The processes guide how team members work together, manage interpersonal relationships and rate their group experience satisfaction.

The research has evolved over four years using data from 140 student teams in the Executive Year (third year) of the MBA (Executive) program. It has been presented at two Academy of Management conferences and, according to Parker, it is some of the most rigorous research ever undertaken on teamwork.

“We hope to have a major impact on academic perspectives on teamwork in the next three to five years,” she says.

COLLECTIVE LEARNING

The research findings are being integrated into teaching practice in the Executive Year, during which students from around the country are required to meet for residential blocks of study. The students form study teams called syndicates and participate in a program called the EY Team Effectiveness Program.

Parker and Collins designed the program together with the AGSM’s expert on student learning, professor Roger Collins, and Denise Weinreis, a consultant on mentoring and coaching.

The program comprises a set of tools that identifies the key processes for sustainable team effectiveness, and evaluates if teams are on track.

A key program tool is the team PROFILE®, which gives teams a map of the critical team processes or behaviours that most influence team effectiveness, according to the research. These processes are role clarity, participation in decision-making, task interdependence, helping, workload sharing, constructive controversy and team task satisfaction.

Teams use the PROFILE to sort out their relative strengths and development opportunities, determine how they are progressing on the critical processes, and pinpoint where they may need support to change problematic behaviour or reinforce valuable actions to improve team effectiveness.

Executive Year students also receive a detailed workbook that outlines frameworks and tools they can use to forge team norms (such as speaking out during meetings rather than having corridor conversations) in pursuit of an effective team structure.

MENTORING AND FEEDBACK

A crucial aspect of the program involves feedback. This process begins when teams review their team PROFILE – first separately and then as a team after each assignment. They then use this as the basis for discussion with mentors, who are an integral part of the EY Team Effectiveness Program.

The mentors are drawn from a pool of alumni who volunteer to help the syndicates work together effectively and overcome challenges inherent in working together to achieve group outcomes. In turn, the mentors are supported by a group of mentor advisers who have mentoring experience in the program and the workplace.
McLean says it is the integration of the research with teaching and alumni development that significantly differentiates the AGSM from other management schools. “Research shows that teams are only half, or less than half, as effective as they could be.” In contrast, the AGSM program is “unlocking performance in teams that is just getting better and better”.

“It’s as good as it gets around learning,” says McLean.

Professor Roger Collins (a co-founder of the program) says: “Up until now the emphasis in teaching has been on having the right content – there has not been much innovation in the learning process. “But for learning to be effective, people require the right content as well as the right processes by which they learn,” Collins says.

“We’ve found that people learn if they get feedback regularly. That’s why we use the graduates to come back as mentors. Teamwork is the next major innovation for the AGSM,” he says.

A key to the relevance of the AGSM’s approach is that business has shifted from a concern in the 1980s and 1990s with competency development, or how well individuals perform, to development capabilities, or how well a group of individuals contributes to success.

Organisations are moving from working in silos towards an approach that seeks to extract knowledge from divergent business functions and integrate different value systems to achieve a unique, collaborative outcome. It is an approach that aims to find more effective and innovative solutions to global business challenges.

“This program reflects that organisations are increasingly collaborative and complex. It is because of this that there is a need for collective learning,” says Collins.

WORKPLACE BENEFITS
Alumni who have gone through the program extol its benefits in the workplace.

Lisa Byrne, data warehouse manager at Fosters, who is also a mentor, says the approach is very relevant for companies with a focus on being competitive in a global market.

“I’ve used it a lot in my workplace to improve team processes and put in place structure,” she says. Byrne highlights the emphasis on finding consensus through diversity by accommodating various viewpoints, backgrounds and cultural orientations.

“The team ends up with a solution that no one individual would come up with and that fosters innovation,” she says.

The AGSM is now seeking industry partners to implement its findings and to continue its research in the workplace.

An early foray may be in the form of a pilot with a large corporation that has in place a team of alumni who have been through the program.

McLean says he is impatient for the AGSM to take it to industry but says the program will need to be accessibly packaged first.

A LONG-TERM VIEW
The AGSM’s research into teamwork evolved out of a desire to understand how teams develop over time, with some interesting findings.

First, it found that teams are highly individual entities, even when they
share the same environment, resources and levels of support.

That is something Byrne has found in her workplace: the diversity within a single corporation can have multiple influences on a team’s evolution, particularly if it has a global outlook, she says.

Second, the research found that teams do not follow a preconceived pattern: good teams do not always get better, while bad teams may improve. For example, mentor adviser and alumnus Anneke van den Broek, who manages a team of 40 as marketing director at Blackmores, says teams that start off well can easily derail if some members engage in secret talks in corridors.

Third, having experienced team players is not a recipe for success. Experience needs to be refreshed and supported. “People forget what they have learnt,” explains Parker.

In looking for the factors that most contribute to a team’s success, the research points to team processes as being more important determinants of success than personality and, importantly, they are also more amenable to change.

“When we started, we had problems of teams falling apart because of conflict over things like some individuals not pulling their weight, or different views on how an assignment should be approached,” says Parker.

“When things went wrong, people tended to blame a ‘personality’.”

In fact, the syndicates suffered common problems – they were not as effective as they could be partly because they did not have skills to work collaboratively. What the program has demonstrated is that if the correct processes are in place, personality obstacles, among others, can be surmounted. A simple thing like first agreeing on guidelines for dealing with conflicting opinions can stop resentments building up to the point of explosion.

“The great thing about these findings is that it is possible to intervene to improve team processes,” says Catherine Collins.

That is something confirmed by Ben Maguire, manager of business development at AGL Energy, who was an Executive Year student last year.

His syndicate met as a group with its mentor, spending about one-and-a-half hours airing concerns and analysing how to work together more effectively.

“We found that in the next group of assignments we got to the point quicker,” says Maguire. “We allocated roles better, we were more efficient and everyone listened to input. Getting agreed processes up front really helped us to move forward to the next stage.”

The experience was so positive that Maguire volunteered to mentor this year.

**FEEDBACK AND EFFECTIVENESS**

Denise Weinreis, the program’s professional coach for the mentors, says feedback is pivotal to the program.

“One of the huge parts of this program is the research, which is providing us with information around the effective ingredients for high performance teams that work together in a sustainable way,” she says.

However, if we look at teams individually, there are vast differences,” says Collins. (See Figure 1.)

“Our research has yielded some surprises,” says professor Sharon Parker, who has researched teamwork in a number of organisations.

“Similar to workplace teams, we expected the Executive Year teams to develop differently, but the huge variation we observed was a bit of shock given that they all work in the same environment and complete the same assignments.”

Parker was also surprised that team members’ experience in teamwork emerged as insufficient to influence teamwork success.

“The Executive Year participants have a vast array of experience working in project teams, self-managed groups and even top management teams. However, we found that teams with members who had larger amounts of teamwork experience were not necessarily more efficient or effective.

“In the workplace, executives are required to be so task-focused that there is little time or energy to develop the soft people skills. It is not the sheer quantity of experiences, but rather the quality that makes a difference in teamwork,” says Parker.
**BETTER TEAM PLAYERS**

Periodic reviews of the program show a significant improvement in confidence and capacity to identify realistic goals, coordinate activities and complete syndicate tasks. They also indicate major progress in interpersonal skills.

Syndicates’ perception of the effectiveness of their teamwork jumped from 11 per cent in 2001 to 51 per cent last year.

Another mark of success is the surge in the number of volunteer mentors, who benefit from ongoing association with the AGSM and the tuition in mentoring they receive. Numbers have risen from 20 mentors in the first year of the program to 53 this year, with another 20 applicants for the mid-year cohort.

“Their capacity to identify realistic goals, coordinate activities and complete syndicate tasks. They also indicate major progress in interpersonal skills.” — Catherine Collins and professor Sharon Parker

**Lessons for organisations**

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<thead>
<tr>
<th>Preliminary research finding</th>
<th>Implication</th>
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<tbody>
<tr>
<td>1. Teams develop differently over time</td>
<td>Managers should be aware that teams will not all develop in the same way and at the same speed. We recommend managers obtain detailed feedback about each team’s progress so they can design the right intervention for the right team. Blanket interventions used for all teams will be cost-inefficient.</td>
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<tr>
<td>2. Good teams don’t always get better and bad teams don’t always get worse.</td>
<td>At startup, organisations put much effort into setting up ‘good teams’ by selecting the right mix of skills and personalities and providing training. However, this will not be enough because a team can start out well and then derail. Teams need support beyond the initial startup.</td>
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<td>3. Teams comprised of members with experience in teamwork are not necessarily more effective in the long term.</td>
<td>When selecting members for a team, do not assume that those with lots of teamwork experience will be good team players. Team members need to move beyond teamwork strategies that have worked previously. Managers should encourage teams to revise their strategies regularly, taking into account changes in the team task and situation.</td>
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<td>4. Effective teams balance the need between prescription and involvement.</td>
<td>Creating clear roles for team members facilitates quick progress on tasks. However, if roles are allocated and team members do not contribute to decision-making, they will have less commitment to team goals. Teams and managers need to walk the tightrope between prescription and involvement.</td>
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<td>5. Not all team processes develop similarly over a team’s lifespan.</td>
<td>Some team processes, such as role clarity, are likely to improve over time. Other processes, such as participation in decision-making, do not automatically improve. Managers and teams need to monitor multiple dimensions of team effectiveness and recognise that there will always be some aspects that can be improved.</td>
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**Supporting the Mentors**

Weinreis has trained seven ‘mentor advisers’, who match new mentors to syndicates, coach mentors on their role and help them troubleshoot.

**Implication**

Managers should be aware that teams will not all develop in the same way and at the same speed. We recommend managers obtain detailed feedback about each team’s progress so they can design the right intervention for the right team. Blanket interventions used for all teams will be cost-inefficient.

**FOOTNOTES**

AGSM professor Steve Frenkel has been helping Cambodia’s garment industry as it races against time to achieve sustainability, writes Lachlan Colquhoun.

Cambodia’s 10-year Multifibre Agreement with the US, which has underpinned the rise of its garment industry from a low base to represent 70 per cent of its export earnings, will expire in 2005. This will leave Cambodia suddenly vulnerable to competition from low-cost centres such as China, Vietnam and the Caribbean.

Although the agreement has been good for Cambodia in the short-term, the garment industry does not have a sustainable base to ensure its survival in an environment of full global competition. Professor Frenkel was invited to Cambodia earlier this year by the International Labour Organisation under its corporate citizenship program to train garment factory managers in human resource management concepts and skills.

The aim was to help the factory managers to sustain compliance with ILO core labour standards and raise workplace productivity.

“Most of the 250 or so garment factories in Cambodia are owned by foreign companies, and there is no guarantee that businessmen, and there is no guarantee that they will stay.”

Another problem is that Cambodia lacks a supporting textile industry, which means that virtually all the raw materials for garment manufacture are imported, making it even harder for the industry to “step up on the ladder of competitive advantage.”

Infrastructure problems, such as a poor road system and cumbersome foreign trade bureaucracy are also barriers.

Some managers in the industry see the achievement of ILO labour standards, which is a condition of the trade agreement, as simply a compliance issue. However, Frenkel says there is an alternative and more positive view that sees it as a differentiator in the global marketplace, and as a tool to help improve factories’ performance.

“This is the only example I know of where a social clause working as part of a favourable agreement expire,” says Frenkel.

“Most of the factories there are foreign-owned, many of them by Asian family businesses, and there is no guarantee that they will stay.”

Dealing in better labour standards

Trade agreements and social clauses rarely go hand-in-hand, but in Cambodia’s case the conditions on labour standards have helped drive a significant increase in the country’s trade with the US.

In this case, the US not only agreed to reduce tariffs as part of a deal requiring compliance with ILO guidelines, but also agreed to help fund Cambodia’s implementation and monitoring of labour conditions through the US Department of Labor.

“There was a very interesting initiative,” says Frenkel, who points out that the ILO program in which he was involved was funded by the US Department of Labor.

“It puts some weight behind the idea that there should be core labour standards, because it is one thing to talk principles and for countries to sign up, but another to actually execute on that.”

This is the only example I know of where the ILO is acting in not only setting standards but in doing training and being on the ground to implement.”

The Cambodian program is modelled on an earlier program, which enjoyed great success in Sri Lanka. “But there are important differences which make it a much harder task in Cambodia,” says Frenkel.

“In Sri Lanka there were relatively professional, experienced consultants who could work with the factories after the experts had left to implement the reforms, whereas that doesn’t exist in Cambodia.”

“In Cambodia we have to work through ILO contractors, and while they have a reasonable command of English
they are not trained in the art of what we are talking about.

“So we need to train the contractors before they can explain what we are trying to convey, and they are also quite young and don’t really have the authority that one might want to drive the process,” he says.

Despite the lack of familiarity with modern management techniques, the managers involved in the voluntary program are enthusiastic and some factories are beginning to forge ahead.

Some are also finding market niches, such as one UK-owned factory, which exports women’s brassieres, a relatively simple product to assemble.

**PRODUCTIVE STRATEGIES**

At the two-day workshop, discussion sessions began slowly but by the middle of the first day participants were more at ease and were providing examples from their own experience, says Frenkel.

“The notion of an HR management function and its contribution to high performance was relatively new to most participants,” he says.

“But as it unfolded they began to understand the significance of the issues and alternative strategies for dealing with labour in their own companies.

“As operational aspects such as hiring, managing employee security and flexibility, rewarding and managing performance were addressed, participants engaged enthusiastically in small group discussions and class presentations.”

The most challenging issues were those of organisational culture and managing transformational change, with most participants unfamiliar with the idea of values, norms and rules that managers could promote to build a high-performance culture. Also unfamiliar was the notion of managing change through planned, systematic processes.

Summing up his involvement in the program, Frenkel describes the Cambodian program as a “valuable experience” which gave him the opportunity to put into practice what he teaches in the classroom.

“I also gained insights into some of the barriers to change and how one might approach these in ways that suit the local culture.

“The experience also has a knock-on effect in the classroom at the AGSM because I can draw on it to illustrate how theory meets practice.”
Defending structural contingency theory

To better serve the needs of managers, the AGSM’s professor Lex Donaldson* has been challenging Stanford University’s theories on organisations.

Organisations need to adopt the structure that fits their situational factors, or contingencies such as strategy and size, because this leads to higher organisational performance, according to the AGSM’s professor Lex Donaldson, author of The Contingency Theory of Organizations.1

Rated one of the world’s top 73 theories in organisational behaviour by the Academy of Management Learning and Education journal2, the theory argues that there is no one best way to structure an organisation.

“Instead, the best structure is the one that fits the situation of the organisation,” says Donaldson.

The theory guides managers to adopt the structure that helps them to implement their strategy. For example, when an organisation undergoes a strategic diversification, contingency theory has proven that it is more effective to change from a functional to divisional structure.

A classic example of this, says Donaldson, is US chemicals corporation, Du Pont, when it diversified from just making explosives to making other products, “which triggered a need to divisionalise”.

“Furthermore, managers can use the theory to identify exactly what type of divisional structure is needed according to their organisations’ degree of diversification,” he says.

For example, an organisation whose products or services are related to each other needs coordination through central functions, such as manufacturing, to attain synergies. In contrast, an organisation whose products or services are unrelated to each other has no need for central coordination and so no need for central functions like manufacturing because there are no synergies to be extracted.

As early as 1987, Donaldson published work demonstrating that the fit of structure to strategy causes higher financial performance.3 This work included a statistical analysis of 93 US corporations, which showed that fit caused higher levels of subsequent profitability growth.

There is a continuing stream of research into the contingency theory of organisations and how performance is affected by the fit of structure to various contingencies. Donaldson’s 2001 book, The Contingency Theory of Organizations, offers a summary of this research and pointers for how it needs to develop in the future. It also provides a condensed overview of his criticisms of rival theories that have a more negative view of managers.

DEFENDING MANAGERS

Another aspect of Donaldson’s campaign involves arguing in the community that managers have a positive role. His 1996 book, Management Redeemed: Debunking the Fads that Undermine Our Corporations4, written with former John Fairfax Holdings CEO Fred Hilmer, defends managers against general anti-management fads.

“For instance, it is a fashionable anti-management idea that managers should be kicked off their companies’ boards and replaced with non-executive directors,” Donaldson says.

Research with doctoral students, James Davis5 and Melinda Muth6, found that, in practice, executive directors and executive chairpeople boosted shareholder returns.

“Despite persisting views that there should be more non-executives on boards, in academic and business circles there has been more acceptance of the view that this is not the answer for better corporate governance,” he says.

CUSCAL, the association of Australian credit unions, took Donaldson’s advice in a recent review of its corporate governance, opting for a structure that gave a substantial role to management, rather than placing unrealistic reliance upon non-executive directors.

THE ORGANISATIONAL PORTFOLIO

“One of the AGSM’s great strengths is that it is a community of many disciplines, and my own thinking has benefited over the years from listening to colleagues in economics and finance,” says Donaldson.

This multi-disciplinary environment inspires innovative ways of thinking about business problems, he says.

“I was fascinated by the fact that studies had found that organisations failed to adopt a new organisational structure that better fitted their contingencies until performance became poor.”

As a result, he developed a comprehensive theory of the conditions under which performance-driven change would occur, or fail to occur. This led to a book in 1999 that likened the organisation to a portfolio: Performance-Driven Organizational Change: The Organizational Portfolio.7

“A major US corporation, CSX railroad, used my book to model its portfolio of businesses and wrote to me in 2001, saying: ‘You may be assured that your work was used by real-world decision-makers and played a large part in influencing our upcoming reorganisation.’”

* The AGSM’s professor Lex Donaldson is the author of six books about organisations and management.

FOOTNOTES

4 Lex Donaldson and Fred Hilmer, Management...
Research campaign

The cause of better management education would be strengthened by rapidly building up a body of proven knowledge that tells managers which structure is best for each situation," says Donaldson. "Frustratingly, research on the contingency theory of organisations has progressed slowly, having been hampered by critics of contingency theory and their pursuit of rival research programs."

Donaldson's first major project at the AGSM was to write a book, in Defence of Organization Theory: A Reply to the Critics.8 "Today, the most popular organisational theory among researchers, including many in management schools, is institutional theory," he says.

"This theory comes from sociology and states that organisations structure themselves to conform to beliefs about what constitutes the 'good organisation' of people in their environment. However, institutional theory has many problems and it leads to the neglect of discovering which practices really improve organisational effectiveness."

Challenging the critics

In 1991 Donaldson began taking on some of the world's biggest adherents to institutional theory – Stanford and Berkeley universities. "At my first Stanford seminar, the professor chairing it summarised my presentation by saying: 'Well, that's gored everybody's ox!'"

Donaldson has also criticised another socio-logical theory, called population-ecology, which is influential among business school researchers. "This theory states that organisations don't adapt to changing circumstances, they just die," he explains.

"This is a highly nihilistic view of the role of managers, suggesting they sit passively awaiting the grim reaper. Fortunately, it is wrong to a considerable degree."


Battle scars

"In the 1980s, left-wing sociologists made many long and wordy critiques of contingency theory research on the grounds that it was an ideology used in business schools to indoctrinate 'capitalist functionaries'," Donaldson recalls.

"Some critics saw such ideas as buttressing exploitation and oppression and, as a result, they could be particularly voluble and aggressive – such as one night in Hong Kong, on the open deck of a millionaire's pleasure yacht, where a Marxist critic physically attacked me!"

LEX DONALDSON: "The fit of structure to strategy causes higher financial performance."

Redeemed: Debunking the Fads that Undermine Our Corporations, New York and Sydney, the Free Press, 1996. (This book was a finalist in the 1997 Financial Times-Booz Allen Hamilton Global Business Book Award in the business strategy and leadership category. It also has been published in German, Dutch and Spanish.)


Free trade-off?

Is the rush towards global abandonment of quotas and tariffs rational or even ethical? Stewart Fist* asks pre-eminent trade economist, professor Murray Kemp.

Stewart Fist: More than two hundred years after free trader Adam Smith, we are still arguing the merits of free trade and protectionism. Doesn’t that suggest that the advantages and disadvantages of each are only marginal?

Murray Kemp: Trade is a very important factor in many countries, including Australia. We have always exported 25–30 per cent of our production and imported about the same proportion of our consumption and investment needs.

However, the assessment of international trade is extraordinarily difficult. For the extension of trading opportunities affects both the efficiency with which a country produces and the fairness with which aggregate income is distributed and each may be adversely affected.

Consider the question of efficiency. Twenty years ago Australia produced clothing and automobiles behind a high tariff wall, obtaining those commodities from inefficient domestic industries instead of from more efficient industries in China and Japan. If an economy is distorted (by commodity taxes, monopoly and pollution, for example), it might export the wrong commodities and thus become even less efficient. For example, Australia is still cutting down its forests (and, thereby, creating drought and floods) to export wood chips.

Now consider the distribution of income. The extension of trade invariably makes many individuals worse off – for instance, those who had previously been protected by import taxes. Ever since federation, the effect of Australia’s tariffs on wages has been a bone of contention among Australian states, politicians and economists.

SF: How can we judge whether, on balance, a country benefits from trade, when it might have become less efficient and some of the community might be worse off?

MK: Economists haven’t been able to answer this question with any generality. However, they have been able to derive precise conclusions about the benefits of trade for countries that satisfy two conditions: (1) the country’s production is efficient; and (2) it is prepared to efficiently compensate those who are harmed. Given those qualifications, they have been able to show that any country benefits from free trade (or from trade restricted by import and export taxes), in the sense that every member of the community benefits (after compensation).

Of course the proposition is not as broad as we would like since it is restricted by these two conditions. However, it is, in some respects, surprisingly broad. For example, it is valid whether or not some markets are missing (most futures markets don’t exist), and even when we recognise that the population comprises existing and future generations, most of which do not even overlap. Moreover, it is valid when markets are monopolistic rather than competitive.

SF: Are these economic propositions just elegant theories, or are they useful to governments and trade policy-makers?

MK: The gains-from-trade proposition is very beautiful, and I would like to think that it is also useful to policy-makers. However, the two conditions that support the proposition are also obstacles to policy-makers because they imply that the policy-maker can assess the state of the economy’s efficiency and also identify the precise effect of trade on the wellbeing of the country. Accurate and detailed information of this kind is not available.

Even if the information were available, awkward political questions concerning the desirable extent of the compensation would remain. In practice, therefore, policy formulation is handicapped by inadequate information and by the need to compromise the conflicting demands of different sections of the community. The price of agreement on commercial policies is the partial sacrifice of efficiency. For example, the US continues to sacrifice efficiency by insisting on protecting its sugar industry by retaining tariffs on its sugar imports.

SF: But free trade is still most desirable?

MK: Yes, but only as a general rule. Questions as to the desirability of free trade have been satisfactorily answered in aggregate terms, but there will always be an argument about the distribution of the

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Consider the question of efficiency. Twenty years ago Australia produced clothing and automobiles behind a high tariff wall, obtaining those commodities from inefficient domestic industries instead of from more efficient industries in China and Japan. If an economy is distorted (by commodity taxes, monopoly and pollution, for example), it might export the wrong commodities and thus become even less efficient. For example, Australia is still cutting down its forests (and, thereby, creating drought and floods) to export wood chips.

Now consider the distribution of income. The extension of trade invariably makes many individuals worse off – for instance, those who had previously been protected by import taxes. Ever since federation, the effect of Australia’s tariffs on wages has been a bone of contention among Australian states, politicians and economists.

SF: How can we judge whether, on balance, a country benefits from trade, when it might have become less efficient and some of the community might be worse off?

MK: Economists haven’t been able to answer this question with any generality. However, they have been able to derive precise conclusions about the benefits of trade for countries that satisfy two conditions: (1) the country’s production is efficient; and (2) it is prepared to efficiently compensate those who are harmed. Given those qualifications, they have been able to show that any country benefits from free trade (or from trade restricted by import and export taxes), in the sense that every member of the community benefits (after compensation).

Of course the proposition is not as broad as we would like since it is restricted by these two conditions. However, it is, in some respects, surprisingly broad. For example, it is valid whether or not some markets are missing (most futures markets don’t exist), and even when we recognise that the population comprises existing and future generations, most of which do not even overlap. Moreover, it is valid when markets are monopolistic rather than competitive.

SF: Are these economic propositions just elegant theories, or are they useful to governments and trade policy-makers?

MK: The gains-from-trade proposition is very beautiful, and I would like to think that it is also useful to policy-makers. However, the two conditions that support the proposition are also obstacles to policy-makers because they imply that the policy-maker can assess the state of the economy’s efficiency and also identify the precise effect of trade on the wellbeing of the country. Accurate and detailed information of this kind is not available.

Even if the information were available, awkward political questions concerning the desirable extent of the compensation would remain. In practice, therefore, policy formulation is handicapped by inadequate information and by the need to compromise the conflicting demands of different sections of the community. The price of agreement on commercial policies is the partial sacrifice of efficiency. For example, the US continues to sacrifice efficiency by insisting on protecting its sugar industry by retaining tariffs on its sugar imports.

SF: But free trade is still most desirable?

MK: Yes, but only as a general rule.

Questions as to the desirability of free trade have been satisfactorily answered in aggregate terms, but there will always be an argument about the distribution of the
The implied underlying objective of all GATT-type negotiations is that everybody must benefit. The question is: How do you achieve that?

So there has been a major argument about how this distribution should be carried out, either by lump-sum payments (such as poll taxes) or by re-distribution by means of commodity and income taxes.

**SF:** Are you talking here only about compensation for those individuals and corporations of a single country who have lost from new free trade conditions, or are you also suggesting an international compensation scheme between countries?

**MK:** This is entirely within a country. The government of each country is responsible for compensating the losers at the expense of those who gain.

The proposition we have been able to prove is that those who lose from new trading conditions are best compensated via lump-sum payments because then there are no distortions in the nation’s allocations of internal resources. The problem governments have always faced is that lump-sum payments require too much information about who are hurt and who have benefited from the opening up of trade. The relaxing of restrictions.

The alternative to the lump-sum compensation is to fiddle with commodity taxes – income, sales or excise taxes – but that does distort national markets and cannot always achieve complete compensation.

In summary, when the gains from trade are distributed equitably, then nations will benefit. Exceptions to this proposition are only found when a country’s markets are already distorted. So you can see why economists continue to argue about and qualify politicians’ gains-from-trade assumptions. The world is made up of distorted economies (to varying degrees) and it is, therefore, important to remember in any gains-from-trade debate that the opening of trade for an economy that is already distorted risks increasing productive inefficiency.

**SF:** So should the world be moving even faster towards free trade?

**MK:** If free trade could be imposed simultaneously on every country in an initially competitive but tariff-ridden world, the world would become more efficient. However, it is not certain that each country could compensate those of its households that would be harmed by the movement to free trade. For example, those countries that are initially mighty exploiters of their trading partners might well suffer from the abandonment of their tariffs and might, therefore, refuse to engage in tariff negotiations. In fact, the objective of universal free trade is never mentioned in the GATT – and wisely so because free trade would not necessarily make every country better off.

I think it is important to alert trade theorists and governments to the fact that unqualified promotion of free trade may be inappropriate.

**SF:** Your general proposition appears to be at odds with the idea that the individual’s pursuit of his or her own benefits will lead automatically to overall gains, because you presuppose government intervention to correct inequities?

**MK:** Yes, I think we’ve now left behind the simplistic interpretations of Adam Smith. All policy issues, whether they involve international trade or not, are impossible to assess without agreement on the ethical issues involved. Whether a country benefits from its foreign trade, or from its foreign borrowing and lending, can be assessed only if we have some guidance concerning the distribution of income.

As I have said, nations need to have efficient means of calculating and implementing lump-sum compensations for those adversely affected. Of course, the problem with this approach is that it is politically difficult to promote these ideas to an electorate. Any such scheme would be extremely complicated to implement, whereas the more idealistic theory of universal free trade is easy for politicians to preach and promote.

Professor Kemp has been a visiting scholar at the AGSM for three years. He has held positions overseas at Johns Hopkins University, McGill University and Massachusetts Institute of Technology, as well as becoming the first research professor at the University of New South Wales.

* Stewart Fist is a freelance writer.

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Professor Murray Kemp is Australia’s pre-eminent trade economist and his expertise is recognised in trade circles around the world. He is an ex-president of the International Economics and Finance Society and has held editorial posts with three international economic research journals. He was awarded the Humboldt Foundation Prize in 1987.

Kemp is the author of 15 books and nearly 200 papers on economic theory, and his name is associated with a number of widely accepted economic doctrines:

- Kemp-Wan theorem on customs unions
- Mill-Bastable-Kemp criterion of infant industry protection
- Kemp-MacDougall model of international capital flows
- Jones-Kemp (2x2x2) model with endogenous labour supply.

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Strategic Career Development

An intensive individual management development program

Keith Dawes is an organisational psychologist and management consultant. He teaches managerial skills and organisational behaviour with the AGSM.

- Keith uses psychological tests and a management appraisal to consolidate strengths and address the manager’s development needs.
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- One full day and two one-hour follow up sessions generate an extensive written report on the outcomes of the assessment.

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**DOWNSTREAM SOLUTIONS**

In advanced economies, capital goods manufacturers are increasingly challenged by stagnant demand, declining margins and sharp business cycles. A solution for these companies is to go downstream towards the customer by developing services for their installed base of products.

It is an often-recommended strategy based on the fact that the installed base of products in many industries, from medical systems to industrial machinery, can be several orders of magnitude larger than annual new product sales. Revenues from providing services required to operate and maintain products are often counter-cyclical and, if linked to proprietary technology, can provide higher profit margins.

General Electric made going downstream a major initiative in the mid-1990s. “When you own the technology there is never excess capacity. Our advantage lies in a high-tech installed base of jet engines, power turbines, locomotives and medical devices,” GE reported in its 2002 annual report.

An even more ambitious strategy is for manufacturers to build physical products, software and services into integrated solutions tailored to specific customer needs. When delivered on the basis of incentive contracts, providers and customers share the gains of productivity improvements.

Changes in markets and customers represent another opportunity. For example, in Europe, deregulation and new environmental regulation in the water and wastewater markets are creating entirely new business conditions. An example is the separation specialist Alfa-Laval, which also operates in Australia and New Zealand.

Using advances in separation and remote control technologies and software, Alfa-Laval has recently launched a system for wastewater treatment with the potential of continuous optimisation at customer sites. It uses a solution-based business model that replaces the sale of products and spare parts with subscriptions to an upgradeable performance package.

Providing solutions is about continuous business. The provider becomes part of the customer’s ongoing operations and benefits from a steady revenue stream.

The business model emerging at Alfa-Laval is one of the cases studied in an ongoing international research project on integrated solutions. An important question is why so few companies have made the transition downstream, in spite of the many recommendations.

**CULTURAL HURDLES**

The study identifies many hurdles, which are essential to overcome. Integrated solutions require manufacturers to reorient themselves from a product focus to a customer and service focus. This amounts to broad culture change, involving new competencies, new performance measurement, and new ways of handling the financial risks of extended responsibilities and long-term performance contracts.

The required culture change demands a shift from transaction-based interactions (sales of individual product and service items) to relationship-based interactions. It also requires a shift from product-oriented services to user-process-oriented services. For example, Xerox no longer simply sells copiers but offers large copier systems designed to lower customers’ document-management costs.

Innovative contractual arrangements are essential to enable equipment manufacturers to charge for the knowledge and ‘invisible’ value they create for customers. Such contracts may provide transparency to customers, and help avoid regression in situations where customers experience increased cost pressures.

Manufacturers also need to acquire or mobilise competencies in applications and operations – to maintain, finance, renovate and optimise systems throughout product life cycles.

**EXTENDING SERVICES**

After-sales service and maintenance already play a significant and profitable role for many capital goods manufacturers – from heavy trucks to power turbines. Usually, however, the service organisations live a rather isolated existence, profiting from the sales of marked-up spare parts.

Triggered by technological opportunities and commercial threats, the service organisations of capital goods manufacturers are beginning to focus on a more proactive strategy of building thriving services businesses to capture value downstream.

Fully integrated solutions require a further upgrading of the role of manufacturing service organisations. Some companies will never try this new path. Others will make efforts but fail because of the organisational competence and culture change involved. Those who try and succeed will be richly rewarded when they liberate themselves from the constraints of slow or stagnant product demand.

**FOOTNOTES**


THE COST OF HARASSMENT

Despite increased knowledge about what constitutes sexual harassment and the implementation of non-tolerance policies, sexual harassment is growing at a rapid rate in Australia. It affects both men and women in a variety of occupations. My research found that less than 2 per cent of employees who experience sexual harassment use formal procedures to report the incident to a manager and even fewer people approach an HR representative.1

With this in mind, companies need to develop more effective ways of proactively preventing harassment, rather than just reacting once it has occurred.

The costs of sexual harassment can be significant. While there are direct costs associated with damage settlements and legal fees, the likelihood is that this is minimal compared with the potential indirect costs. These can include damage to the reputation of an organisation, decreased productivity, lower morale, more absenteeism and higher turnover of staff.

I also found that sexual harassment can hamper the facilitation of socialisation and interaction that organisations use in their attempt to build commitment and team spirit – an important point given the trend towards team-based or matrix organisational structures in Australia.

PREVENTION MEASURES

In Australia the main prevention strategy is implementation of formal mechanisms such as policy development, grievance handling procedures and awareness training. A recurring theme is that an organisation needs to develop a policy of non-tolerance to sexual harassment and communicate it company-wide. However, these measures have not proven to be effective at reducing this growing problem.

My research findings indicate that more effective strategies can be developed by understanding and focusing on the factors that decrease the probability of harassment. For example, the likelihood is reduced significantly for employees when working under the supervision of managers who demonstrate certain managerial behaviours.

I looked at a number of behaviours and found that employees who reported to managers who are supportive, concerned for employee welfare, provide recognition when warranted and manage poor performance are less likely to be harassed. I also found that an employee’s daily interaction with his or her manager is an important predictor of protection or perceived protection from sexual harassment.

Managers who demonstrate these behaviours tend to serve as capable guardians against sexual harassment. This can be viewed in two ways. First, such managers are more proactively protective of potential targets. Second, the presence of a supportive manager increases a person’s ability to serve as their own guardian. In other words, employees are more likely to feel confident that their boss will assist them if they attempt to protect themselves or if they report incidents of harassment.

I also found solidarity and a supportive work-group culture increases the number of capable guardians. Specifically, individuals in groups characterised by solidarity feel more invested in their co-workers’ wellbeing. In these working groups, peers are more likely to step in and help thwart improper workplace behaviour that may be damaging to their colleagues.

A COMPETENCY APPROACH

A lack of problem-solving and assertiveness skills is also an important factor because it can raise a person’s vulnerability to sexual harassment.

My research work included several experiments to ascertain whether a competency development approach successfully deters sexual harassment.2 The results suggest that when individuals are coached to use informal mechanisms to directly confront harassers, the behaviour usually stops. In addition, such an approach can buffer self-blame and the loss of self-esteem that usually accompanies harassment.

Giving people the skills to confront and resolve sexual harassment and the power to choose between an informal approach (skill development to confront the harasser) and formal grievance procedures (written complaint) allows for flexibility not usually seen in most organisations. Such options also permit an employee to start with an informal process, decide it is not helping them and move to a formal one, which may be facilitated via the HR department.

Together these variables – a supportive manager, work-group solidarity, a supportive work-group culture and assertiveness skill development were found to significantly reduce sexual harassment.

Julie Cogin teaches Organisational Behaviour in the full-time MBA program and Managing People and Organisations in the MBA (Executive) program. Cogin also plays an active role in numerous corporate education programs. Contact: julie.cogin@agsm.edu.au.

FOOTNOTES
BETTING ON BIOTECH

Size and geographic location are key factors in biopharmaceuticals company SciGen’s success story, according to its CEO Mark Compton (MBA Exec ’94).

After heading hospital group Alpha Healthcare, Compton took over as CEO of Singapore-headquartered SciGen in 2001. He says his priority was to define SciGen’s core competencies and to materialise a clear vision for the company.

That strategy has paid off with SciGen’s revenue doubling in the last half-year, staff numbers growing from nine to 60 employees, its portfolio growing to six proprietary products sold in eight Asian countries, and a successful $30 million listing on the Australian Stock Exchange in 2002.

SciGen manufactures, markets and distributes biopharmaceutical products, including insulin, hepatitis B vaccine and human growth hormone, under exclusive licensing arrangements.

Compton says that there is a saying in his industry that “cash is king, but focus is queen”.

“If you’re small like us, don’t try and pretend to be big. Recognise that you’re trying to get your feet firmly planted on the ground. Things that drive this business forward are a focus on core competencies, good financial management and turning your sales into profits quickly,” says Compton.

He says SciGen’s strengths rest in its ability to negotiate the often torturous regulatory maze of getting drugs approved, following that up with a strong sales and marketing capability and great partnerships in the Asian region.

Being small also allows the company faster entry into the market as bio-generic products have already undergone most of the clinical development and trials required to bring them to market.

Late in June, SciGen advised the ASX that it was conducting due diligence with an unnamed company regarding “potential strategic investment in SciGen”.

“Cash is king, but focus is queen.”

ELECTRONICS INNOVATOR

What started as a hot new idea in a University of New South Wales (UNSW) laboratory seven years ago for computer engineer Dr Graham Hellestrand (MBA Exec ’94) has now developed into a successful company headquartered in the US’s Silicon Valley.

Hellestrand’s virtual electronic systems – used to develop and verify the architecture, hardware and software of multi-processor wireless systems, consumer electronic devices and networked electronic controls systems for automobiles – could stand as an Aussie innovation success story. The VaST Systems Technology company he created now has offices in Sydney, Ann Arbor, Austin, Munich and Tokyo.

Despite VaST’s success, its founder and CEO remains sceptical of Australia’s capacity to commercialise ideas.

“University research in Australia is not set up with the essential ingredients for commercialisation.”
Persistence and passion might be trite words in contemporary business, but they are part of the credo that Peeyush Gupta (MBA ’85) believes has contributed to his company’s success.

What Gupta started 20 years ago during his MBA studies, along with three colleagues, was the fledgling Ipac financial investment and advisory company that has grown to an organisation employing 200 people who manage $8 billion for 20,000 clients. While Ipac became part of the AXA financial services group in 2002 for a reported transaction of $205 million, Gupta (who remains CEO of Ipac) says other more modest achievements give him great pride.

Last year, Ipac won the plaudits of the financial regulator, the Australian Securities & Investments Commission (ASIC), and Choice consumer magazine in a ‘mystery shopping’ exercise of the financial advice industry. Gupta says that although the exercise was generally critical of the industry, “Ipac came out head and shoulders above everyone else”.

A decade spent building an enterprise from scratch has left Gupta with a simple but effective business philosophy: a shared vision and shared values are crucially important for success.

“There’s no one recipe for success. But having a vision and being passionate about pursuing it, no matter what the obstacles, are fundamental,” he says.

“Building a community around shared values, looking after all the stakeholders of the firm and being persistent are all important lessons I’ve learnt from building this company over two decades.”

The successful Ipac business model has now been exported to New Zealand, South Africa, Taiwan, the Philippines and Ireland, but Gupta says the immediate plan is for local expansion.

“There is still a lot of growth to be done at home through consolidation and acquisition,” he says.

**MAKING QUALITY COUNT**

Quality is a big professional and personal motivator for recent AGSM Hong Kong graduate Cong Nguyen (MBA ’03).

Not only did he graduate equal top of his class, but he has also worked for the past three years as a senior quality assurance consultant in the IT department at Pacific Century CyberWorks (PCCW), one of Asia’s leading integrated telcos.

Before that, he was a quality specialist for an Internet company.

Nguyen says the knowledge he gained from his studies has certainly helped him do his job better, particularly in personal and power dynamics with his work colleagues.

“The most challenging component of my work is to get buy-in and support from project team members to accept that quality is a critical success criterion for any project,” he says.

“Prior to the MBA it seemed that positional power was the only tool I had to use. However, after the program I was able to approach this challenge from a number of different angles.

“My responsibilities include helping steer project teams. My main focus is to guide and ensure that work is conducted in compliance with industry best practice and internal quality assurance standards.

“I have to communicate the business benefits of producing quality work to my colleagues because this will lead to more projects and ultimately to increased job security.”

Nguyen is currently working on a project for a client in China with full operational responsibilities for delivering a Web-based application to the client’s specifications. He is responsible for all quality assurance functions of project delivery.

In a recent interview with a major Asian newspaper, Nguyen said that teamwork was a big factor in his success in the MBA program.

**“Prior to the MBA it seemed that positional power was the only tool I had.”**
The manager as coach

Use coaching frameworks to improve your managerial skills, says Dr Tony Grant.*

Debra Maynard reports.

Who doesn’t want to develop the skills to be a more effective manager in the workplace?” asked coaching psychology specialist Dr Anthony Grant at an AGSM Lifelong Learning seminar on coaching for enhanced management and leadership skills.

Grant’s spin on coaching has little to do with the clichés of motivational gurus or even personal coaches for corporate high-flyers. He is more interested in talking about what coaching can offer in the way of practical tools for managers.

Despite “academia’s failure to take the applied human potential movement seriously”, there are lessons in coaching frameworks for managers seeking the know-how to be better team or company leaders, he said.

As the director of the Coaching Psychology Unit at the University of Sydney, which offers Australia’s only postgraduate course in coaching, Grant draws on his own and others’ research – “about 150 articles in the peer-reviewed academic press” – to show that coaching can have a significant impact on performance and wellbeing.

He advocates a solution-focused coaching framework for managers to be more effective and “to coach those who work for you to be more effective and improve goal-attainment.

“A solution-focused framework is a way of thinking about working with other people that is much more focused on acknowledging and building up people’s strengths,” Grant said. “It is about working towards constructing solutions, rather than analysing what went wrong and apportioning blame to solve a problem.”

Grant outlined the principles of effective coaching as: collaboration (this is the foundation), accountability (you hold people accountable to the process), awareness (raising someone’s awareness so they can take responsibility), responsibility and action.

“It is a pretty straightforward formula that gets results,” said Grant. “The principles are where the power is and the skill is in taking people through the process.” The point, he said, is to help people to better set and reach goals, improve performance and develop as individuals.

GROWING INFLUENCE

According to Grant, coaching’s corporate influence has grown as a result of significant changes in our working environments. Key changes were disenchantment with command and control, increasing acceptance of personal development, popularisation of emotional intelligence, commercialisation of personal development and consumerisation of self.

One of the reasons people are interested in coaching for developing more effective managerial skills is that IQ is the least best predictor for success at work, said Grant. “We know that cognitive and technical skills contribute to just one-third of a person’s success at work, and IQ alone contributes just 4 to 25 per cent.”

“For example, if you work as a lawyer at a top firm, IQ is not going to differentiate you because everyone is smart. It is the emotional competencies and people skills that are crucial, particularly at higher managerial levels.”

Grant urged managers to consider the cost of not coaching. “Employees are four times more likely to leave a job with a manager who has poor coaching and interpersonal skills.”

So why don’t people do it? “They feel they’re too busy,” he said. He pointed to the prevalence of a high workload vicious cycle that many organisational cultures reward rather than discourage.

The positive influence of coaching in the workplace is well-recognised in Australia, which is a world leader in applying clinical psychology to life and corporate coaching, Grant said.

However, he is the first to admit “there is a lot of hype out there and we haven’t seen the fallout in the coaching industry yet”.

He advised those seeking to introduce coaching programs to first define their team’s or organisation’s coaching needs and limitations.

It also helped to understand the difference between the main types of coaching and delivery to choose the approach that offers the best organisational fit and return on investment. For example, a development approach focuses on inter- and intra-personal development, a performance approach focuses on a specific time frame, and a work-skills approach is usually task specific over a short period of time.

* Dr Tony Grant teaches the AGSM’s forthcoming executive education program, The Manager as Coach.

FOOTNOTE
TACTICAL CHANGE

AFTER the publication of the classic book, *In Search of Excellence* by Peters and Waterman (1982), changing an organisation’s culture was seized upon as a way to achieve competitive advantage. More than 20 years on, the idea of culture change is still appealing to organisations. But do companies sufficiently understand how culture can be used to improve organisational performance?

Organisational culture is the pattern of an organisation’s shared beliefs, values, norms, habits, expectations and taken-for-granted assumptions. However, culture is not just a concept – it is a powerful force that influences the way people behave.

There are three broad views regarding how culture can affect organisational performance:

**Strong cultures.** These have a high level of shared understanding and strong norms, which help to align everyone’s behaviour with organisational goals and motivate high performance.

**Strategically appropriate cultures.** These fit the organisation’s environment, structure and strategy. For example, if an organisation’s strategy is to compete on customer satisfaction, a strategic imperative is a culture that puts the customer first.

**Adaptive cultures.** These help organisations anticipate and adapt to environmental change and thus attain sustained high performance over the long term. Adaptive cultures encourage leadership, risk-taking, initiative, innovation and problem solving.

Ultimately, an organisational culture that combines all three elements is most likely to succeed (Kotter, 1992). A strong culture that is appropriate for an organisation’s environment, yet sufficiently adaptive to change in response to a changing environment, is best.

An overly strong culture can drive out dissenting values that might be important for the future. An example is US toy corporation Lego which, until recently, refused to license movie products through partnerships with studios because it was not the Lego way. Eventually, the deals were approved and have been some of the most successful in the company’s history.

It is important to remember that culture does not only affect performance. Culture can influence organisational norms and values such as ethics and safety. For example, poor ethics at failed Australian telco, One.Tel, stemmed from a culture of not questioning the chief executive.

**AN APPROACH TO CHANGE**

It is a massive task to achieve a major culture change, in which new values are antagonistic to the old ones. Culture “is held in the hearts and minds of individuals, not in some corporate pigeonhole where it can be unlocked and realigned overnight” (Bainbridge, 1996).

Successful culture change, in which there is a change in the underlying values that drive behaviour, takes many years – as many as 10 years for large organisations such as General Electric (Kotter, 1992). Gagliardi (1996) recommends the following approach to culture change:

**Educate** as to why change is necessary (general pressures for change plus specific factors in industry) and communicate the desired new culture. Create an urgency for change. Note that having a visionary or charismatic leader who is committed to the new culture and who role-models the new values will not, of itself, ensure culture change. It is important for an organisation to show that it is successful under a new set of values and to promote this success.

**Embed** the new cultural requirements via a series of value statements on posters, slogans, pens, videos, newsletters, logos or mission statements. Of course, this on its own is not enough!

**Equip** people with the skills, knowledge and capabilities required to work and behave differently. In some cases, when a new culture is antagonistic to the old one, it might be necessary to replace managers or employees. For example, the executives who transformed Continental Airlines replaced more than 50 executives with people who had customer-focused values.

**Enable** behavioural change with new processes, systems and ways of working that allow people to put into practice new values. Shallow tactics such as telling people how you want them to behave will not change culture. You need to give staff the opportunity to do things differently.

Enforce (or reinforce) desired behaviours through performance management and reward systems, informal and formal. For example, Home Depot, the American home improvement retailer, implemented share options because it wanted associates to feel they owned the stores and had total responsibility for customers.

**CULTURE CHANGE IS NO MAGIC WAND**

It is important to remember that successful culture change can only be achieved if it is part of a holistic approach to organisational design. For example, Australian travel services company Flight Centre has a unique culture and there is no doubt that the culture is critical to the organisation’s success.

However, its culture is embedded in a much wider organisational design and set of management practices. These include selective hiring, a decentralised structure with empowered teams, a performance-based pay system that reinforces excellent performance as well as teamwork, a heavy emphasis on training and development, sharing of information to all staff, and so on. Trying to achieve culture change without paying attention to the wider organisational design is a recipe for cynicism, not success.

To diagnose your organisation’s culture, carry out the analysis at the following site: www.agsm.edu.au/changestrategy.

Professor Sharon Parker is the academic director of the AGSM’s Graduate Certificate in Change Management.

**FOOTNOTES**


4 Kotter, *Corporate Culture and Performance*.


The business of economic theory

“I strongly believe that there are lots of opportunities to prove the relevancy of economic theory and game theory to business students, and that the time has come for economists to make an extra effort to close the bridge between economic theory and business application,” says AGSM senior lecturer in economics, Dr Benoit Julien, who has recently joined the school’s full-time faculty.

“I appreciate that individuals such as Adam Brandenberger, Barry Nalebuff, David Kreps and Pankaj Ghemawat have produced books in that direction,” says Julien, “but I also believe much work remains to be done and I am committed to expand effort in that direction.

Right in line with his endeavour, says Julien, is to rewrite the material for the AGSM’s Macroeconomics for Managers course in the full-time MBA program with professor Robin Stonecash.

“Macroeconomics studies large questions and issues affecting many people, businesses and nations. It focuses on the aggregate behaviour of consumers, companies, governments, the overall economic activity of a country and the interactions among them,” Julien says.

“From individual behaviour, macroeconomics attempts to explain the determination, the evolution and the relationship between aggregate variables such as GDP, inflation, unemployment, interest rates, exchange rates, net exports and national debt.

“In particular, the attempt is to provide answers to questions such as: What causes inflation? What leads the federal Reserve Bank to induce a reduction or an increase in general levels of interest rates? Why are there fluctuations in aggregate economic activity? Why is there unemployment? Why are some countries richer than others?

“I believe a basic understanding of macroeconomic data and issues is essential for anyone making business decisions,” Julien continues.

“For instance, a decision to implement a business expansion requiring a considerable amount of physical capital and labour, without a consideration of the state and evolution of wage rates and inflation, can produce negative outcomes leading to a loss of competitive edge,” he says.

Julien’s PhD research looked into the allocation of resources in situations where information is asymmetric, or parties have different information. Examples of such conditions include principal-agent cases such as wage contracts, insurance contracts and auctions.

Further research (with Ian King from the University of Auckland and John Kennes from the University of Copenhagen) has closely examined the labour market’s influence on wage levels and inflation.

“Although the standard supply and demand analysis can provide lots of intuition on how a market works, it is not detailed enough to explain the existence, let alone the persistence, of unemployment in the labour market,” Julien says.

He is currently revising a paper with King and Kennes for the International Economic Review, in which they consider the impact of employees looking for a job while employed on wage dispersion and the unemployment rate.

Before joining the AGSM, Julien was on the faculty of Canada’s Concordia University, New Zealand’s Victoria University of Wellington and the University of Miami in the US. 

**Dr Benoit Julien**

“A good knowledge of macroeconomics assists business managers to ‘rise above the trees’ and see the landscape in which they operate to achieve their targets more efficiently and hence more profitably.”

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**Biotech challenge**

A new report, ‘Commercialising Australian Biotechnology’ by AGSM professor Michael Vitale and alumnus Dr Philip Smith (MBA ‘03), has found that Australia’s biotech funding is about $1 billion short of the US.

“The most surprising thing was the magnitude of the funding gap,” Vitale says.

“Between 1996 and 2003 a total of only $130 million of venture capital was invested in Australian biotech companies by Australians, whereas in the US every single biotech company that had a public listing in 2003 alone had $94 million (on average) of US capital invested in it,” he says.

The Australian Business Foundation-sponsored report examines the opportunities and challenges faced by Australians trying to bring new ideas from the laboratory to the marketplace.

Vitale and Smith gathered and analysed quantitative data on venture capital and private equity investment into biotechnology, and supplemented this data with qualitative information from interviews with 20 unlisted biotechnology companies.

The report proposes approaches from both the supply side and the demand side of the funding gap to improve the chances of success in the biotech sector.

“The funding gap has implications for how far we believe we can take an idea before selling it to someone else,” Vitale says.

“Many US companies have the intention of taking products all the way to the market themselves, but Australia may have to play a very different game,” he says.

To view the report, go to: [www.agsm.edu.au/biotech report](http://www.agsm.edu.au/biotech report); or search the Australian Business Foundation Web site: [www.abfoundation.com.au](http://www.abfoundation.com.au) and go to ‘research’, then ‘research to date’.
Management academy award

The AGSM’s professor Robert Wood has been made a fellow of the Australian and New Zealand Academy of Management, which recognises his contribution to management research and education in Australia. He will be awarded the title at a ceremony in Wellington, New Zealand, later this year.

Finance camp

The AGSM’s annual finance and accounting research forum was held last month, at which papers were presented on a range of topics – from patterns of equity fund holdings, portfolio selection and venture capital investments by IPO underwriters to the relationship between board member preferences and corporate policy choices, and corporate governance issues.

AGSM research presented at the forum included: associate professor Garry Twite’s paper, ‘Why do firms have so much cash?’ A tax-based explanation’, which examines the relationship between taxation on foreign subsidiaries’ repatriations to US parent taxation on foreign subsidiaries’ earnings. The text is entertaining and well-written. It impresses with its insights and discussions based not only on arm’s-length economic data and external reviews by contemporary media, but also many personal interviews by the author.

Bell interviews leading players in the RBA’s development including all recent governors and former federal treasurer and prime minister Paul Keating.

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trading on Nasdaq stocks (with professor Tom Smith from the Australian National University and professor Bob Whaley from Duke University).

The forum attracted speakers from New York University, the University of Texas, Vanderbilt University and the Wharton School of the University of Pennsylvania.

Focus on research funding

The AGSM’s professor of statistics, Simon Sheather, has been appointed AGSM associate dean (research). He says he is looking forward to working on raising external research funding, “particularly through linkage grants with industry partners”.

“We will also seek to increase the frequency of cross-disciplinary research and build deeper research links to our parent universities,” Sheather says.

Visiting faculty

Professor of marketing, Terry Elrod from the University of Alberta in Canada, is visiting the AGSM until December.

Since 1993 he has helped several internationally prominent marketing research companies advance their market research and analysis techniques.

His most recent publication is: ‘A new integrated model of non-compensatory and compensatory decision strategies’ (with R. Johnson and J. White), accepted for publication in Organisational Behaviour and Human Decision Processes, 2004.

Professor of management and strategy, Jean-Luc Arregle, from the EDHEC Graduate School of Management in Nice, France, is visiting the AGSM until 30 June 2005. He has taught research in competitive strategy, strategic analysis, strategy formulation and new developments in strategy. He is hosted by the AGSM’s professor Thomas Powell.

Arregle is joined by his wife, Isabelle Mari, who is an assistant professor at EDHEC, where she has taught strategic analysis and strategic management.

THE AGSM ALUMNI BULLETIN BOARD

MBA

2004

Amit Agrawal has taken up the position of assistant manager, business development, at HSBC Insurance Brokers in Dubai. Contact: amitagrawal@hsbc.com, Tel: (+971 4) 3109 208.

2003

Carrie Wong has been promoted from assistant manager to project manager at Hong Kong & Shanghai Banking Corporation. Contact: carriewong@hsbc.hk, Tel: (+852) 2288 0325.

2002

Jasmine Zhang is delighted to report that her first baby, Sophia, was born on 20 April 2004 in Sydney. Jasmine is currently on maternity leave until March 2005. Contact: jasminzhang@iprimus.com.au, Tel: (02) 9698 3389.

John Dean has taken up a position as sourcing specialist at Rio Tinto Procurement. Contact: john.dean@riotinto.com, Tel: (02) 6570 0906.

Michael Ho Yin has moved to sales with SmartTrust in Hong Kong, working as technical sales consultant. Contact: michael.leung@smarttrust.com, Tel: (+852) 3121 6888.

2001

Amber Ahuja has been working with a University of New South Wales-based consulting firm called NewSouth Global. He has recently helped to win a $US1 million project to develop a pension plan for India’s informal labour sector. Contact: ambera@ns.unsw.edu.au.

Maggie Devane is currently working for the ‘John Kerry for President Campaign’ in the US. She urges all US expatriates to be sure to vote in the November elections (absentee ballots are available at the US Embassy or online).

2000

Victor Major has left his position in marketing at Merck Sharp & Dohme Australia and has started his own business. His company is an import, export and trading company, trading commodities and exporting Australian wine to Taiwan. Visit: www.majors.com.au.

Venkatesh Narayanam “finally tied the knot with Aruna on 9 February at Chennai in India”. He says the wedding was conducted in the typical South Indian style.

Bruce Bachenheimer and his wife Doria are happy to announce the birth of their daughter, Rebecca Lauren. Bruce recently accepted the position of clinical professor at Pace University in Manhattan. He will also serve as the program director of entrepreneurship in the Lubin School of Business. Contact: bbachenheimer@pace.edu.

1999

After four years at The Boston Consulting Group, Darren Challis has joined John Fairfax Holdings as director, commercial strategy. Darren is still a member of the AGSM alumni board and a governor of the UNSW alumni association. Contact: darren.challis.99@alumni.agsm.edu.au.

Ben Fox writes to report the birth on 2 July of his first child, a daughter named Sivian.

Mark Kelly wishes to report that he has relocated from New York to Double Bay in Sydney. Tel: (02) 9363 3759.

1998

Amitabh Shukla has quit Lehman Brothers Japan and joined National Australia Bank, Tokyo branch, as head of service delivery and operations.

Kimon Taliadoros is now consulting with TRIAXIS, having left the Turnaround Group.

1997

Marc-Antoine Cousin has been promoted from the position of manager to director at LEK Consulting. Contact: m.cousin@lek.com, Tel: (02) 9323 0700.

1996

Anand Thiagarajan has moved from Merrill Lynch Singapore to take up a new role of director, fixed income sales, at BNP Paribas Singapore. Contact: anandt@pacific.net.sg.

1994

Phil Stockwell has left BT Financial Group and is now working at Westpac Banking Corporation as program director. Contact: phil.stockwell@btfinancialgroup.com, Tel: 0419 746 705.

Benjamin Crawford is now working as business development director for publishing mogul Louise Blouin MacBain’s LTB Holdings, a private equity fund based in London. He has responsibility for global acquisitions in the creative industries and cultural sector, as well as development of media properties such as Art + Auction magazine in New York and the Paris-based fashion photography magazine, Spoon. Contact: ben.crawford@ltbholding.com.

1986

Last year Allan McDougall left Societe Generale to set up practice as a solicitor in Sydney, specialising in asset finance and general banking services for SMEs and private companies. Visit: www.allanmcdougall.com.au. Contact: allan@allanmcdougall.com, Tel: (02) 9261 3988.

1984

Alastair Rennie reports that he is with AMEC as renewables director, “which means trying to figure out what is material business besides wind power. Our ‘baby’ Lucy, who was born in the second year of the MBA, is now studying Psychology at St Andrew’s University! Her big and younger brothers and my wife Belinda are all well.” Alastair says Aberdeen is a bit ‘northerly’ – but he would welcome
anyone from his class if they got there.

**MBA (EXECUTIVE)**

2003

David Williams is now national business manager at Reckitt Benckiser, having moved on from his previous position as director, sales and marketing, at Advanced Medical Optics. Contact: davidus.williams@reckittbenckiser.com, Tel: (02) 9325 4016.

Adrian Ness has taken up the position of investment manager at CVC Limited since working as director, Ness Investments. Contact: Adrian@cvcltd.com.au, Tel: (02) 9087 8000.

Andrew Sivanandam has been appointed managing director at CallTime Solutions, having previously been with Sensis as manager, technology strategy and investments. Tel: 0438 558 135.

Robert Jackson is pleased to report that he is now working as director at Expense Reduction Analysts. Contact: rjackson@expense-reduction.com.au, Tel: (03) 9863 7516.

2002

Kirk Pitman writes: “After spending two months hiking in the Torres del Paine National Park in Chile and the Sacred Valley in Peru, I am back at Diversiti. It is an Accenture business specialising in enterprise recruitment technologies, integrated recruitment and learning outsourcing and Asian expansion strategies.” Contact: kirk.pitman@diversitipeople.com.au, Tel: (02) 9005 6335.

Scott Chamberlain reports that his company, Machiavelli’s Workshop, is close to the launch of its “groundbreaking” games of negotiation strategy, which test and improve people’s strategic negotiation skills in a fun and time-flexible environment. “The games give you insights into the interaction between your strategy formulation skills and negotiation style, the way in which both affect your reputation, and the way in which all three elements combine to help or hinder you in getting what you want.” Visit: www.machiavellisworkshop.com. Contact: scott@machaiavellisworkshop.com, Tel: 0400 225 845.

2000

Sue Baker-Finch has moved from her position with the ACT Government as director, Olympics Unit, to the position of Unit Chief Executive at ACTTAB. Contact: suebf@mail.acttab.com.au, Tel: (02) 6245 6262.

1999

Graeme Tuder is managing director at Micromine, which has been awarded a Commonwealth Government Start Grant to develop its DOME concept for mining operations. The grant of $2.6 million over three years is the second Start Grant awarded to the company for mining industry software research and development. Contact: gst@micromine.com.au.

Michelle Crosbie is working for JPMorgan in London. Michelle says husband Mike is involved in a number of businesses and they are enjoying lots of travel in Europe. Contact: michelle.crosbie@jpmorgan.com.

Jennilyn Noack and her husband Justin Sommers are the proud parents of a daughter, Keziah Elizabeth, born 23 February 2004. They intend to relocate to Arizona in the US to spend time with their parents. Jennilyn says: “If you are in the US we can be contacted at: (+1 520) 4263 747.”

1998

Simon Green is in London and has left his position as managing director at 3RM to join WPP as business director, strategy and business development. Tel: (+44) 7904 446 857.

Chris Tait is now principal of his own management consulting practice, Chris Tait & Associates, specialising in the operations area of operational effectiveness and efficiency. Chris says, “My tag line is working with organisations to improve the bottom line”.

Contact: cdait@ihug.com.au, Tel: 0410 611 962.

Frank Glatz has left Orica to join Plantic Technologies as general manager, Europe. He is responsible for setting up Plantic’s initial European operations in Cambridge, UK. Plantic is an Australian startup that manufactures and markets biodegradable packaging derived from cornstarch. Frank writes: “This unique technology was developed in Australia and was launched with Cadbury Schweppes Australia for its Milk Tray confectionery packaging”. Frank and his family are based in Freiburg, Germany. Contact: frankg@plantic.com.au.

1997

Andrew Morrell has relocated from New South Wales to Queensland and taken up a position at Queensland University as principal research fellow – risk management. Contact: amorrell@mishc.uq.edu.au.

1999

Lisa Laycock has moved interstate from Fitzroy in Victoria to Angaston in South Australia.

1996

Yuen Ching Chua has taken up a position as manager, IBM Malaysia, after leaving Unisys (Malaysia). Contact: chuaye@my.ibm.com, Tel: (+60 3) 7720 2094.

1995

Kirk Bayabos has left his position in Malaysia as consultant at Keppel Corporation to take up a position as manager at the United Nations Development Program in Denmark. Tel: (+45) 2485 6316.

GDM

1999

GCM/GMQ

2003

Winston Ho has left his position as proprietor at Photoshop and is now working at Raywhite City South as area manager. Tel: (02) 9289 8920.

Contact: cdait@ihug.com.au, Tel: 0410 611 962.

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GCM

2000

Philippa Reed has been appointed chief executive of the Equal Employment Opportunities Trust in New Zealand. Contact: preed@eotrust.org.nz, Tel: (+64 9) 5253 013.

June Hornibrook has recently been appointed general manager, Northern NSW Oral Health Network, based in Lismore, New South Wales. The Network coordinates public oral health services in the Hunter, Mid-North Coast, New England and Northern Rivers Area Health Services.

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BOOKS

JOURNAL PUBLICATIONS
- Professor Steve Frenkel and S. Kim, *‘Corporate codes of labour practice and employment relations in sports shoe contractor factories in South Korea’*, *Asia Pacific Journal of Human Resources*, vol. 42, issue 1, pp. 6–31, April 2004.

CONFERENCE PRESENTATIONS
- Professor Timothy Devinney, *‘The contingent effects of management support and task interdependence on successful information systems implementation’*, presented at the Academy of International Business Conference, Stockholm, Sweden, July 2004.
- Professor Timothy Devinney, *‘The client-consultant interaction in professional business service firms: outline of the interpretive model and implications for consulting’*, presented at EGIS (European Group for Organisational Studies), Ljubiana, Slovenia, July 2004 and also presented (with N. Nikolova) at the Academy of Management Conference, New Orleans, US, August 2004.
- Dr Elizabeth George: (with Dr Prithviraj Chattopadhyay, A. Levinson and D. Finegold), *‘Employees who want to belong: citizenship behaviours of workers from temporary help agencies’*; (with S. Sitkin), *‘Responding to stigma: decision-making under conditions of threat’*; and (with S. Lawrence, A. Shulman and Dr Prithviraj Chattopadhyay), *‘The graying of R&D workgroups: the effects of age diversity on developing publicly usable knowledge’*, presented at the Academy of Management Meeting, New Orleans, US, August, 2004.
- Dr Gal Raz, *‘Supply chain competition under asymmetric information’*, presented at the CORS/INFORMS International Meeting, Banff, Canada, May 2004.

PUBLISHED WORK AND RESEARCH PRESENTATIONS
Rodney Marks is Australia's (mis-)leading comedian ... His comedy satirises management language and thinking in the form of fraudulent keynote speeches at business events. Rodney (MBA '92) has performed his Hoaxes and Jokeses® for many organisations over the past two decades. He has had about 30 overseas tours, and has been artist-in-residence at Harvard and the AGSM. He lives in Sydney and can be contacted directly on: 0412 207 655. Check out his Web site: www.comedian.com.au.

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For more information contact: Ingrid Jackson (MBA '79), Tel: 0411 590 639.

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www.agsm.edu.au
PEOPLE POWER

The 360-degree feedback process is commonplace at Swiss Re Life & Health Insurance, where employees are encouraged to design their own career development plans, writes CEO Hazel Nicholls.*

It is frequently quoted in business, sometimes without substance, that people are our most valuable resource, but at Swiss Re we really do believe that. Personal development, career planning, leadership development – whatever the preferred description – is a fundamental part of the way we work.

So why is people development so important at Swiss Re? The answer is simple. Most businesses are, arguably, all people businesses. Their success or failure depends upon strong relationships – among staff, in teamwork, and between staff and customers. In a market such as reinsurance, where product differentiation is notoriously difficult to achieve, the customer relationship will often make the difference between winning and losing an account.

The foundations of Swiss Re’s people development philosophy comprise four key building blocks that underpin the way we behave. These are excellence (we rely on profound knowledge and expertise in doing business); efficiency (we perform to optimum standards of quality and cost effectiveness); sustainability (we strive for balance between economic, social and environmental development in society at large); and integrity (we commit ourselves to the highest level of honesty and ethical principles). Collectively they are known as the core values and create the framework for Swiss Re’s operations around the world.

PARTICIPATION AND FEEDBACK

People development at Swiss Re is based on mutual accountability. We encourage a proactive approach by employees, and the first step in the career development process will usually be the creation of a career development plan derived from an individual’s own career drivers.

The creation of a tailored career development plan is an important first step, but this alone will not ensure that an employee and employer will achieve everything they set out to do.

While Swiss Re may facilitate this, essentially it is designed and owned by the individual employee.

Execution is critical and a continual process. All employees, together with their managers, create personal objectives. Progress towards achieving these goals is monitored at least quarterly. We support employees towards achieving their objectives in a variety of ways, ranging from on-the-job coaching to participation in university programs. Honest and supportive feedback is also encouraged among peers, and the 360-degree feedback process is commonplace at Swiss Re.

LEADERSHIP INVESTMENT

A unique feature of Swiss Re’s career development process is our leadership development program. For those likely to shape the Swiss Re of the future, this program offers both practical and academic training that is based around 10 specific leadership competencies. These range from the technical, such as ‘financial and business acumen’, to the softer skills essential to success in a people-based business, such as ‘inspiring and building commitment’ and ‘attracting and developing talent’.

As well as academic training, the leadership program offers its members opportunities to get involved in business group and divisional development projects that will often span numerous markets around the globe. Such initiatives give members greater access to the senior leadership of Swiss Re, valuable networking opportunities and, importantly, the ability for the leadership program members to learn from each other.

Success in developing people is not only measured by assessing progress against an individual’s goals. Surveys of employee satisfaction are conducted frequently and, importantly, anonymously, to encourage everyone to have their say about how well Swiss Re is doing.

A recent staff survey revealed that more than 95 per cent of our employees in Australia believe there is continuous investment in their skills.

Another demonstration of Swiss Re’s commitment to the welfare of its staff is its recent acknowledgement in Hewitt Associates’ Best Employers in Australia and New Zealand 2004 survey.

Ultimately, the key to any successful business is the welfare and satisfaction of its staff. Swiss Re aims to equip its employees not only with the skills necessary to do their jobs, but also, and perhaps more importantly, with the skills necessary to lead well-balanced lives.

* Hazel Nicholls is a 1998 graduate of the AGSM’s Senior Manager Development Program. She is CEO of the Australian office of Swiss Re – one of the world’s largest Life and Health reinsurers, which employs more than 8000 people in 30 countries.
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