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Australia’s Historic Links To Mining
The extraction of minerals and fossil fuels has been of major significance to Australia for over 160 years. Mining contributed to the financial saving of South Australia in the 1845 for example. The discovery of gold at Ophir in 1851 and the latter massive discoveries in Victoria transformed early Australia.

Impact of the Gold Rushes:
- Population increased from 440,000 in 1851 to 1,150,000 in 1861
- Melbourne became a major world city, one of the biggest in the Empire
- Huge development of infra-structure such as railways
- Investment funds available for industry
- Rapid expansion of agricultural areas.

The gold rushes passed, as did most of the proceeds to overseas, but the impact was great.

Most mining output is exported and so the industry is influenced by global economic conditions. The industry experiences periods of boom, these traditionally lasted three to four years and were followed by periods of low demand and prices. The present boom is unusual in that it has lasted a decade and is still very strong.

At present Australia is:
- The largest exporter of coal
- The second largest exporter of nickel and gold
- The third largest exporter of iron ore, diamonds and natural gas.

Mining represents 5.6 per cent of G.D.P. up from 2.6 per cent in 1950. This is a very high figure in the U.S.A. it is only 1.6 per cent. Mining now accounts for 35 per cent of exports.

Mining booms are not new, and in the past they usually ended in tears with recessions and high unemployment. It is therefore important for public policy makers to avoid this and as well to ensure that the rewards are spread evenly, negative side effects are minimised and these non-renewable resources contribute to our long term sustainability and not just to the massive financial gain of a fortunate few.

STUDENT ACTIVITIES

1. Give reasons why the earnings from the gold rushes went overseas and did not stay in Australia.
2. What would have been the impacts on business from this leaking of profits from the Australian economy?
3. What is unusual about the current economic boom Australia is experiencing?
How many jobs really? The Minerals Council claims a job contribution of 850,000. This is 213,000 actual jobs and 640,000 indirect jobs. This is an approximate multiplier of three. Some mining companies for example, Peabody claim a multiplier of 3.9.

Certainly each direct job does have a flow on effect. There is however a great deal of double counting. If all the economy used the same modelling there would be 187 per cent more jobs in Australia than there actually is.

Another issue is how many of the new jobs in mining are at the expense of job losses in other industries?

The mining industry certainly is significant. It has largely funded the last eight tax cuts. The degree to which the mining boom has cushioned us from the global economic problems is a debatable topic. What isn’t debatable however is the exaggerated perception that Australians have of the relative importance of the mining industry.

- Employment % of the Workforce: Perceived 16% Actual 1.9%
- Percentage of G.D.P.: Perceived 35% Actual 9.2%
- Degree of foreign ownership: Perceived 53% Actual 83% (Australian Institute, from a survey size of 1400 in 2011)

Australians seem to believe that mining employs nine times as many workers as it actually does, accounts for three times more economic activity than it does and is 30 per cent more Australian than it actually is.

Who Are The Real Winners?

Some individuals and organisations benefit immensely. Obvious winners are magnates such as Gina Rinehart, Clive Palmer and Andrew Forrest, all multi-billionaires. Shareholders in companies such as Rio Tinto and Xstrata have gained greatly from high dividends and share prices. However, this benefits few Australians, 83 per cent of the profits go offshore. (52 per cent in 1980) Profit margins are high in the industry, 37 per cent compared to the average of 10–11 per cent.

Certainly shares are held by superannuation funds, yet the exposure of these funds to Australian mining is only four per cent. This represents about two dollars per week to the average superannuitant.

Wage rates now average over six figures for mining workers. However so are living expenses high in mining towns, the average rent in Karratha is $2100 per week. Despite high wages the attrition rate in mining is 27 per cent per annum, well above the Australian average.


<table>
<thead>
<tr>
<th>Industry</th>
<th>5% 10% 15% 20% 25% 30% 35% 40% Profit Margins</th>
</tr>
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<tr>
<td>Mining</td>
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<tr>
<td>Agriculture Forestry</td>
<td>&gt;&gt;&gt;&gt;&gt;&gt;&gt;9%</td>
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<tr>
<td>Accommodation Tourism</td>
<td>&gt;&gt;&gt;&gt;&gt;&gt;&gt;8%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>&gt;&gt;&gt;&gt;&gt;&gt;&gt;7%</td>
</tr>
<tr>
<td>Retail</td>
<td>&gt;&gt;&gt;4%</td>
</tr>
</tbody>
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The average return on investment for Australian Businesses is 10–11 per cent per annum.

Why Are Profit Margins So High?

- A huge demand from Asian economies has pushed up prices. Output has increased 27 per cent since 2003 but prices have increased by 300 per cent since the 1980s.
- The resources are cheap. Royalties are based on volume not price. David Bradbury, the Assistant Treasurer, says that before the boom royalty revenue was one dollar for every three dollars profit, now it is less than one dollar for every seven dollars profit.
- Governments provide much infrastructure and assistance. This saves companies much expenditure. The Canadian government for example provides only one tenth of the research in mining compared to that provided by the Australian government.
- High levels of capital investment keep production cost low, although productivity is not high.

On average, mining companies pay only 14 per cent tax on profits despite the company rate being 30 per cent. High levels of concessions and allowances are a feature of the industry. Andrew Forrest’s Fortescue Metals has not paid any tax in the last seven years.

Who Are The Losers?

Can Australia avoid a severe case of ‘Dutch Disease?’ This is where developed economies (for example, The Netherlands after the natural gas boom) go into recession following a...
mismanaged resource boom. There are certainly obvious benefits to Australia from the current boom but there are also a range of short and long term negatives.

Some of the shorter term negative consequences include:

- **High exchange rates:** Being a commodity currency and with very high demand for commodities the Australian dollars is at record levels. This puts pressure on industries such as manufacturing and tourism that are export sensitive. There have been major cut backs in industries such as steel, textiles, tourism and vehicle making. In NSW for example in the last ten years mining jobs have increased by 32,000, whilst manufacturing jobs have decreased by about the same amount.

- **High interest rates:** Australian interest rates are very high by world standards. The Reserve Bank (RBA) has needed to maintain such rates in order to reduce possible inflation due to the mining boom. High rates reduce overall living standards, particularly those of mortgage holders. It has been estimated by the ABS that households are three per cent poorer due to the higher rates.

- **A skilled labour shortage:** The high demand for skilled labour in the mining industry has resulted in shortages which impacts on all industries. Workers are attracted by high wages in mining and due to high profits that these are paid, other non-mining industries consequently face shortages and increased cost pressures.

- **High prices for materials and associated services:** Mining companies with high profit margins are willing to pay a premium for materials such as concrete and also for professional services to meet export deadlines. These pressures force up costs for non-mining companies and may impact upon their viability.

- **A worsening Current Account Deficit:** Mining does earn much export revenue but still the C.A.D. has worsened. It is now 5.5 per cent of GDP. Most mining is funded by foreign investment, most dividends and interest payments on borrowing for projects flows overseas. A foreign dominated mining industry has not solved the CAD situation.

- **Growing income gaps:** More than 98 per cent of Australian workers are not employed in mining. Mining profits and wages are extremely high. This has created a small number of super rich. Gina Rinehart, for example, has personal wealth of in excess of $22B. This wealth can lead to excessive power that can impact upon an egalitarian Australia and even threaten our democracy. Non mine workers (on relatively lower wages) in mining towns face particular hardship.

- **Environmental damage and resource conflicts:** Mining is an invasive industry. Australian environmental laws are strict, but conflicts arise. The coal-seam gas industry for example has been accused of damaging the water table and alienating farmland.

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**Figure 1: Coal Mining – Kestrel mine (Rio Tinto Group) Qld**
Can We All Be Winners?

It is unrealistic to believe that all Australians can be mining magnates or even earn six figure incomes as miners do. However, it is possible for all Australians to be winners from the exporting of output from our mines. If mining profits were evenly spread, each household would be $5,000 richer annually. This simplistic distribution is not an option, but there are suitable strategies for greater equity, many of which have been successful in other countries.

Chile and Norway for example have established Sovereign Wealth Funds, where much revenue from mining is channelled to be a source of investment long after their booms have passed. Over 30 countries have, or are considering, similar measures. The sad case of Nauru is to be avoided.

The recently passed Minerals Resource Rent Tax (MRRT) is a tax on super profits or the economic rent of the major companies exporting coal and iron ore. This will enable the benefits of the mining boom to be shared by all present and future Australians and not just the fortunate few. Over the next three years the Treasury estimates that $10.6 B will be raised and spent in areas such as:

- Higher superannuation for 8.4 million Australian workers
- Tax breaks for 2.7 small businesses
- Extra superannuation contributions for 3.6 million low income workers
- A reduction in business taxation to 29 per cent
- High investments in infra-structure across the country.

Economic Rent: Rent is the excess.
The average returns on capital invested are less than 11 per cent in Australia. Economists have traditionally believed that a 10 per cent return is sufficient to attract continued investment. Mining companies are experiencing at present 37 per cent returns. Economic rent refers to returns beyond which are necessary to make operations attractive for continued investment.

The ABS estimates total mining investment to be approximately $300 B, profits in 2009 were $63 B, well in excess of normal profits of $30B. Much of the windfall is due to extremely high commodity prices.

A current area of discussion is whether windfall economic rent returns should be more evenly spread and also invested in the future, or should they continue to go to mining investors, 83 per cent who live overseas.

Wealthy individuals such as Andrew Forrest chant ‘Axe the Tax’ whilst his company, Fortescue Metals, has not paid any company tax for seven years. Ian Verrender (SMH 20/3/12) suggests that despite this new tax Australia is still seen as a benign destination for mining companies, indeed almost a tax haven compared to other countries such as South Africa, Zimbabwe, China, Indonesia and Namibia in particular where all new mines must be government owned.

Conclusion

(Using Australia’s resources for a sustainable and equitable future)

Mining has, and will continue to be a significant industry. Companies such as B.H.P./Billiton and Rio Tinto have seen a tenfold increase in earnings this decade and will invest $95Billion next year, and this interest will continue. Australia has massive reserves, first class infra-structure, an educated workforce, efficient transport and a stable and transparent government. As well, the major markets are close.

Australians are aware of the importance of mining, but they also know that minerals can only be sold once. They also are now realising that there are negative effects of a boom that is not spread throughout all sectors. There is a growing feeling also that the rewards need to be more fairly spread.

Almost every resource rich country has tightened the screws on mining companies, as they see a great wealth transfer from their citizens (who really own the resources) to the largely foreign company shareholders. Australia is having the debate about how to more evenly spread the rewards of the current boom, and how to best plan and use the benefits for the long term future of all citizens. Hopefully a rational and equitable approach will emerge.

STUDENT ACTIVITIES

13. Why does the Australian government provide so much support to the mining industry?
14. Draw up a table of two columns with the headings Winners and Losers, and fill in each column.
15. Account for the increase in the number of mining jobs compared to jobs in manufacturing.
16. Describe the impact of high interest rates on business.
17. Evaluate the role of environmental sustainability and corporate social responsibility for the mining sector.

Vocabulary/concepts

Define each of the following terms in their correct business context:
royalties, capital investment, concessions and allowances, textiles, foreign investment, dividends.

18. Investigate how a Sovereign Wealth Fund might operate in Australia. What would be its impact on business?
19. Nauru’s phosphate boom caused it for a while to be a wealthy country. Investigate why this is no longer the case.
20. Explain the Minerals Resource Rent Tax in a paragraph or less.
21. One current discussion is around whether the profits from the mining boom should be more widely distributed. What is your opinion on this?

Vocabulary/concepts

Define each of the following terms in their correct business context:
economic rent.

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In Part One of ‘IKEA: The Home Ware Category Killer’, along with a brief history of IKEA, a range of marketing, financial and corporate social responsibility issues were examined. In this instalment, find out more about supply chain management issues, logistics, product development and IKEA’s global strategy as well as the successes and related controversies experienced by this home ware giant.

Successfully organising operations and meeting the needs of 1.1 million customers in over 290 stores in 26 countries is no mean feat for IKEA. To stay true to the business vision of ‘offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them’, a significant emphasis is placed on product design and development, and supply chain management.

A Culture That Embodies The Vision

The culture that permeates IKEA emphasises efficiency and low cost to maximise profit, without compromise on quality and service. Policies, such as only flying economy class and staying at affordable hotels, employing younger executives, and sponsoring university programmes have made a focus on cost effectiveness part of the corporate culture at IKEA. One of their major performance objectives focuses on cutting prices. In a time where businesses look to maximise profit margins, IKEA prides itself on lowering prices for customers. The best-selling Klippan sofa that first launched in 1999 with $354 price tag was down to $202 in 2006. IKEA’s low cost mantra is vital in times when the retail sector is depressed as it increases their potential market.

Another performance objective for IKEA focuses on growth and profitability. Throughout the main offices in Helsingborg, Sweden, there are massive bulletin boards which track weekly sales growth, name the best performing country markets and identify the best selling furniture.

Product Design And Development – Almhult

No design – no matter how inspired – will find its way into an IKEA store if it is not affordable. IKEA has 12 full-time designers in the 20 acre campus at Almhult, Sweden, and 80 freelancers who work with the operations teams to design and develop concepts, and then identify low-cost suppliers and materials. The design process is not only about the look and feel of the finished product, but also the cost, the materials and the ability for the item to be easily flat-packed and reassembled.

IKEA’s design goals:
1. Affordability
2. Sustainability
3. Good design
4. Functionality

IKEA has a reputation for innovative thinking, particularly in the design and development process. For example, they once worked closely with ski makers who are experts in bent wood to develop their range of armchairs. This kind of ‘out-of-the-box’ thinking gives IKEA a competitive advantage, particularly on a cost basis.

Figure 1: Klippan Sofa, IKEA.

Some IKEA products take close to two years to develop. Each design is put through a rigorous testing process that begins with a prototype. Over 2000 prototypes are created each year. Technicians use the latest technology called ‘rapid prototyping’ where a 3D plastic printer creates a plastic prototype by pouring hot plastic liquid layers based on an electronic 3D drawing. Prototypes are then tested for durability – pressure testing, how many times it can be used before joints break, how the item copes with being knocked over and so on.

Most of IKEA’s flat-packing is done at their main facility in Sweden where the processes are almost completely automated. Where humans once packed items at the rate of 20 units per hour; advanced robots now pack 720 units per hour, and are able to operate 24 hours per day, 365 days per year. This efficiency is what allows IKEA to achieve a significant competitive advantage in operations management and enables them to offer prices at 30 per cent less than those of competitors.

**Logistics And Supply Chain Management (SCM)**

IKEA operates via a global web of 42 distribution centres, in partnership with a network of 1220 suppliers in over 55 countries. IKEA invests considerably in creating long-term partnerships with suppliers, committing to buying large volumes over a longer time frame and, as such, negotiating lower prices. Suppliers also have the guarantee of ongoing orders.

**Customer is in the supply chain**

IKEA minimises costs and global logistics by having their customers form part of their supply chain. Customers collect their furniture from the in-store warehouse, without waiting, and then transport and assemble the furniture themselves. IKEA does not offer free home delivery as other furniture retailers do, which helps cut down on transportation/logistics costs, and passes on the benefit to customers in the form of lower priced goods.

**Technology and SCM**

Unlike most retail furniture stores that make-to-order, IKEA has ready inventory to meet customer demand. The IKEA supply chain is mainly make-to-stock (MTS) and only a few products are made to customer orders. Consequently, the entire supply chain is heavily dependent on forecasts which can present challenges in ensuring stock is available at all stores as needed. IKEA has recently implemented the latest IT infrastructure to enhance their supply chain management and to allow for better efficiency. Due to the sheer number of orders and components required by the company, IKEA required a system for ordering inputs from suppliers, integrating them into products, and delivering them to stores via a network of 14 warehouses.

**Standardisation Versus Customisation For Global Markets**

IKEA’s strategy of not paying attention to local market peculiarities has worked well in Europe where they have been able to sell standardised products, and as a result, build considerable economies of scale into operations to maintain a competitive price advantage. However, this standardised approach proved a challenge when IKEA entered the US market in 1985.
The 26 US stores performed significantly below their European counterparts. US customers preferred large furniture kits and household items that IKEA's store did not provide. For example, Swedish beds were five inches narrower than those US customers were used to; IKEA’s kitchen cupboards were too narrow for the large dinner plates typically used in the US; IKEA’s glasses were too small for US customers who typically add ice to their drink and hence require large glasses. It is said that US customers bought flower vases thinking they were drinking glasses!

Learning from this mistake, some items in the IKEA catalogue are now customised to the specific needs of local markets. For example, IKEA China released a line of red 250,000 plastic placemats to commemorate Year of the Rooster — they sold out in three weeks. The wardrobe features on offer in the USA are now different from those offered in Italy, as Americans prefer to fold their clothes, and Italians to hang.

**HR Management @ IKEA**

IKEA has over 118,000 employees (or ‘co-workers’) worldwide who have significant autonomy in their work, and work in an organisation with little hierarchy and a family-friendly culture. Mikael Ohlsson, who took over as Chief Executive Officer (CEO) of IKEA Group in September 2009, says he wants his ‘co-workers’ to be ‘happy, honest and inclined to think for themselves’, and is proud that 40 per cent of the 200 top managers are women.

**IKEA in Australia**

IKEA Australia has a strong reputation for work-life balance, career opportunities for growth and development, and a strong set of cultural values. IKEA Australia East currently employs approximately 1200 people, around half of whom are female, and plans to grow its employee base to 3000 by 2015. IKEA Australia’s employees work under an enterprise agreement which includes the following family-friendly conditions:

- 26 weeks paid maternity leave for co-workers with 2+ years employment at IKEA
- An option to take 12 months maternity leave at half pay
- Four weeks paid paternity leave for co-workers with 2+ years employment at IKEA
- Maternity and paternity leave available for both birth and adoption of a child and for same-sex couples

IKEA Australia’s Country Manager, David Hood, said that the new agreement aims to create a better everyday life for co-workers:

‘IKEA’s core aim globally is to create a better every day life for the many people, and that includes our people. We believe the agreement, which was supported overwhelmingly by IKEA Australia co-workers, will provide an excellent foundation to attract, develop, inspire and retain the best team we can, and will help grow the Australian business in an otherwise challenging financial climate. By offering some of the best employee benefits in Australia, we are demonstrating our commitment to co-workers, and aim to be ranked amongst the best employers of choice in the retail sector.’

**Future Of IKEA**

IKEA continues to look towards emerging markets such as China and India for future growth.

IKEA started its retailing operations in China with the opening of its first store in Shanghai in 1998, and faced many challenges due to culture and business practices, as well as the socio-economic and political conditions. In China, IKEA’s products continue to have the image of catering to high-end consumers, unlike the perception as a ‘good value’ elsewhere in the world. The company found it difficult to price its products at a level where it could attract larger numbers as well as keeping the company in profit. China’s high import taxes also hit the company’s profitability significantly.

Another challenge has been the establishment of a copycat IKEA store called ‘11 Furniture’ which copies IKEA’s blue-and-yellow colour scheme, mock-up rooms, miniature pencils, signage and even its rocking chair designs. Despite the challenges, sales in China are now growing faster than at the company as a whole and IKEA plans to open three stores per year in the coming years.

The Indian government has recently agreed to start the liberalisation of its retail sector and allow single brand stores owned by foreign companies to trade. This will enable retailers like IKEA to set up their own stores in the country. Until now, foreign retailers had to be a minority partner to a local company. This change will provide IKEA with the opportunity to meet the demands of India’s growing middle-class consumer group.

Despite the grim reality experienced by much of the retail sector in Australia and worldwide, IKEA have developed a clear strategy to survive the challenges of the marketplace. With cost effectiveness a mantra for all areas of their business, from product development and design to supply chain management, IKEA has achieved a significant competitive advantage and shows no signs of slowing its growth or of spreading the IKEA way worldwide!

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Clarity, respect avoids a poisonous workplace

Article by Nicholas Wilson
MySmallBusiness
Sydney Morning Herald
March 26, 2012

A good employee induction can cut the chances of work relationships souring, says FairWork Ombudsman.

Just one disgruntled worker can disrupt an entire workplace. And just one badly handled performance discussion can give an employer a bad reputation among workers.

Most employers are well aware of the dangers of having a disgruntled worker, but I suspect not all are aware of the practical things they can do, particularly at the induction of a new worker, to help avoid the problem in the first place.

The Fair Work Ombudsman investigates complaints from more than 20,000 employees nationally each year.

Problems can begin with lax management practices when employees start their jobs and those issues can compound over time. Many of the complaints we receive could have been prevented if the manager had been more thorough in inducting new employees.

Below are my top tips for employers engaging new staff:

Establish performance expectations. Clearly explain the employee’s responsibilities, key work tasks and standards required, as well as the rewards for achieving them.

Put it in writing. This can help avoid misunderstandings that can result in employees becoming confused and even feeling betrayed.

Be sensitive and respectful. Ask employees if they have any personal requirements related to cultural, medical, language, disability, family or any other factors and be respectful and as accommodating as possible.

Get the pay right from day one. Before a new employee starts, the employer should ensure they know which industrial instrument, classification and pay rates apply. One of the easiest ways to put an employee offside is to short-change them.

Be fair and equitable. You should make it clear to new employees that you provide them with equal access to learning and development opportunities and merit-based promotion opportunities, regardless of their age and gender.

Understand your employee’s induction rights under workplace laws. Employers are now required to provide all new employees with a copy of the Fair Work Information Statement. The statement provides a handy summary for employees of their workplace rights.

Keep the lines of communication open. Make it clear from the outset employee initiative and suggestions are encouraged and that the boss’ door is open if employees are concerned or uncertain about any issue. This will help prevent issues festering and snowballing.

STUDENT ACTIVITIES

Define / explain these terms in their correct business usage:
employee induction, performance review, morale, entitlements, rights and responsibilities, rewards, organisational goals, cultural factors, family factors, equal access, merit based promotion, age and/or gender issues, employee initiative, ombudsman.

Investigate the office of the Fair Work Ombudsman
1. Which level of government administers it?
2. What is its role/function?
3. How would an employee make a complaint to an employer?
4. What is the writer suggesting to employers to avoid trouble in the workplace?
5. Suggest a suitable induction program for say a 16 year old starting work at McDonalds.
6. List some entitlements that an employee may be eligible for other than pay.
7. Make a small list of questions that an employer may ask an employee when conducting a performance review at six monthly intervals.
8. In a diverse workplace suggest several cultural, medical, language or disability issues that a manager may have to be aware of and accommodate.
9. How could more informal communication and employee empowerment in the workplace lead to a win – win solution for both employers and employees?