

Business Management Update

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The purpose of the Business Management Update is to provide teachers and their students with some of the latest ideas and examples from the business world. In this 1st edition, these have been applied to the relevant key knowledge points from Area of Study 1 of the VCE Unit 3 Business Management Study Design.

A focus on Unit 3, Area of Study 1 Business foundations

Area of Study 1 of Unit 3 VCE Business focuses on business foundations. The word “foundations” refers to the underlying or fundamental principles on which something is based. Developing a good understanding of these fundamental principles that we explore now in Business Foundations will stand you in good stead for the rest of the course, as the principles will be developed throughout the rest of Unit 3 and 4 Business Management.



In Area of Study 1 we look at a number of different types of businesses, including public listed companies. A public listed company that was in the news recently is **James Hardie Industries**. In early January this year, the company announced that it was terminating CEO Dr. Jack Truong’s employment after the James Hardie board investigated repeated employee complaints regarding the CEO’s “threatening and intimidating” and disrespectful behaviour in the workplace.

The majority of this update will explore the key characteristics of James Hardie and its stakeholders, as well as its corporate culture, management styles and management skills.

For some background information on James Hardie, see Box 1.

Box 1: A brief history of James Hardie

Yes, there was a person named James Hardie! In the nineteenth century, he founded the business that was the predecessor to the current company. Seeking new opportunities, entrepreneur James Hardie immigrated to Melbourne from Scotland in 1888, and established a business importing oils and animal hide tanning products. He partnered with a fellow Scotsman named Andrew Reid in the 1890s, and when Hardie retired in 1911, he sold half of the business to Reid.

While Hardie died in 1920, the Reid family led the growing business from 1911 until 1995. In the 1900s, the business started importing ‘fibro-cement’, a new type of roofing and lining slate that was made in France, after Hardie saw the product being used while on a trip to London.

James Hardie was listed on the Australian stock exchange in 1951. The company built up a range of building and industrial products including asbestos-based products. Unfortunately, the growth of the business led to a number of significant structural issues and financial inefficiencies. For this reason, in August 2001, James Hardie restructured, establishing a new Dutch holding company, James Hardie Industries NV. However, this move was unsuccessful and the company moved to Ireland in 2010.

The manufacture and marketing of asbestos-based products resulted in a number of crises for James Hardie towards the end of the twentieth century and early in the twenty-first century. The company stopped producing asbestos products in the 1980s, and developed asbestos-free fibre cement technology. However, James Hardie spent millions of dollars trying to avoid its legal responsibility to compensate people who were dying as a result of using its asbestos products. Stakeholders were falsely informed that there were adequate funds for victims of asbestos-related diseases making claims. James Hardie had established a trust in 2001 to provide financial compensation for victims, but the business was criticised for providing insufficient funds. A \$1.55 billion compensation fund was finally established in 2007, after lengthy negotiations between the company and the Australian Government.

Types of businesses

James Hardie is a public listed company. This means that its shares may be bought and sold by the general public. James Hardie’s shares are listed on the Australian Securities Exchange (ASX). However, James Hardie is also known as a dual listed company. This means it is listed on the New York Stock Exchange as well as the ASX. The company’s official title is ‘James Hardie Industries plc’, with the abbreviation standing for public limited company. A plc is a public company under company law in the Republic of Ireland (where James Hardie has its headquarters).

Dual listing allows a company to access more potential investors, and therefore greater amounts of finance. There may also be tax advantages to operating in different countries. However, it is a very complex structure. It is also very expensive, with many costs involved in initial listings and ongoing expenses.

Public companies have a number of other advantages, including limited liability (meaning that shareholders are not made personally liable for a company’s debts), easy transfer of ownership and a long life/perpetual succession.

Business objectives

James Hardie manufactures building materials. Employing almost 5000 people, it has operations in North America, Europe, Australia, New Zealand, and the Philippines. Like all businesses, James Hardie has objectives (the desired outcomes or specific results that a business intends to achieve).

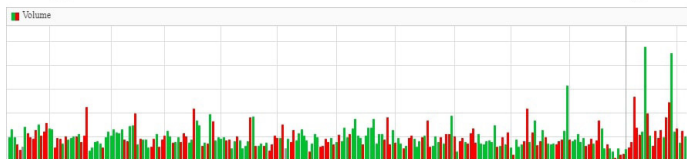
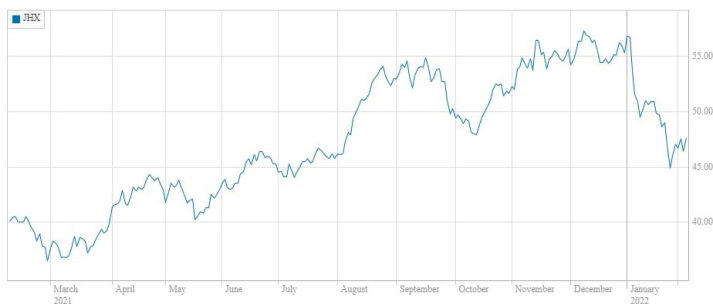


James Hardie's goal is "to remain at the forefront of the building products industry in every market in which we operate". The company's business objectives are also revealed in its mission statement which is "to be a high performing global company that delivers organic growth above market with strong returns, consistently, quarter-on-quarter, and year-on-year."

Make a profit / meet shareholder expectations

Making a profit is clearly an objective for James Hardie. Profit is what remains after expenses have been deducted from money earned from sales (revenue). Making profit is also important for investors in the company – its shareholders. Shareholders expect to make a return on their investment through dividends and capital gain.

James Hardie announced its results for the 2021 financial year in May last year. Its global net sales increased by more than 12 per cent from 2020 to US\$2.9 billion, which was a record result. This sales revenue carried through to the company's bottom line, resulting in net income growth of 30 per cent to US\$458 million (James Hardie reports its profit as 'net income').



Unfortunately, following the announcement, investors pushed the share price lower on the ASX, to \$40 per share (back in 2021). However, across January this year, the shares have been trading between \$44 and \$57 following the company's solid second quarter for the 2022 financial year. James Hardie announced (in November last year) an increase in global net sales for the second quarter of 23 per cent from the same time in

the previous year, and a 29 per cent increase in net income. However, following James Hardie's announcement that it was dismissing its CEO in January, its share price fell to \$50. It has since fallen further. Shareholders would not be pleased with the recent fall in the value of their James Hardie shares.

Increase market share

When announcing its results for the second quarter of the 2022 financial year, James Hardie said that it had gained market share in the North America fibre cement segment. This means that the company increased its proportion of total sales in this market. Former CEO, Dr. Truong commented that the North American business had delivered a record quarter. He said:

"... we believe we are poised to continue to drive strong net sales growth with strong returns while gaining market share."

Fulfil a market and/or social need

James Hardie fulfils a market need by manufacturing building materials that are used by homeowners and building professionals. For example, it manufactures external cladding, interior linings, and flooring. It is the number one manufacturer of fibre cement products in the world.

James Hardie also fulfils social needs. The company is committed to building sustainable communities. In its 2021 Sustainability Report, James Hardie points out that it hires employees locally, sources raw materials locally and aims to minimize its material use, energy consumption and waste generation. The business promotes a 'Zero Harm culture', seeking to ensure the safety of its products, employees, partners, customers and communities. We will explore some of these responsibilities in more detail in the following section (corporate social responsibility considerations).

Characteristics of stakeholders of businesses and corporate social responsibility considerations

Stakeholders

Stakeholders are the groups and individuals who interact with the business and have a vested interest in its activities. In Unit 3 Business Management you need to be aware of the interests of a variety of stakeholders, as well as the potential conflicts that can occur as a result of these competing interests.

Management and employees are two stakeholders with vested interests in James Hardie's performance. Managers are the people who have the responsibility for ensuring that the business is profitable or successful. They want James Hardie to perform well financially, and in return, expect to be fairly remunerated. Employees are the people who work for James Hardie and expect to be paid fairly, trained properly and treated ethically in return for their contribution to the business. A number of managers and employees repeatedly raised concerns regarding Dr. Truong's conduct in the workplace. They would be satisfied that action was taken. A number of top executives had threatened to quit over the former CEO's management style.

James Hardie **shareholders** have seen a decrease in the value of their investment in the wake of the company's upheavals. They would not be particularly thrilled about the falling share price. However, many would be relieved that decisive action was taken against a CEO who may have potentially caused long-term damage to the reputation of the business.



Another stakeholder is the **broader community**, referring to all the individuals who live in the same area (such as a city or town). Members of the community expect that a business will give back to society something of what they take out in generating profit. Many people suggested that the dismissal of James Hardie’s CEO demonstrated a falling level of tolerance for bullying in the workplace. Some connected the departure of the CEO to the ‘Me Too’ movement, even though it appears that there were no claims of sexual harassment made against Dr. Truong. In a press release, the James Hardie board stated that Dr. Truong breached the company’s code of conduct, but that his behaviour was not discriminatory. Many people praised the James Hardie board for their actions and transparency in providing reasons for why the CEO was being dismissed.

The dismissal of its CEO and the conduct that led to the upheaval at the business are not a good look for James Hardie. However, the company immediately named Harold Wiens, a non-executive director, as interim CEO. James Hardie chairman Mike Hammes commented that Mr. Wiens was well placed to step into the role and lead the company while it searched for a new permanent CEO. He said:

“He is an individual of outstanding integrity who demonstrates great passion for our company, and importantly its people and our core values...”

Corporate social responsibility considerations

Conflicts between the interests of stakeholders result in the necessity for businesses to consider corporate social responsible issues. Today, society expects that businesses will behave in a manner that is over and above legal responsibilities. This includes showing concern for the wellbeing of employees and customers, shareholders and the community as well as the environment.

James Hardie’s commitment to corporate social responsibility can be seen in its code of conduct – designed to ensure that employees support James Hardie in its commitment to ethical standards, corporate responsibility and sustainable business practice.

One way in which James Hardie gives back to society is through its commitment to the community. The company donated more than US \$1 million in products and company donations to organisations during 2021. Seeking to manage its environmental impact, James Hardie makes use of lean manufacturing, recycling and renewable sources of energy to reduce waste, water usage, energy usage and emissions.

James Hardie is focussed on innovation – transforming new technologies into sustainable products. It seeks to continuously improve in order to

find better ways to build. The company also aims for ‘Zero Harm’. This means that the business prioritises the safety of its products, employees, partners, customers and communities. The business works on the conviction that ‘every safety incident is preventable’.

Ultimately, James Hardie strives for strong corporate governance and a positive corporate culture – in achieving this, the business claims that its people are at the core of the business and its leaders drive action. This would explain why the James Hardie board took the action that it did to dismiss Dr. Truong. Employees who brought complaints against the former CEO cited intimidating and threatening behaviour. This conduct has no place in a business that is trying to achieve ‘Zero Harm’ and improve its governance and culture. It looks like the board made its decision in line with James Hardie’s corporate social responsibilities.

The areas of management responsibility

It is important to understand that the five areas of management responsibility listed in the VCE Business Management study design (operations, finance, human resources, sales and marketing, and technology support) must be considered by all businesses, regardless of whether they are small, medium or large. Each area will make use of unique strategies that contribute to the achievement of business objectives.

In a large business, specific departments usually address these areas of management responsibility. Some of these areas are represented on James Hardie’s leadership team, as outlined in the table below:

Senior Manager	Position
Harold Wiens	Interim Chief Executive Officer
Jason Miele	Chief Financial Officer
Julie Katigan	Chief Human Resources Officer
Dr. Joe Liu	Chief Technology Officer
James Johnson	Chief Information Officer
Joe Blasko	General Counsel and Chief Compliance Officer
Sean Gadd	North America President
Ryan Kilcullen	Senior Vice President, Global Operations
Dr. Jörg Brinkmann	General Manager, Europe
John Arneil	General Manager, Asia Pacific
Jennifer Bressler	Head of Retail Business Development
Fran Flanagan	Head of Consumer Marketing
Johnny Cope	Senior Vice President, North America Sales

Dr. Liu, Mr. Kilcullen, Mr. Arneil and Mr. Johnson were appointed recently, following the dismissal of Dr. Truong as the former CEO. Mr. Wiens was appointed as interim CEO in January.

Management styles

While the precise details concerning Dr. Truong’s conduct at James Hardie are unknown, it is likely that he was using an **autocratic** management style. This style tends to make use of one-way (top-down) communication, centralised control over decision-making, and no employee input.

When announcing the dismissal of Dr. Truong, the company said that it had conducted due diligence into the allegations, with the help of external lawyers and a third-party consultant. In a press release on January 6, the board noted that his conduct “extensively and materially breached the James Hardie code of conduct”. The James Hardie board claimed that after employees raised concerns about Dr. Truong’s work-related interactions, it offered opportunities and support for the former CEO, but he failed to improve his behaviour.

It seems that Dr. Truong did not exhibit this behaviour earlier on in his time at James Hardie or during his previous roles. In an interview with AFR (the Australian Financial Review), James Hardie chairman Mr. Hammes said that the company did not know what caused the change in Dr. Truong's behaviour. Mr. Hammes noted that the former CEO was tough, and demanding, which was expected of the leader of James Hardie, pointing out that this suited the company's corporate culture. However, just after announcing that the company had dismissed Dr. Truong, Mr. Hammes told investors and analysts:

"He started, over the last few months, treating people with a lack of respect, using intimidation, fear and humiliation, and it was not a one-off. We could not accept that."

This description sounds like the autocratic management style (just a very extreme version of it).

Management skills

For some time, the former CEO of James Hardie was recognised as a successful manager, with strong **leading** skills. Remember that leading is the ability to influence or motivate employees to work towards the achievement of business objectives.

Dr. Truong was appointed as CEO in 2019 to lead a transformation at the company. As recently as November last year, he featured on the cover of CEO Magazine, and was the feature interview for the magazine, explaining that it was important to lead by example, that employees should be empowered to take ownership of their initiatives, and that a team environment should be fostered in a successful business.



A few days after being dismissed, Dr. Truong issued a response, saying that he had been "blindsided" by the termination and denying the allegations made by Mr. Hammes and the company. He defended his performance, noting that under his leadership, James Hardie's sales and profit had increased and the share price had more than tripled. Dr. Truong has indicated that he is considering legal action.

However, there has never really been a question about Dr. Truong's leading skills. In its January 6 press release, the James Hardie board noted the role that he had had in driving change at the business over the past three years. Chairman Mr. Hammes commented that the transformation that had occurred at the company over the past three years was remarkable. He also said:

"The company now has a clear, correct and very well-defined strategy that is aligned with what the board and management identified as necessary in 2017. This strategy is now deeply embedded throughout the organisation, from the line employee at our plants all the way to the executive leadership team."

The problem was not Dr. Truong's leading skills but his **communicating** and **interpersonal** skills – there were complaints about the way he interacted with other management and employees in the workplace.

The appropriateness of management styles in relation to the nature of task, time, experience of employees and manager preference

When selecting an appropriate management style, managers need to consider elements including the nature of the task itself, constraints such as time and other resources, the experience of employees as well as their personal preference.

While there is nothing wrong with using an autocratic style, and it can be very appropriate during times of change or a crisis, a manager needs to be very careful that it is not overused or applied in the wrong situations. As change was successfully implemented at James Hardie, it may have been beneficial to use a more people-friendly style, such as consultative or participative, as well as open communication and strong interpersonal skills. When Dr. Truong spoke to CEO Magazine about empowering employees and fostering a team environment, he implied that he had been making use of either a consultative or participative management style, as well as management skills that encourage teamwork and staff input.

Corporate culture both official and real, and strategies for its development

Corporate culture refers to the values, attitudes, ideas, and beliefs that are shared by managers and employees within a business. Official corporate culture is the business's desirable values and beliefs. James Hardie's official corporate culture can be seen in its values, which are:

- thrive on competition
- build an organisational advantage
- embrace step change
- operate with respect

Real corporate culture is the values and beliefs actually practiced by people in the business. James Hardie's real corporate culture is reflected or indicated in the way staff dress, the way staff and management behave with and speak to each other, the way in which customers are treated, as well as the symbols, the rites, the rituals and the celebrations of the business. It is what you would see or experience if you actually went into James Hardie's workplace.

Chairman Mike Hammes suggested that James Hardie's corporate culture relates to hard work and continuous improvement. However, the behaviours that Dr. Truong was exhibiting, such as a lack of respect, intimidation, fear and humiliation were considered to not be part of the company's desired culture. In its January press release, the James Hardie board noted that it took the action to dismiss Dr. Truong to uphold the company's core values, including "Operating with Respect". This confirms that the board was attempting to ensure that a desired corporate culture was being implemented.

REVIEW QUESTIONS

1. Briefly outline what James Hardie announced on January 6 2022.
2. Explain why James Hardie is a public listed company.
3. Outline some of the advantages and disadvantages of a public listed company.
4. What products does James Hardie sell and who purchases its products?
5. Using examples, describe James Hardie's business objectives.
6. Identify two stakeholders and explain their characteristics.
7. Discuss the interests of two James Hardie stakeholders.
8. Identify the ways in which James Hardie demonstrates corporate social responsibility.
9. How well do you believe James Hardie is meeting its corporate social responsibilities? Justify your response.
10. Identify the areas of management responsibility addressed by James Hardie in its leadership team.
11. Discuss the use of the autocratic management style at James Hardie.
12. In what ways did Dr. Jack Truong demonstrate the successful use of management skills? In what ways do you think he did not demonstrate successful use of management skills?
13. Compare official corporate culture to real corporate culture.
14. Briefly outline James Hardie's official corporate culture.
15. Provide evidence of James Hardie's real corporate culture.

APPLICATION EXERCISE

Case Study on a sporting goods wholesaler –



Amelia is the owner of a sporting goods wholesale business named Xtrasportz. She founded the business ten years ago. The business employs twenty staff and earns revenue of approximately \$2.4 million per year. Amelia has worked hard to grow the business and build up a loyal customer base.

The aim of Xtrasportz is to provide quality products at affordable prices for its business customers, with outstanding customer service. Staff enjoy working at the business, and Amelia always asks them for their opinion before making decisions. For some experienced staff, she will actually encourage participation and ownership in decision-making.

Answer the following questions that relate to Area of Study 1 of Unit 3 Business Management.

1. Identify the type of business that Xtrasportz is. Discuss the use of this type of business.
2. Describe two business objectives that relate to Xtrasportz.
3. Explain two areas of management responsibility and how each would contribute to the achievement of business objectives at Xtrasportz.
4. Describe a potential conflict between Amelia's employees and one other stakeholder.
5. Explain two corporate social responsibility considerations that

Amelia will need to address.

6. Discuss two management skills that Amelia is using at Xtrasportz.
7. Evaluate a management style that Amelia is using.
8. Amelia wants her business to have a positive corporate culture. Justify a management strategy that she could use to develop Xtrasportz's corporate culture.

INTERESTING INFORMATION

Supply chain problems

Recently, you would have noticed empty shelves in supermarkets or seen photos of the same in media and social media. Unlike the panic buying of 2020, the current supply chain crisis that we are experiencing is largely caused by employees missing work because they have COVID or they are in isolation. This includes people working right across the supply chain, such as suppliers, truck drivers, warehouse team members and so on. You should stay up to date with these problems, as we explore supply chain management later in Area of Study 3.

However, the limitations of this management strategy are clear and present. A few weeks ago, Woolworths said that it had something like 20 per cent of staff missing at some of its facilities, making it difficult to stock shelves. Farmers are having food returned to them because there is no supply chain to take the food to supermarket shelves.

Supply chain problems are not limited to the supermarkets. Through 2021, we've seen car manufacturers having to stop production because of shortages of semiconductor chips. This shortage is very likely to continue into 2022. Containers carried by ships, with imported appliances, foods and various other products inside, have had to wait in ports to be unloaded, or have been dropped off in the wrong locations, causing delays. Fast food restaurants have also faced disrupted supply chains, with businesses such as KFC running out of chicken.

All of these problems have essentially been caused by fluctuating consumer demand for particular products, as well as workers not being able to attend work. Other events have also contributed, including floods and storms holding back supply of foods such as potatoes.

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