



# The Capacity to Manage Index

## Report 6: Industrial Awards

**Capacity to Manage Index:** The Index is now well known. It studies Australian industrial relations agreements, rating the extent to which the agreements affect the formal capacity of managers to manage their businesses. All Capacity to Manage studies are available at [www.ipa.org.au](http://www.ipa.org.au). Go to 'Work Reform'.

### CFI BACKGROUND. ENTERPRISE AGREEMENTS

The IPA developed the unique Capacity to Manage Index in 2002. To date, some 240 individual company enterprise agreements from five industry sectors have been studied. The results have not been encouraging for Australian business. The clear outcome is that where businesses have entered into enterprise agreements, the agreements have reduced and inhibited the formal decision-making authority of managers. This runs counter to the theory of individual enterprise agreements—namely, that they are supposed to tailor employee–employer arrangements to the needs of individual businesses and their workers. Between theory and practice something has gone astray. There are a few individual businesses where the agreements have facilitated management capacity—but they are in the minority.

### ASSESSING THE AWARD SYSTEM:

#### Overview

The methodology of the Capacity to Manage Index has so far relied on measuring individual enterprise agreements against prevailing awards for particular industries. That is, awards have been taken as the 'zero' point, and enterprise agreements have been assessed as to whether they increase or diminish

managerial capacity to manage when compared with the award/s.

In applying this capacity to manage process, however, the question so far not addressed is: what does the 'award zero' mean? This new Capacity to Manage study addresses this question by asking: do industry awards increase or decrease the capacity of managers to manage when compared with the employment contract that would prevail if Australian awards did not exist?

The common-law employment contract is the relevant contract to use as a base when considering the capacity to manage impact of awards, because when untouched by legislatures, the common-law contract gives employers almost unfettered ability to make managerial decisions in their business. This is achieved because, under the common-law employment contract, the employer has the 'right to control' the employee. That is the legal theory. Legislation, however, imposes layers of regulation on employers that change the nature of the employment contract. In Australia, the industrial relations system is a primary employer regulator.

The lynchpin to the industrial relations system is the system of awards. Awards are legal industrial instruments with which employers must comply. There are somewhere in excess of 5,000 of these in Australia. In running their businesses, Australian employers must ensure that they discover the relevant award/s for their industry and use them in their businesses. Some businesses may have only one award with which they must comply. Some may have many awards. For example, a hot bread shop may need to comply with a bakers award, a pastry cooks award, a retail award and even a transport award. Or

there may be one award for hot bread shops. It can be unpredictable, complex, involve considerable detail and involve important variations between awards. For the most part, awards cover employee pay rates but will also cover managerial issues. For example, the shearers awards have, until as recently as 2000, stipulated the lunch and dinner menus that must be supplied to shearers. The clothing awards stipulate the price to be paid for sewing a button on a shirt and the times at which sirens must be blown to allow for work breaks.

Unlike enterprise agreements where managers have a choice as to whether they enter agreements or not, award compliance is mandatory.

Over the last decade, in an effort to reduce award complexity, awards have been 'simplified'. Part of the current debate about workplace reform involves arguments over the extent to which awards should be further simplified.

To understand how the Australian industrial relations system affects the capacity of managers to manage, an assessment of awards is worthwhile.

### Methodology

In undertaking the research, the questions being investigated were:

- If the common-law employment contract is theoretically taken to give managers total legal authority to manage, how do awards affect the capacity to manage?
- Is there an identifiable 'across the system' outcome?  
Are there variations between industry sectors?

The study selected 75 awards from across 12 major industry sectors. A revised methodology ►

was required. Pay issues in awards were discounted. Remaining award clauses were studied, isolating those that affected capacity to manage. An identifiable pattern of capacity-to-manage issues in awards became apparent and included:

- Who controls employee training?
- Can the award be varied for individual circumstances?
- Does the award prohibit or allow individual contracts?
- How are dispute resolution powers distributed?
- Are employment categories restricted?
- Are job descriptions restricted?
- Are pay classifications restricted?

What was discovered is that the range and type of capacity-to-manage issues in awards were considerably fewer, less diverse and less complex than those identified in enterprise agreements. The issues identified are nonetheless significant from a capacity to manage perspective.

*[Note: It is recognized that industrial relations legislation and decisions of industrial relations commissions interact with and overlay provisions in awards. For the purposes of this study, however, it was necessary to consider awards in isolation from industrial relations case law.]*

**Results**

The study results indicate the following:

- Average change in Award capacity to manage is -5.9
- The variation between industry sectors is not huge when compared

with variations under enterprise agreements.

- Worst industry sectors for awards: **Metals manufacturing** (-8.7)  
**General manufacturing** (-7.4)
- Best industry sector for awards: **Government** (-3.3)

The inclusion of awards in the Capacity to Manage Index adds an important dimension to the on-going study. It would appear that

- Awards impose a reduced formal capacity to manage on all businesses in Australia.
- Businesses that enter enterprise agreements normally further reduce their capacity to manage.
- Australia has imposed upon its economy a layered process of reducing managerial capacity. This affects different industries to varying extents.

Combining the award study with prior industry studies, the combined average reduction in capacity to manage are listed in Table 1. (These are indicators only.)

**COMMENT**

Results from the earlier studies of enterprise agreements show a substantial reduction in the formal capacity to manage of most businesses that have entered enterprise agreements—with a few outstanding exceptions. This new assessment of awards shows that there is a systemic Australia-wide reduction in the capacity to manage created through the award system.

If it is assumed that the success of

businesses is primarily dependent on how well the businesses are managed, the scale of the reduction in formal rights of managers in Australia to manage their businesses must raise concerns about overall business performance.

Academics and others who study Australian management frequently complain that Australian managers are poor by international standards. If this is the case, part of the reason for poor management may be attributed to industrial relations awards. If the laws of the land prohibit or restrict the right of managers to manage critical aspects of their businesses, then the law is effectively seeking to dictate managerial decision-making. In such a framework, it is reasonable to conclude that managers will not manage as effectively as they perhaps could and that managerial skills will be lower than they might be.

The upside to these observations is that if the industrial relations system can be further reformed with a view to removing restrictions and prohibitions on managerial capacity to manage, then Australian management performance may have the opportunity to improve. If this observation is valid, there may yet exist within Australian businesses a latent capacity to grow and to add further to economic prosperity.

*The full report is available on subscription to the Work Reform Unit. To subscribe, contact the IPA.*



Table 1: Average scores for Industry Sectors to date

Industry Sector	Average EBA score	Average award score	Combined CMI score
Construction	-11.1	-6.8	-17.9
Auto Manufacturing	-9.7	-7.4 (estimate)	-17.1
Food Manufacturing	-8.1	-7.4 (estimate)	-15.5
Transport	-5.6	-6	-11.6
Petro/Chem	-1.5	-5	-6.5

## Capacity to Manage Index Overall Ratings, Industrial Awards

Industry	Sub Industry	Rating	Average
Accounting, Finance & Management	Banking services	-3	-4.6
	Finance and investment	-4	
	Insurance	-7	
Agriculture, Forestry & Fishing	Agricultural	-3	-6.8
	Agricultural	-9	
	Agricultural	-4	
	Agricultural	-6	
	Agricultural	-4	
	Grain Handling	-4	
	Wool	-6	
	Timber	-10	
Building & Construction	Meat	-5	-6.8
	Furnishing	-8	
	Cement & Concrete	-9	
	Glass	-8	
	Gypsum, Plasterboard	-4	
	Plumbing	-4	
	Plumbing	-7	
	Plumbing	-8	
	Plumbing	-8	
Electrical& Info Tech & Communications	Plumbing	-5	-5.8
	Technical Services	-6	
	Technical Services	-5	
	Electrical Power	-6	
Cleaning	Telecommunications	-6	-6
	Water, Sewerage & Drainage	-6	
	Dry Cleaning & Laundry Services	-6	
Food, Hospitality & Tourism	Food, Beverages & Tobacco	-5	-6.2
	Food, Beverages & Tobacco	-7	
	Food, Beverages & Tobacco	-7	
	Liquor & Accommodation	-6	
	Liquor & Accommodation	-6	
Government	Commonwealth Employment	-4	-3.3
	Federal Police Operations	-3	
	Electorate Officers (PS)	-4	
	Education Services	-2	
Manufacturing	Brush & Broom Making	-7	-7.4
	Glue & Gelatine	-7	
	Paint Manufacturing	-6	
	Rubber, Plastic & Cable Making	-6	
	Rubber, Plastic & Cable Making	-6	
	Clothing	-10	
	Clothing	-7	
	Textile	-8	
	Textile	-6	
	Saddlery, Leather & Canvas	-8	
	Saddlery, Leather & Canvas	-9	
	Rope, Cordage & Thread	-10	
	Grocery Products Manufacturing	-8	
	Chemical	-6	
	Media, The Arts & Printing	Entertainment & Broadcasting	
Entertainment & Broadcasting		-6	
Entertainment & Broadcasting		-6	
Graphic Arts		-7	
Photographic		-5	
Metals Manufacturing	Brass, Copper & Non-Ferrous	-8	-8.7
	Metal	-10	
Mining	Metal	-8	-5
	Coal	-5	
	Oil & Gas	-6	
	Oil & Gas	-4	
	Technical Services	-5	
Transport	Airline Operations	-5	-6
	Engine Drivers and Firemen	-8	
	Vehicle	-7	
	Private Transport	-7	
	Refuse	-6	
	Public Transport	-5	
	Port & Harbour Services	-8	
	Driving Services	-5	
	Maritime	-3	
	Postal Services	-7	
	Not Assigned	Miscellaneous Workers' (ACT)	
Veterinary Surgeons		-4	
Funeral Directing		-6	
Overall Average:		-5.9	