Business Management Units 3 & 4

Chapter 10 — Reviewing performance – the need for change

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Theory

Business change is any **alteration to the way a business operates** — a change to its internal or external environment, or to its **structures, processes or behaviours**. In practice, change means a business moves from a **current state** (“where we are now”) to a **new, desired state** (“where we want to be”). That alteration may be small and gradual — adjusting a roster, updating a supplier — or large and far-reaching — restructuring the whole organisation, entering an overseas market, or adopting a new technology across every process.

Almost anything about a business can change. Its **structures** may alter (a new organisational structure, new reporting lines or new departments); its **processes** may alter (how work is done, how products are made, the technology used); its **behaviours** may alter (management styles, corporate culture, the way employees work and interact); and the **environment** in which it sits — the wider conditions it faces — shifts continually. Understanding change begins with recognising that it can touch any of these things.

Why change is constant. No business operates in a vacuum. Every business sits inside an **external environment** — competitors, customers, technology, laws, economic conditions, globalisation and community attitudes — that is **continually shifting**. At the same time, its **internal environment** — its owners’ goals, its employees, its finances and its operations — is never static. Because these conditions keep moving, a business that stands still will steadily fall out of step with the world around it. Change is therefore **not a one-off event but an ongoing feature of business life**: managers must adapt continually simply to keep pace, and then adapt again as conditions move on.

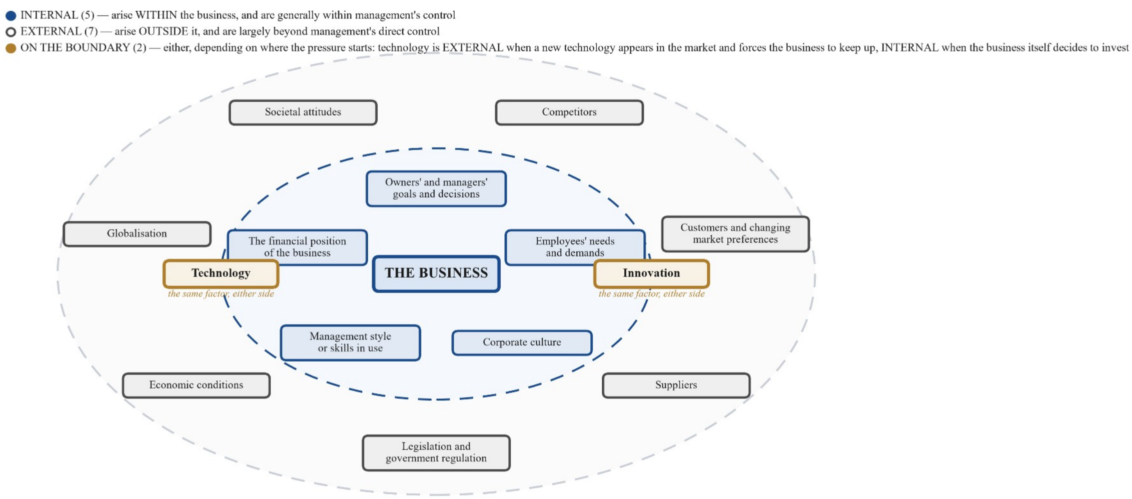
Why change is necessary. A business exists to **achieve its objectives** — making a profit, growing market share, operating efficiently and effectively, meeting a market or social need, and satisfying shareholder expectations. When the environment shifts, the approaches that once achieved those objectives may stop working: a competitor undercuts prices, customer tastes move on, a new law raises costs, or a technology makes an existing process obsolete. To keep meeting its objectives, the business must respond — that is, it must **change**. Change is the means by which a business stays **competitive and relevant** and continues to satisfy its stakeholders. Businesses that fail to adapt risk declining performance, loss of market share and, ultimately, failure.

Sources of change. Every change is set off by a **source (or trigger)** — the factor that creates the pressure to alter what the business does. Sources are usually grouped as **internal** or **external**.

- **Internal sources** arise from **within the business** and are generally **within management’s control**. They include the goals and decisions of **owners and managers**, the needs and demands of **employees**, the **corporate culture**, the **management style or skills** in use, the **financial position** of the business, and decisions about **operations, technology or products**. For example, an owner who wants to grow the business, or employees pushing for more flexible working arrangements, are internal sources of change.
- **External sources** arise from **outside the business**, in its operating and macro environment, and are largely **beyond management’s direct control**. They include **competitors**, **customers and changing market preferences**, **suppliers**, developments in **technology**, **legislation and government regulation**, **economic conditions**, **globalisation** and shifting **societal attitudes** (for example, community expectations about sustainability). A business cannot control these forces; it can only **respond** to them.

The **same factor can be either internal or external** depending on where the pressure comes from. **Technology**, for instance, is an *external* source when a new technology emerges in the market and forces the business to keep up; it is an *internal* source when the business itself chooses to invest in new equipment to improve efficiency. What matters is whether the trigger **originates inside or outside** the business, and how much control the business has over it.

Sources of change — where the pressure originates, and how much control the business has



Classify a source by the ORIGIN of the pressure, not by its label. The change itself is the alteration inside the business; the source is the reason it happens. Because both environments never stop moving, change is continual rather than a one-off project.

Change versus its drivers. It is important to separate the **change itself** from the **forces that cause it**. The *change* is the **actual alteration** — the new structure, the new process, the new behaviour. The *source, trigger or force* is the **reason** the change happens — the competitor, the new law, the owner's decision. A business does not change for its own sake; it changes **because** something internal or external creates a need to. (The specific driving and restraining forces that push for and against change are examined in later subtopics; here the essential point is simply that change always has a source, which may lie inside or outside the business.)

Key ideas to keep straight.

- **Change is the alteration, not the trigger.** The competitor, the law or the owner's goal is the *source*; the *change* is what actually alters inside the business as a result.
- **Internal is not external.** Internal sources arise *within* the business and are more *controllable*; external sources arise *outside* it and are largely *beyond its control*. The dividing line is **where the pressure originates**.
- **The same factor can sit on either side.** "Technology", for example, is external when the market moves and internal when the business chooses to invest — classify by the **origin** of the pressure, not by the label.
- **Change is constant, not a one-off.** Because the internal and external environments never stop moving, change is a **continual, ongoing feature** of business, not a single project with an end date.
- **Change serves the objectives.** A business changes to keep **achieving its objectives** in a shifting environment — change is a *means to an end* (staying competitive and relevant), not an end in itself.

Contemporary example — Ramsay Health Care, August 2025

Ramsay Health Care, then an ASX-listed private hospital group with operations in Australia, the United Kingdom and Europe, released its results for the year ended 30 June 2025 to the ASX on **28 August 2025**. In that release the company set out how it intended to alter its **Australian hospital business**: it named the **'Big 5'** hospital operations priorities — growth, procurement, revenue cycle management, workforce optimisation and smart rostering, and AI-enabled operations — to be implemented alongside a refreshed Australian strategy, and reported that it had reset its digital and transformation spending. The same document named the pressures behind those decisions: negotiating indexation with payors to reflect years of sector-wide cost increases, completing enterprise bargaining agreements in Victoria and Queensland, and proposed changes to minimum rates of pay under the nurses award work value case. (In the group's UK mental health business, Elysium, 75 corporate roles were removed in the first quarter of FY26 after a performance review.)

The release illustrates a business moving from a **current state** to a **new, desired state**, and it shows both kinds of **source** at once. The payors, the award case and rising costs are **external sources** — they arise outside the business and are beyond management's control, so Ramsay could only **respond** to them. Management's own goals for the Australian business — its aim of lifting the performance of the hospital operations under the refreshed strategy, and its judgement that digital and transformation spending should not keep climbing — are an **internal source**: they originate inside the business and are within its control. The enterprise bargaining agreements show that the **same factor can sit**

on either side: the wage demands come from Ramsay's **own employees**, who are inside the business, and Ramsay is itself a party to the negotiation, while the bargaining laws and the unions that negotiate for employees sit outside it. The **change itself** is what Ramsay then does — adopting the five priorities and resetting the spend, and the alterations to **processes** and **structures** that follow — not the pressures that prompted it.

Source: Ramsay Health Care Limited, Appendix 4E and Full Year Results 2025 (ASX release), 28 August 2025 — https://www.ramsayhealth.com/globalassets/global/investor-centre/investor-centre-pdfs/fy25-full-year-financial-report.pdf. Accurate as at July 2026.

Worked examples

Example 1 — scaffolded

Ridgeline Cycles, a suburban bicycle retailer, learns that a large national chain has opened a store nearby and is selling similar bikes at lower prices. In response, Ridgeline decides to change its product range and pricing. Identify whether the trigger for this change is an internal or external source, and justify your answer.

Working	Comment
The trigger is the **arrival of a new competitor** offering lower prices.	Identify what is actually creating the pressure to change.
A competitor is a factor in the business's **external environment**, outside Ridgeline's control.	Decide where the pressure originates — inside or outside the business.
Ridgeline cannot control whether the chain opens or what it charges; it can only **respond** by changing its own range and prices.	Justify by linking to the defining feature of an external source (beyond the business's control).
∴ the trigger is an **external** source of change.	State the conclusion.

Example 2 — scaffolded

The owner of **Ferndale Florists** decides to reorganise staff roles and introduce an online-ordering system so the shop can fill orders faster. Identify the source of this change and explain your reasoning.

Working	Comment
The change is driven by the **owner's own decision** to improve how the shop operates.	Pinpoint who or what is initiating the change.
The owner, the staff roles and the shop's processes are all **inside** the business and **within management's control**.	Locate the origin of the pressure.
Because the pressure to change comes from within — the owner's goal of faster service — this is an **internal** source; management *chose* it rather than being forced by outside conditions.	Explain by contrasting with an external (uncontrollable) trigger.

Example 3 — unscaffolded

Distinguish between an internal and an external source of business change.

An **internal source** of change originates **within the business** — for example the goals of owners and managers, the demands of employees, or the corporate culture — and is generally **within management's control**, so the business can choose whether and how to act on it. An **external source** originates **outside the business**, in its operating or macro environment — for example competitors, legislation, technology or societal attitudes — and is largely **beyond management's control**, so the business can only **respond** to it rather than prevent it. The key difference is therefore **where the pressure to change originates** and **how much control** the business has over it. ∴ internal sources come from inside and are controllable, whereas external sources come from outside and must be responded to.

Example 4 — unscaffolded

"Business change is a constant feature of business life." Evaluate this statement.

The statement is **strongly supported**. A business operates inside internal and external environments that **never stop shifting** — competitors act, technology advances, laws change, customer tastes move and owners set new goals — so there is almost always some pressure to adapt. Because a business must keep **achieving its objectives** as these conditions move, it must change **continually** rather than once, which supports the view that change is ongoing rather than a single event. **However**, the statement can be qualified: the **pace and scale** of change vary — some periods bring only minor, incremental adjustments while others bring rare, far-reaching transformation — and a stable, well-established business in a settled market may face relatively little pressure for long stretches. **On balance**, because no environment stays still indefinitely, change is best understood as a **constant, ongoing feature** of business, even if its intensity rises and falls. ∴ the statement is largely valid: change is continual, though its scale and speed differ from time to time.

Practice questions

Scaffolded

Q1. Define the term *business change*.

Q2. Business change can be triggered by internal or external sources. (a) Define an *internal source* of change. (b) Define an *external source* of change.

Q3. For each of the following, state whether the source of change is **internal** or **external**: (a) a rival business launches a cheaper competing product; (b) the owner sets a new objective to expand interstate; (c) the government introduces a new workplace-safety law; (d) employees request more flexible working hours.

Q4. Identify **two** internal sources and **two** external sources of business change.

Q5. A café owner decides to introduce a new self-service ordering app after noticing that a nearby competitor has done the same and is attracting younger customers. (a) Identify **one** external source of change in this scenario. (b) Explain why business change was necessary for the café.

Q6. Explain the difference between the **source** of a change and the **change** itself.

Unscaffolded

Q7. Describe what is meant by *business change*. *(2 marks)*

Q8. Distinguish between an internal and an external source of business change. *(4 marks)*

Q9. Explain why business change is a **constant** feature of business. *(3 marks)*

Q10. Outline **one** internal source and **one** external source of business change, using an example of each. *(4 marks)*

Q11. A clothing manufacturer changes its packaging to biodegradable materials after growing community concern about plastic waste. Identify the source of this change and justify your classification. *(4 marks)*

Q12. Discuss the advantages and disadvantages of business change for a business. *(6 marks)*

Q13. Explain why a business should treat change as a **means of achieving its objectives** rather than as an end in itself. *(3 marks)*

Q14. Compare internal and external sources of business change. *(4 marks)*

Q15. *Case study.* **Bellbrook Skincare Pty Ltd** manufactures natural skincare products. Over the past two years its founder, Dev Anand, has watched two developments unfold: a large overseas competitor has entered the Australian market selling similar products online at lower prices, and Dev himself has decided the business should switch to fully recyclable packaging to match his personal commitment to sustainability. Sales have begun to fall, and Dev knows the business must change. (a) Identify **one** external source and **one** internal source of change evident in the case study. *(2* *marks)* (b) Explain why change has become **necessary** for Bellbrook Skincare. *(3 marks)* (c) Analyse how **one** source of change identified above is affecting the business. *(4 marks)*

Q16. Analyse the relationship between changes in a business's **external environment** and its **need to change**. *(4 marks)*

Q17. Evaluate the view that business change is **always necessary** for a business to remain successful. *(6 marks)*

Q18. A long-established family bookshop has kept the same store layout, product range and processes for fifteen years, and its sales are steadily declining. Explain why the bookshop's reluctance to change may be harming it, and justify why change has become necessary. *(4 marks)*

Q19. *Extended response.* Businesses operate in internal and external environments that are constantly changing. Analyse how internal and external sources give rise to business change, and evaluate the view that change is a constant and necessary feature of business. *(10 marks)*

Q20. *Contemporary example.* In its results for the year ended 30 June 2025, released to the ASX on 28 August 2025, Ramsay Health Care set out the changes planned for its Australian hospital business — the 'Big 5' hospital operations priorities and a reset of its digital and transformation spending — and named the pressures behind them, including payor indexation negotiations, enterprise bargaining in Victoria and Queensland, and a nurses award work value case. Analyse the sources of change evident here, and distinguish them from the change itself. *(6 marks)*

Answers

Q1. Any alteration to the internal or external environment, structures, processes or behaviours of a business — a movement from a current state to a new, desired state. **Q2.** (a) A source of change that originates *within* the business and is generally within management's control. (b) A source that originates *outside* the business, in its operating/macro environment, and is largely beyond management's control. **Q3.** (a) external; (b) internal; (c) external; (d) internal. **Q4.** Internal (any two): owners'/managers' goals, employees, corporate culture, finances, management style/skills, operations/technology decisions. External (any two): competitors, customers/market preferences, suppliers, technology, legislation, economic conditions, globalisation, societal attitudes. **Q5.** (a) The nearby competitor introducing a self-service ordering app. (b) Because customers were being drawn to the competitor, the café risked losing sales and failing to meet its objectives, so it had to change to stay competitive. **Q6.** The *source* is the reason/trigger for the change (e.g. a competitor, a law, the owner's goal); the *change* is the actual alteration the business makes in response (e.g. new prices, a new process). The source causes the change. **Q7.** Alteration to a business's internal/external environment, structures, processes or behaviours; a move from current to a new desired state. See solutions. **Q8.** Internal = inside, controllable; external = outside, largely uncontrollable (respond only). See solutions. **Q9.** Both environments shift continually, so a business must adapt continually to keep meeting objectives → ongoing, not one-off. See solutions. **Q10.** Internal (e.g. owner's expansion decision) — inside/controllable; external (e.g. new competitor) — outside/uncontrollable. See solutions. **Q11.** External — shifting societal attitudes (community concern), beyond the business's control; it can only respond. See solutions. **Q12.** Advantages (adapt, stay competitive, efficiency, opportunity) and disadvantages (cost, disruption, uncertainty, resistance). See solutions. **Q13.** Change is a means to keep achieving objectives (competitive/relevant), not an end in itself — no change for its own sake. See solutions. **Q14.** Similarity: both are triggers creating pressure to change. Difference: internal = inside/ controllable, external = outside/uncontrollable. See solutions. **Q15.** (a) External = overseas competitor; internal = Dev's packaging decision. (b) Falling sales show objectives no longer being met → must change to compete and align with values. (c) Causal analysis of one source's effect on the business. See solutions. **Q16.** External change → the current approach no longer fits → a need to change arises; larger/faster shifts → stronger pressure. See solutions. **Q17.** Largely necessary (moving environment) but qualified (scale/pace vary; not every change is necessary) — reach a judgement. See solutions. **Q18.** Environment moved on while the shop stood still → sales decline; change needed to realign with customers and restore objectives. See solutions. **Q19.** Model response in solutions. **Q20.** External sources = the payors' indexation position, sector-wide cost pressures and the nurses award work value case (outside Ramsay, beyond its control → respond only). Internal source = management's own goals for the Australian business — lifting performance under the refreshed strategy, and its judgement on digital/transformation spending (inside, controllable). The EBAs sit on **both** sides: employee wage demands (internal — and Ramsay is a negotiating party) pressed through an external bargaining framework; either classification earns the mark if the origin is justified. The *change itself* = adopting the 'Big 5' priorities and resetting the spend, and the alterations to processes and structures that follow. See solutions.

Fully-worked solutions

Q7. Business change is any **alteration to a business's internal or external environment, structures, processes or behaviours** — a movement from its **current state to a new, desired state**. It can be small and incremental (a minor process tweak) or large and transformational (restructuring the whole organisation or entering a new market).

Q8. An **internal source** of change originates **within the business** — for example the goals of owners and managers, the demands of employees, the corporate culture or the financial position — and is generally **within management's control**, so the business can decide whether and how to act. An **external source** originates **outside the business**, in its operating or macro environment — for example competitors, legislation, technology or societal attitudes — and is largely **beyond management's control**, so the business can only **respond** to it. The two therefore differ in **where the pressure originates** (inside vs outside) and in **how much control** the business has (controllable vs must respond).

Q9. Business change is **constant** because the conditions a business faces **never stop moving**. In the **external environment**, competitors act, technology advances, laws change, customer tastes shift, globalisation intensifies and societal attitudes evolve; in the **internal environment**, owners set new goals, employees' needs change and finances fluctuate. A business that stood still would steadily fall out of step with these shifting conditions and stop meeting its objectives. To keep pace, it must adapt **continually** — and as soon as one change is made, conditions have moved again — which is why change is an **ongoing feature** of business rather than a single, finished event.

Q10. An **internal source** originates within the business and is generally controllable — for example, **an owner deciding to expand the business interstate**, which comes from the owner's own goals and is management's choice. An **external source** originates outside the business and is largely uncontrollable — for example, **a new competitor entering the market**, which the business did not create and cannot prevent, and to which it can only respond. The examples show the defining contrast: the origin of the pressure (inside vs outside) and the degree of control the business has over it.

Q11. The source is **external**. Growing community concern about plastic waste is a shift in **societal attitudes**, which arises **outside** the manufacturer and is **beyond its control**. *Justification:* the business neither created the concern nor can it control public opinion; it can only **respond** to it. Changing to biodegradable packaging is that response — an attempt to stay aligned with community expectations, protect the firm's reputation and avoid losing environmentally conscious customers. Because the pressure originated outside the business, it is correctly classified as an external source.

Q12. Business change carries both advantages and disadvantages. **Advantages:** change allows a business to **adapt to its shifting environment** and keep achieving its objectives; it can **improve efficiency and effectiveness**, open up **new opportunities** (new markets, products or ways of working) and keep the business **competitive and relevant** rather than being overtaken by rivals. **Disadvantages:** change can be **costly** (new equipment, training, systems) and **disruptive** to established routines; it creates **uncertainty** and can provoke **resistance** from employees or other stakeholders; and if it is poorly planned or managed, it can lower morale and productivity in the short term and may fail to deliver the intended benefits. Overall, then, change is a double-edged process — necessary for keeping a business viable, but demanding careful management to avoid its costs outweighing its gains.

Q13. A business should treat change as a **means of achieving its objectives** — profit, market share, efficiency and effectiveness, meeting a market or social need, and shareholder expectations — because change is valuable only insofar as it helps the business **stay competitive and relevant** as conditions shift. If a business changed simply for its own sake, it would incur the costs and disruption of change without any corresponding benefit to its performance. Framing change as a means to an end keeps the focus on **why** the business is changing — a source has created a genuine need to act — so that change is **purposeful** rather than change for change's sake.

Q14. Internal and external sources of change share a **similarity** and differ in important ways. *A similarity is* that both are **triggers that create pressure on the business to change**, and both can prompt it to alter its structures, processes or behaviours in order to keep meeting its objectives. *A difference is* their **origin and controllability**: internal sources arise **within** the business (owner and manager goals, employees, culture, finances) and are generally **within management's control**, whereas external sources arise **outside** the business (competitors, legislation, technology, societal attitudes) and are largely **beyond its control**, so the business can only respond to them. Thus, while both drive change, they differ in where they come from and how much the business can influence them.

Q15. (a) External source: the **overseas competitor** entering the Australian market with cheaper online products. Internal source: **Dev's decision** to switch to fully recyclable packaging. **(b)** Change has become **necessary** because Bellbrook's **sales are falling**, which signals that the business is no longer meeting its objectives (such as sales and market share) under current conditions. To restore its **competitiveness** against the cheaper overseas rival, and to act on the owner's **sustainability commitment**, the business must alter its products, processes or approach — standing still would allow the decline to continue. **(c)** *Analysing the external competitor:* the arrival of a lower-priced overseas rival selling online means Bellbrook's customers now have a cheaper alternative, so some **switch away**; this **reduces Bellbrook's sales** and puts pressure on its **profit and market share**. That deteriorating performance is precisely what creates the **need to change** — for example, by re-pricing, differentiating its products or emphasising its natural, sustainable credentials to win customers back. The external source therefore flows through to the business's results and drives the pressure to act. *(Alternatively, the internal packaging decision drives change in Bellbrook's operations and suppliers, adding cost but strengthening its sustainability position and appeal to environmentally conscious customers.)*

Q16. There is a **causal relationship** between changes in a business's external environment and its need to change. When the **external environment shifts** — a new competitor appears, a technology advances, a law is introduced or customer preferences move — the **approaches that previously achieved the business's objectives become less effective**, opening a gap between what the environment now demands and what the business currently does. This gap **creates a need to change**: the business must adapt its structures, processes or behaviours to close it and keep meeting its objectives. Moreover, the **greater or faster** the external shift, the **stronger** the pressure to change. If the business fails to respond, the misalignment worsens and performance declines. The relationship is therefore causal and directional: **external change → misalignment with current practice → a need for the business to change.**

Q17. The view that business change is **always necessary** for continued success is **largely, but not wholly, correct**. *In support:* because a business's internal and external environments are constantly moving, a business that does **not** change will steadily fall out of step with its customers, competitors and conditions, lose competitiveness and eventually fail to meet its objectives — so ongoing change is usually necessary to remain successful over time. *Against / qualification:* **not every** change is necessary — some change is optional, and poorly judged change (or change merely for its own sake) can **harm** a business by adding cost and disruption without benefit; and a stable business in a **settled market** may sustain success for a period with relatively little change. Necessity therefore depends on **how much the environment is actually shifting**. *Judgement:* on balance, because no environment stays still indefinitely, **some ongoing change is necessary for long-term success**, but it is the **type, scale and timing** of change — not change for its own sake — that must be matched to the business's circumstances. A business succeeds by changing **when and where a genuine need exists**, not by changing constantly regardless of conditions.

Q18. The bookshop's **reluctance to change** may be harming it because, while it has kept the same layout, range and processes for fifteen years, its **external environment has moved on** — online retailers, e-books and changing reading and shopping habits have all shifted customer expectations. By not adapting, the shop has fallen **out of step** with what customers now want, which explains its **steadily declining sales**. Change has become **necessary** because continuing unchanged will only **worsen the decline**: to reverse falling sales and remain viable, the shop must alter its product range, processes or in-store experience to match current customer expectations. Change is justified here as the **means of restoring the business's ability to meet its objectives** — without it, the shop risks continued decline and eventual closure.

Q19. *Model response (10 marks).* **Business change** is any alteration to a business's internal or external environment, structures, processes or behaviours — a movement from a **current state** to a **new, desired state**, ranging from small incremental adjustments to large-scale transformation. Change arises from **sources** that may be internal or external. **Internal sources** originate **within** the business and are generally within management's control: the goals and decisions of **owners and managers**, the demands of **employees**, the **corporate culture**, the **financial position**, and choices about **operations, technology or products**. **External sources** originate **outside** the business and are largely beyond its control: **competitors**, **customers and changing market preferences**, **suppliers**, developments in **technology**, **legislation**, **economic conditions**, **globalisation** and **societal attitudes**. These sources frequently **interact** — an external shift, such as a new competitor, prompts an internal response, such as the owner restructuring or re-pricing — and the **same factor** (for example technology) can be external when the market moves and internal when the business chooses to invest. In each case the source creates a **need to change**: it opens a gap between what conditions now demand and what the business currently does, and the business alters its structures, processes or behaviours to close that gap and keep meeting its objectives.

The view that change is a **constant and necessary feature** of business is well supported. It is **constant** because neither environment ever stops moving: competitors act, technology advances, laws change, tastes shift and owners set new goals, so there is almost always some pressure to adapt — making change **ongoing** rather than a one-off event. It is **necessary** because a business exists to achieve its objectives — profit, market share, efficiency and effectiveness, meeting a market or social need, and shareholder expectations — and when conditions shift, the approaches that once achieved those objectives stop working; the business must change to keep meeting them and to stay **competitive and relevant**. The claim can be **qualified**: the **scale and pace** of change vary — long stretches of minor, incremental adjustment punctuated by rarer, far-reaching transformation — and a settled business in a stable market may face little pressure for a time; not every possible change is necessary, and change for its own sake can harm a business. **On balance**, however, because no environment stays still indefinitely, change is best understood as a **constant, ongoing and generally necessary feature** of business, even though its intensity and form differ from one situation to the next. *(Full marks require: an accurate definition of business change; coverage of both internal and external sources with examples; a causal analysis of how those sources give rise to change; and a sustained, two-sided evaluation of the "constant and necessary" claim reaching a justified conclusion.)*

Q20. The release shows **both kinds of source** operating together. The **external sources** are the payors with whom indexation had to be negotiated, the **cost pressures** built up across the sector, and the **work value case** on minimum rates of pay under the nurses award. Each of these arises **outside** the business, in its operating and macro environment (its customers and funders, economic conditions and the legal/regulatory system), and is **beyond management's**

control — Ramsay could not set the award rates or decide the payors' position, so it could only **respond** to them. The **internal source** is management's **own goals** for the Australian business: its aim of lifting the performance of the hospital operations under the refreshed Australian strategy, and its judgement that digital and transformation spending should not keep climbing. That pressure originates **within** the business, from the goals and choices of managers, and is therefore **within its control**. The **enterprise bargaining agreements** to be completed in Victoria and Queensland show that the **same factor can sit on either side**: the wage demands are made by Ramsay's **own employees**, who are inside the business, and Ramsay is itself a **negotiating party**, so the pressure is internal in origin; but the bargaining laws and the unions that negotiate for the employees sit outside it, so an external classification is equally defensible. Either answer earns credit provided the **origin of the pressure** is justified. *Distinguishing source from change:* the payors, the cost pressures, the award case, the employees' wage demands and management's own goals are all **triggers** — reasons to act. The **change itself** is what Ramsay then does: adopting the **'Big 5'** hospital operations priorities and **resetting** the digital and transformation spend, which alter the business's **processes** (how rostering, procurement and revenue collection are done) and its **structures** and priorities. The example also shows *why* the change was needed: as conditions moved, existing approaches were less able to deliver the business's **objectives**, so it altered its operations to keep meeting them. ∴ internal and external sources created the pressure; the 'Big 5' priorities and the spending reset are the change made in response.

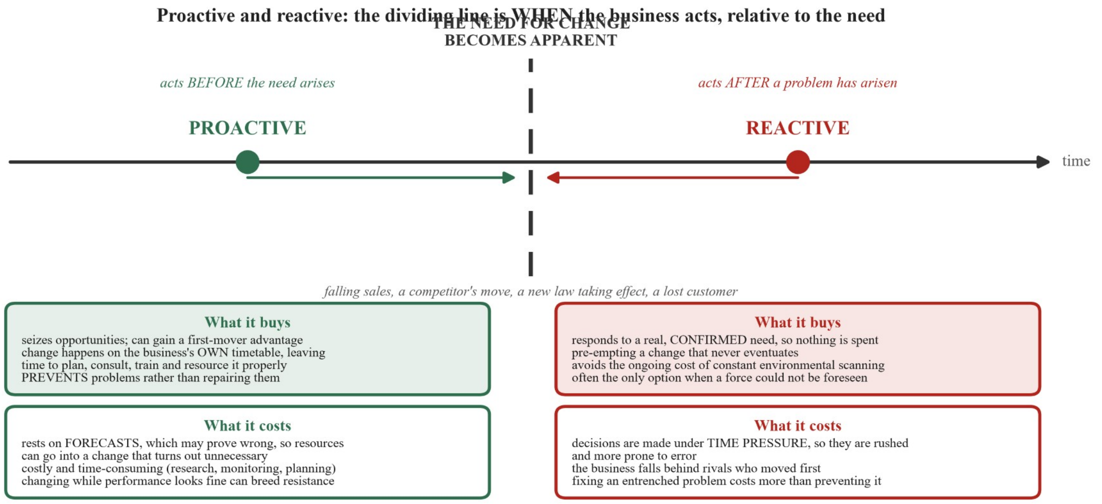
Theory

Every business operates in a changing environment, so its managers must decide not only *what* to change but **when** to change. The study design distinguishes two broad approaches to change according to **timing** — whether the business acts *before* or *after* the need for change becomes apparent.

Proactive approach. A **proactive** approach means the business **anticipates change and initiates it ahead of the need**. The manager scans the internal and external environment, forecasts future trends, pressures and opportunities, and acts *before* a problem forces a response. Change happens on the business's **own timetable** — planning for the future and seizing opportunities early rather than waiting to be pushed. A proactive manager treats change as something to **lead**.

Reactive approach. A **reactive** approach means the business **responds to change only after a problem or external force has already arisen**. The manager waits until performance has deteriorated, a competitor has moved, new legislation has taken effect or a crisis has hit, and then changes in response. Change is **triggered by events** and is often made under time pressure, with the business trying to catch up or repair damage. A reactive manager treats change as something that **happens to** the business.

When each occurs. A **proactive** approach typically occurs when a manager, reviewing performance and watching the environment, spots an **early warning sign or an emerging opportunity** and acts on it while the business is still performing well — for example, investing in new technology before it becomes essential, or entering a market before rivals do. A **reactive** approach occurs when change is triggered by an event that has **already happened** — falling sales or market share, the loss of a major customer, a new law taking effect, or a competitor's new product.



Reactive is still CHANGE — it is not doing nothing. And proactive is not simply "good": it rests on forecasts that can be wrong, while a measured response to a genuine, confirmed problem can be entirely sensible. The two are not mutually exclusive; most well-run businesses are mostly proactive but keep the capacity to react when something unforeseeable happens.

Advantages and disadvantages.

Approach	Advantages	Disadvantages
Proactive	Seizes opportunities and can gain a **first-mover advantage**; change is made calmly on the business's **own timetable**, allowing time to plan, consult, train and resource it well → smoother implementation and less resistance; **prevents** problems rather	Relies on **forecasts** of the future that may prove **wrong**, so resources can be committed to a change that turns out to be **unnecessary**; can be **costly and time-consuming** (research, monitoring, planning); changing when the business appears to be

Approach	Advantages	Disadvantages
	than repairing them (prevention is usually cheaper than cure).	performing well can create **disruption and resistance** from staff who see no need.
Reactive	Responds to a **real, confirmed need**, so resources are not wasted pre-empting a change that never eventuates; avoids the ongoing **cost of constant environmental scanning**; often the **only option** when a force is sudden or could not have been foreseen; the need is **visible**, so staff may accept it more readily.	Decisions are made **under time pressure**, so they are often **rushed and more prone to error**; the business falls **behind rivals** who moved first and may lose customers, sales or market share before it responds; fixing an **entrenched problem** usually costs more than preventing it; sudden, forced change can heighten **employee stress and resistance**.

Why proactive is generally preferred — but reactive is sometimes unavoidable. A proactive approach is usually preferred because it gives the business **control and time**: the manager chooses when and how to change, can plan and resource it properly, prevents problems before they become costly, and can move ahead of competitors. **However, proactive is not automatically the better choice, and reactive is not always avoidable.** Being proactive relies on **predicting the future accurately** — where the future is genuinely uncertain, committing resources early is a **gamble** that can waste money on a change that proves unnecessary. And some forces — a sudden change in the law, a natural disaster, an unexpected competitor or a global shock — **cannot be foreseen**, so even the most forward-looking manager must sometimes respond *after* the event. In practice the two approaches are **not mutually exclusive**: well-managed businesses are **mostly proactive** but keep the capacity to **react** when the unexpected occurs.

Keep straight.

- The dividing line is **timing relative to the need**: proactive = **anticipate and initiate** (act *before* the need arises); reactive = **respond** (act *after* a problem or force has arisen).
- **Reactive is still change** — it is not "doing nothing". The difference is what *triggers* it: anticipation of a future need versus an event that has already happened.
- **Proactive is not simply "good" and reactive is not simply "bad".** Proactive change rests on forecasts that can be wrong, while a measured response to a genuine, confirmed problem can be entirely sensible.
- **Proactive is not always better.** When the future cannot be predicted, or the cost of pre-empting outweighs the benefit, waiting for a real signal can be the wiser choice.
- The approaches are **not mutually exclusive** — a business can be proactive about some issues and reactive to others, and most use a mix.

Contemporary example — Latitude Group Holdings, March 2023

Latitude Group Holdings is a consumer finance provider; in March 2023 it was an ASX-listed company (ASX:LFS) with its registered office in Melbourne.

On **16 March 2023** Latitude told the ASX it had detected unusual activity on its systems over the preceding days, which it described as a sophisticated and malicious cyber-attack believed to have originated from a major vendor it used. An attacker had obtained employee login credentials and used them to take personal information held by two service providers — approximately 103,000 identification documents, more than 97% of which were copies of drivers' licences, and approximately 225,000 customer records. Latitude's stated response included isolating and removing access to some customer-facing and internal systems, engaging cyber security specialists, working with the Australian Cyber Security Centre and alerting law enforcement. A further update on **27 March 2023** put the scale much higher — approximately 7.9 million Australian and New Zealand driver licence numbers and approximately 53,000 passport numbers.

This is a **reactive** approach in its clearest form. The change was **triggered by an event that had already happened**: Latitude did not rebuild its systems on its **own timetable**, but **after** the attack, **under time pressure**. It also shows why a reactive approach is sometimes **unavoidable** — the timing of such an attack cannot be forecast — and why changing after the event means **repairing damage** rather than **preventing** it.

Source: Latitude Group Holdings, ASX announcement "Cyber Incident", 16 March 2023 — https://investors.latitudefinancial.com.au/DownloadFile.axd?file=/Report/ComNews/20230316/02644401.pdf. Accurate as at July 2026.

Worked examples

Example 1 — scaffolded

Hearth & Grain is a suburban bakery. Its manager, Talia, reads several industry reports forecasting that demand for gluten-free baked goods will grow strongly over the next three years. She decides to develop a gluten-free range now, before customers begin asking for it. Identify the approach to change Talia is taking and justify why it may benefit the bakery.

Working	Comment
Talia is acting on a **forecast** of future demand and is changing **before** customers ask — she is anticipating and initiating change ahead of the need.	Match the scenario to the definition: acting before the need = proactive.
This is a **proactive** approach to change.	Name the approach.
Because she moves early, Talia has time to develop, test and promote the range properly, and Hearth & Grain can capture gluten-free customers **before competitors** do.	Justify by linking the approach's features to a benefit for this business.
∴ Talia is taking a **proactive** approach, which may give Hearth & Grain a first-mover advantage and a smoother, well-planned change.	State the justified conclusion.

Example 2 — scaffolded

Kova Threads is a clothing retailer that sold only in-store. After a rival launched an online store, Kova's sales fell for two consecutive quarters before its manager finally set up an online store in response. Identify the approach to change Kova took and outline one risk this created for the business.

Working	Comment
Kova changed **only after** a competitor's move had already reduced its sales — it responded to a problem that had already arisen.	Read the timing: the change came after the force, not before.
This is a **reactive** approach to change.	Name the approach.
Because Kova acted late, the rival had already **captured customers and sales** that may be hard to win back, and the online store had to be built quickly under pressure.	Identify a consequence of responding late.
∴ Kova took a **reactive** approach, risking a **loss of customers and market share** to the first mover.	Conclude with the named risk.

Example 3 — unscaffolded

Distinguish between a proactive and a reactive approach to change.

A **proactive** approach means a business **anticipates change and initiates it ahead of the need** — the manager forecasts future trends and opportunities and acts *before* a problem forces a response, changing on the business's own timetable. A **reactive** approach means a business **responds to change only after a problem or external force has already arisen** — the manager waits until performance has fallen, a competitor has moved or circumstances have changed, and then changes in response, often under time pressure. The key difference is **timing relative to the need**: a proactive business acts *before* the need becomes apparent, whereas a reactive business acts *after* it. ∴ the two approaches differ in **when** the business changes — anticipating the need versus responding once it has already occurred.

Example 4 — unscaffolded

A manager states, “A proactive approach is always better than a reactive approach to change.” Evaluate this statement.

The statement has real merit but is **too absolute**. A proactive approach is **generally preferable** because it gives the business control and time: the manager can plan, resource and implement change calmly, can prevent problems before they become costly, and can seize opportunities ahead of competitors — often gaining a first-mover advantage. **However**, a proactive approach is **not always better**. It depends on **forecasting the future accurately**, and where the future is genuinely uncertain, changing early can waste resources on a change that proves unnecessary. Moreover, some forces — sudden legislation, a natural disaster or an unforeseen competitor — **cannot be anticipated**, so a reactive response is sometimes **unavoidable**, and responding to a real, confirmed problem is not in itself a failure. ∴ while a proactive approach is usually the stronger choice, describing it as *always* better is inaccurate; the most effective businesses are predominantly proactive but retain the ability to react when the unexpected occurs.

Practice questions

Scaffolded

Q1. Define the term *proactive approach to change*.

Q2. Distinguish between a proactive and a reactive approach to change.

Q3. For each of the following, identify whether the business is taking a **proactive** or a **reactive** approach to change: (a) a café upgrades to a mobile-ordering app only after a nearby competitor’s app begins drawing away its customers; (b) a manufacturer replaces its machinery with energy-efficient models after forecasting that energy prices and environmental regulation will rise over the next five years; (c) a retailer cuts staff after three consecutive quarters of falling sales.

Q4. Outline **one** advantage and **one** disadvantage of a proactive approach to change.

Q5. While reviewing performance, the manager of Fix-It Hardware notices an early industry-wide shift towards online tool sales and decides to build an online store now, before the shop’s own sales are affected. (a) Identify the approach to change the manager is taking. (b) Explain why this approach may benefit Fix-It Hardware.

Q6. Outline **one** advantage and **one** disadvantage of a reactive approach to change.

Unscaffolded

Q7. Define a reactive approach to change. *(2 marks)*

Q8. Describe **one** situation in which a business would take a proactive approach to change. *(3 marks)*

Q9. Explain **one** advantage of a proactive approach to change. *(3 marks)*

Q10. Explain **one** disadvantage of a proactive approach to change. *(3 marks)*

Q11. Northgate Motors upgraded its workshop equipment last year after forecasting that demand for hybrid-vehicle servicing would grow, but replaced its ageing booking software only after the system failed during a busy week and customers were turned away. Distinguish between the two approaches to change Northgate Motors has taken. *(4 marks)*

Q12. Explain why a reactive approach to change is sometimes unavoidable. *(4 marks)*

Q13. Justify why a manager would generally prefer a proactive approach to change. *(4 marks)*

Q14. Compare a proactive approach with a reactive approach to change. *(6 marks)*

Q15. Analyse how taking a proactive approach to change can affect a business’s ability to achieve its objectives. *(6 marks)*

Q16. Discuss the use of a reactive approach to change. *(6 marks)*

Q17. *Case study.* **Lumo Lighting** is a family-owned business that manufactures household light fittings. For years its sales were steady, so its owner, Devi, rarely changed the way the business operated. Recently an overseas competitor began selling cheaper LED fittings online, and over the past year Lumo's market share fell from 18% to 11% while customer complaints about its outdated designs rose sharply. Only after these results appeared did Devi begin redesigning the product range and setting up an online store. A rival family firm, BrightCo, had upgraded to LED and launched online two years earlier — when it first predicted the industry's shift to LED — and has grown steadily since. (a) Identify the approach to change Devi has taken at Lumo Lighting. *(2 marks)* (b) Explain how Lumo Lighting's approach to change has contributed to its recent performance. *(4 marks)* (c) Propose and justify a more effective approach Devi could take in the future, referring to BrightCo. *(4 marks)*

Q18. Evaluate the use of a proactive approach to change by a business operating in an industry where technology is changing rapidly. *(6 marks)*

Q19. *Extended response.* "Businesses that anticipate change control their future; businesses that wait for change are controlled by it." Evaluate this statement, referring to both proactive and reactive approaches to change. *(10 marks)*

Q20. In March 2023, Latitude Group Holdings told the ASX it had detected a cyber-attack on its systems. It then isolated and removed access to some customer-facing and internal systems, engaged cyber security specialists and began contacting the customers whose information had been taken. Analyse the approach to change Latitude Group took and its consequences for the business. *(6 marks)*

Answers

Q1. A proactive approach is one in which a business anticipates change and initiates it ahead of the need, acting *before* a problem or force arises. **Q2.** Proactive = anticipate and initiate change *before* the need arises; reactive = respond to change only *after* a problem or force has arisen. The difference is timing (before vs after the need). **Q3.** (a) reactive; (b) proactive; (c) reactive. **Q4.** *Advantage:* e.g. first-mover advantage / time to plan and implement well / prevents problems. *Disadvantage:* e.g. relies on forecasts that may be wrong / costly / can disrupt when no change seems needed. **Q5.** (a) Proactive. (b) Acting early gives time to plan and set up the online store well and to win online customers before competitors, protecting future sales. **Q6.** *Advantage:* e.g. responds to a real, confirmed need, so resources are not wasted pre-empting a change that never eventuates / avoids the ongoing cost of environmental scanning / the need is visible, so staff may accept it more readily. *Disadvantage:* e.g. decisions are rushed under time pressure / the business has already fallen behind first movers / fixing an entrenched problem costs more than preventing it. **Q7.** Responds to change only after a problem/force has already arisen (2-element definition). See solutions. **Q8.** Model response in solutions (anticipatory situation). **Q9.** Advantage + causal explanation. See solutions. **Q10.** Disadvantage + causal explanation. See solutions. **Q11.** Workshop equipment = proactive (acted on a forecast, ahead of the need); booking software = reactive (changed only after the system failed). Basis of difference: timing relative to the need, and who sets the timetable. See solutions. **Q12.** Unforeseeable forces make a reactive response the only option. See solutions. **Q13.** Control, time to plan, prevention, competitive edge — argued as reasons. See solutions. **Q14.** Both similarities AND differences, signposted. See solutions. **Q15.** Causal effects on objectives, both positive and negative. See solutions. **Q16.** Advantages and disadvantages of reactive (kept distinct, no double-dip). See solutions. **Q17.** (a) Reactive. (b) Late response → market share fell 18%→11%, complaints rose. (c) Proactive; justified by BrightCo moving early and growing. See solutions. **Q18.** Strengths in a fast-moving industry (first-mover advantage, time to plan and train, avoids obsolescence) weighed against the difficulty of forecasting rapid technological change; supported judgement. See solutions. **Q19.** Model response in solutions. **Q20.** Reactive — the change was triggered by an event that had already occurred, so the timetable was set by circumstances, not the business. Causal consequences: response aimed at repairing damage rather than preventing it; decisions made under time pressure; disruption to systems and customers. Balanced by the point that the timing of an attack cannot be forecast, so a reactive response was largely unavoidable. See solutions.

Fully-worked solutions

Q7. A **reactive** approach to change is one in which a business **responds to change only after a problem or external force has already arisen** — for example, after performance has declined or a competitor has acted — rather than anticipating it in advance.

Q8. A business takes a **proactive** approach when, having reviewed performance and scanned its environment, it identifies a **future trend or opportunity** and acts **before** the need becomes pressing. For example, a manager who forecasts that customers will increasingly shop online might build an online store **now**, while in-store sales are still healthy, so the business is ready before demand shifts. The defining feature is that the change is initiated **ahead of** any problem.

Q9. One advantage of a proactive approach is that it allows change to be made on the business's **own timetable**, giving the manager **time to plan, resource and implement it well**. Because the business is not reacting under crisis pressure, it can research options, consult and train staff, and introduce the change smoothly, which typically **reduces resistance and mistakes** and improves the chance the change succeeds.

Q10. One disadvantage of a proactive approach is that it relies on **forecasts of an uncertain future**, which may prove **wrong**. If the manager commits resources — time, money, new equipment or staff — to a change in anticipation of a trend that does not eventuate, those resources are **wasted**, and the business may have disrupted its operations for no benefit. Proactive change can therefore be a **costly gamble** when the future cannot be predicted reliably.

Q11. In upgrading its workshop equipment, Northgate Motors took a **proactive** approach: it **anticipated the change and initiated it ahead of the need**, acting on a **forecast** of growing hybrid-vehicle servicing and changing on its **own timetable**, while its existing work was unaffected. In replacing its booking software, Northgate took a **reactive** approach: it **responded only after a problem had already arisen** — the system failed and customers were turned away — so the change was **triggered by an event** and made under **time pressure**. The two approaches therefore differ in **timing relative to the need**: the equipment upgrade came *before* the need became apparent, whereas the software replacement came *after*. They also differ in **who sets the timetable** — Northgate itself chose when to upgrade the workshop, but circumstances forced the software change. *(Full marks require both approaches named and defined in the context of the case, plus an explicit basis of difference.)*

Q12. A reactive approach is sometimes **unavoidable** because not every force for change can be **anticipated**. A proactive approach depends on the manager being able to **foresee** what is coming, but some changes arrive **suddenly and unpredictably** — for example, a **new law**, a **natural disaster**, an **unexpected competitor** or a **global economic shock**. When a force could not reasonably have been predicted, the business has **no opportunity to act in advance** and can only **respond after** it occurs. Even a highly forward-looking business will therefore be reactive at times, which is why the two approaches usually **coexist**.

Q13. A manager would generally prefer a **proactive** approach because it gives the business **control over its own future** rather than leaving it at the mercy of events. Acting early means change can be **planned and resourced properly** and introduced **smoothly**, reducing disruption and resistance. It also means problems can be **prevented before they become costly** — prevention is usually cheaper than repair — and opportunities can be **seized ahead of competitors**, giving a **first-mover advantage** that can protect or grow market share. Because a proactive business shapes change on its own terms while a reactive one is forced to catch up, the proactive approach generally offers **lower cost, less risk of crisis and a stronger competitive position** — which is why managers tend to prefer it.

Q14. *(Compare — both similarities and differences.)* **Similarities:** both a proactive and a reactive approach are ways a business **brings about change** in response to forces in its environment, both are ultimately aimed at **protecting or improving business performance and achieving objectives**, and both begin with the manager **reviewing performance** and deciding that action is needed. **Differences:** they differ in **timing** — a proactive approach acts *before* the need for change arises, whereas a reactive approach acts *after* a problem or force has emerged; in **who controls the timetable** — proactive change is initiated by the business on its own schedule, while reactive change is forced on it by circumstances, often under pressure; and in **focus** — proactive change tends to **seize opportunities**, while reactive change tends to **fix problems**. In short, both pursue the same end (a better-performing business) but differ in when and how the business moves. *(Full marks require signposted similarities* and *differences.)*

Q15. *(Analyse — causal relationships, not a list of pros and cons.)* Taking a proactive approach can affect a business's ability to achieve its objectives through several **causal links**. Because the business **anticipates change and acts early**, it gains **time to plan and implement change well**, which leads to **smoother change, less resistance and fewer costly mistakes**, in turn making objectives such as efficiency and staff wellbeing **easier to achieve**. Acting ahead of rivals also lets the business **seize opportunities first**, which can **increase market share and sales** and help meet growth and profit objectives. However, the relationship is not only positive: because a proactive approach **depends on forecasts**, an **inaccurate prediction** can lead the business to **commit resources to an unnecessary change**, which **raises costs and disrupts operations** and can therefore **set back** the very objectives it was meant to advance. The effect of a proactive approach on objectives thus depends on **how accurately the future is anticipated**: accurate anticipation strengthens objective achievement, while poor forecasting can weaken it.

Q16. *(Discuss — advantages and disadvantages; no judgement required, and points kept distinct.)* A reactive approach to change has both advantages and disadvantages. **Advantages:** it responds to a **real, confirmed need**, so the business does not waste resources pre-empting a change that never eventuates; it **avoids the ongoing cost** of constant forecasting and environmental scanning; and it is often the **only available option** when a force could not have been foreseen. Because the need is **visible**, staff may also **accept the change more readily**. **Disadvantages:** decisions are made **under time pressure**, so they tend to be **rushed and more prone to error**; the business has often **fallen behind competitors** who moved first and may **lose customers, sales or market share** before it responds; and fixing an **entrenched problem** usually **costs more** than preventing it, while sudden, forced change can **heighten employee stress and resistance**. A reactive approach therefore offers certainty and lower planning cost, but risks crisis-driven decisions and a weaker competitive position.

Q17. (a) Devi has taken a **reactive** approach to change: at Lumo Lighting she changed **only after** falling market share and rising complaints had already appeared. (b) Lumo Lighting's **reactive** approach has contributed to its poor recent performance because the business **did not act until the problem had already taken hold**. By waiting until the overseas competitor's cheaper online LED fittings had **already drawn customers away**, Lumo allowed its **market share to fall from 18% to 11%** and its **complaints about outdated designs to rise** before responding. Acting late meant the damage was **already done**, so the redesign and new online store are now a **catch-up** effort rather than a way of staying ahead. (c) Devi should adopt a more **proactive** approach — **monitoring industry trends and reviewing performance to anticipate change**, and initiating change (such as new designs or new technology) **before** rivals force her hand. This is justified by **BrightCo**, which **predicted the shift to LED and moved online two years earlier** and has **grown steadily** as a result: by anticipating the same change, BrightCo captured customers **before** the overseas competitor could. Acting proactively would likewise give Lumo more time to plan, protect its market share and compete on its own terms rather than merely reacting to losses.

Q18. *(Evaluate — weigh both sides and reach an evidence-based judgement.)* Where technology is changing rapidly, a proactive approach offers **substantial benefits**. Because the business **anticipates the shift and initiates change ahead of the need**, it can adopt or develop the new technology **before its rivals do**, gaining a **first-mover advantage** and winning customers while competitors are still operating older systems. Moving early also gives the business **time to research options, fund the investment properly and train staff**, so the technology is introduced smoothly rather than in a rushed, error-prone replacement. Most importantly in this industry, acting early **prevents the business's equipment and systems becoming obsolete** — where technology moves quickly, a business that waits can lose customers within a very short period and find catching up expensive. **However**, rapid technological change is also the **hardest kind to forecast**: standards shift and a technology that appears certain to dominate can be superseded. Committing heavily to the wrong technology **wastes capital and disrupts operations**, and the business may then have to fund a further change soon afterwards, so the cost of **continually adopting early** can itself be high. **On balance**, a proactive approach remains the **more effective choice** in a fast-moving industry, because the cost of falling technologically behind is usually greater, and far harder to reverse, than the cost of an occasional inaccurate forecast. Its effectiveness does depend, however, on the manager **investing in stages and reviewing forecasts frequently** rather than committing the business to a single long-range prediction. *(Full marks require both benefits and limitations set in the stated context, and a clear, supported judgement.)*

Q19. *Model response (10 marks).* The statement captures an important truth about business change but overstates it, and a full evaluation must weigh both approaches. A **proactive** approach means a business **anticipates change and initiates it ahead of the need**, acting on forecasts of future trends and opportunities before any problem arises; a **reactive** approach means a business **responds only after a problem or external force has already emerged**. The statement favours the proactive approach — that anticipating change lets a business "control its future" — and there is strong support for this. A proactive business changes on its **own timetable**, so it has time to **plan, resource, consult and implement** change smoothly, with less resistance and fewer mistakes. It can **prevent problems before they become costly**, and it can **seize opportunities before competitors**, gaining a first-mover advantage that can protect or grow market share, sales and profit. A reactive business, by contrast, is often forced to change **under pressure**, after a competitor or a decline has already cost it customers, so it can indeed appear "controlled by" events — making rushed decisions and paying more to repair an entrenched problem than prevention would have cost.

However, the statement is **too absolute**. Being proactive depends on **predicting the future accurately**, and the future is not always predictable: committing resources early to a forecast that does not eventuate can **waste money and disrupt** a healthy business, so acting before a need is confirmed is sometimes the **weaker** choice. Moreover, some forces — **sudden legislation, natural disasters, global shocks or an unforeseen competitor** — **cannot be anticipated**, so even the most forward-looking business must sometimes **react**, and responding decisively to a genuine, confirmed problem is not a failure of management. In practice the two approaches are **not mutually exclusive**: well-managed businesses are **mostly proactive** — shaping their future where they can — but keep the **capacity to react** when the unexpected occurs. **On balance**, the statement is largely correct as a general principle — anticipating change usually gives a business far more control than waiting for it — but its claim is **overstated**, because a reactive response is at times unavoidable and appropriate. The most effective managers therefore **lead change proactively wherever possible while remaining ready to respond** when events cannot be foreseen. *(Full marks require: accurate definitions of both approaches; a two-sided treatment showing proactive strengths and its limits plus when reactive is unavoidable; genuine engagement with the statement; and a sustained, evidence-based judgement.)*

Q20. *(Analyse — causal relationships, not a list of pros and cons.)* Latitude Group took a **reactive** approach to change. The change was **triggered by an event that had already occurred** — the cyber-attack Latitude disclosed on 16 March 2023 — rather than being **anticipated and initiated ahead of the need**, so the **timetable was set by circumstances rather than by the business**. This timing produced several causal consequences. Because the response came **after** information had already been taken, the changes Latitude made — isolating and removing access to systems, engaging cyber security specialists and contacting affected customers — were necessarily directed at

repairing damage rather than preventing it, and by the further update of 27 March 2023 the **disclosed scale** of the theft had grown substantially. Acting after the event also meant decisions were made **under time pressure**, which increases the risk of **rushed decisions and error**, while removing access to customer-facing systems **disrupted operations** for customers during the response. The analysis cannot stop there, however: the **timing of a cyber-attack cannot be forecast**, so a reactive response was to a large degree **unavoidable**, and it addressed a **real, confirmed need** rather than a predicted one. ∴ Latitude Group's approach was **reactive because the force was unforeseeable**, but because the business changed only **after** the event, its response could only **contain and repair** the harm rather than **prevent** it — which is the central limitation of reactive change. *(Full marks require the approach named and justified from the case, causal consequences rather than a list, and recognition that the force was unforeseeable.)*

Chapter 10 Reviewing performance – the need for change — 10C Key performance indicators

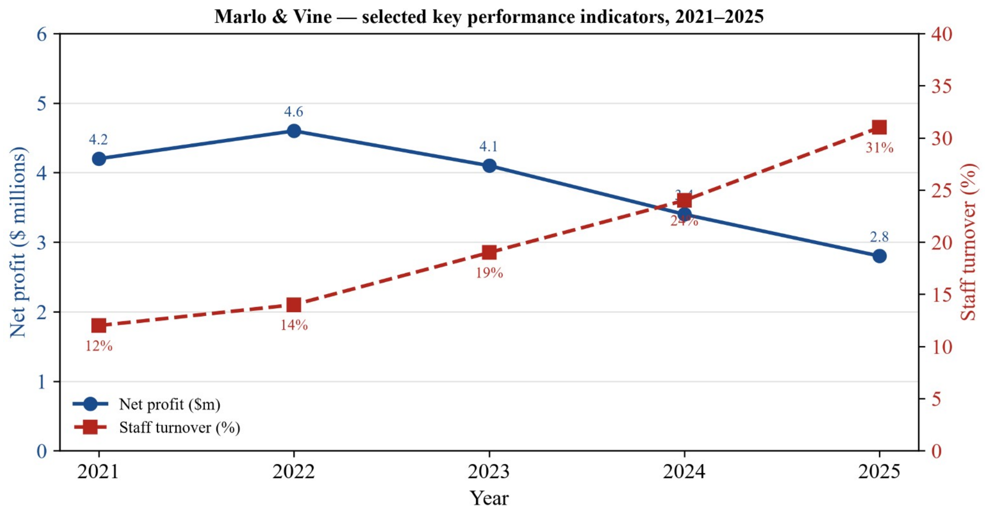
Theory

A **key performance indicator (KPI)** is a specific, measurable criterion a business uses to assess how well it is achieving its objectives. KPIs turn performance into **data**: by tracking them over time, comparing them against **targets, past results, benchmarks or competitors**, and reading them together, managers can judge how the business is performing, pinpoint where it is underperforming, and recognise **the need for change**.

The study design prescribes ten KPIs. For each, it matters whether a **rise or a fall** is the *favourable* movement — this is not the same for every indicator.

Key performance indicator	What it measures	Favourable movement
Percentage of market share	The business's sales as a percentage of total industry sales	**Higher**
Net profit figures	Revenue remaining after all expenses are deducted	**Higher**
Rate of productivity growth	The change in output produced per unit of input	**Higher**
Number of sales	The volume of goods or services sold	**Higher**
Number of website hits	Visits to the business's website (traffic/interest)	**Higher** (usually)
Rates of staff absenteeism	How often employees are absent from work	**Lower**
Level of staff turnover	The rate at which employees leave and must be replaced	**Lower**
Level of wastage	Resources and output lost or discarded in production	**Lower**
Number of customer complaints	Complaints received about products or service	**Lower**
Number of workplace accidents	Injuries and safety incidents at work	**Lower**

Using KPIs to analyse performance. A single figure means little on its own — managers analyse KPIs by looking at the **trend over time** (is it improving or deteriorating?), the **size** of the change, and the **relationships between indicators**. An indicator moving in an *unfavourable* direction flags a problem area and prompts the manager to investigate the cause and consider whether a change is needed. Because different KPIs capture different aspects of performance (financial, operational, human resource, customer, safety), reading several together gives a fuller and more reliable picture than any one alone.



Reading a trend (the figure above). At Marlo & Vine, net profit rose to a peak of $4.6 million in 2022 but then fell every year to $2.8 million in 2025 — a fall of roughly **39%** from the peak. Over the same period, staff turnover **more than doubled**, from 12% to 31%. The two indicators move in *opposite* directions, and the relationship is worth investigating: rising turnover means the business keeps losing experienced staff and paying to recruit and train replacements, which can reduce productivity and raise costs — a plausible contributor to the falling profit. Together the KPIs point to a clear **need for change**, most likely in how the business manages and retains its employees.

Keep straight.

- A KPI is a **measure**, not a cause — it tells the manager **what** is happening, not **why**. Interpreting a KPI means reading the data *and* reasoning about the likely cause, not just restating the number.
- **“Higher is better” is indicator-specific.** For turnover, absenteeism, wastage, complaints and workplace accidents, **lower** is the favourable direction — a rise is a warning sign.
- **Website hits measure interest, not sales** — high hits with flat sales can signal a problem *converting* visitors into customers.
- **One KPI can mislead.** Read several indicators together, and over time, against a target or benchmark — not a single figure in isolation.
- Two KPIs moving together show a **relationship**, not proof of cause; it is a reason to investigate, not a finished explanation.
- KPIs are used here to identify the **need** for change; the *same* indicators are later re-checked to **evaluate** whether a change actually worked.

Contemporary example — Domino’s Pizza Enterprises, August 2025

Domino’s Pizza Enterprises is an ASX-listed fast-food franchisor operating pizza stores in Australia and in a number of overseas markets.

On 27 August 2025 the company released its results for the 2025 financial year, reporting several key performance indicators together. **Same store sales** were **−0.2%**, down from +1.5% the year before; **network sales** were **$4.15 billion**, a fall of $36.8 million or 0.9%; and earnings before interest and tax (a measure of operating earnings) were $198.1 million, down 4.6%.

Each indicator is compared against the **previous year’s result**, and each moved in an **unfavourable** direction — the sales measures went backwards rather than growing. What makes this release useful for this subtopic is that the same document sets out what management decided to do. It reported that store closures in Japan had been completed during the second half of the year, that a group-wide cost efficiency program was under way, that the menu was being reduced, and that marketing was moving away from discounting towards everyday value. The company said the savings would be reinvested in supporting franchise partners and in marketing intended to lift sales.

The release therefore shows the whole sequence this subtopic teaches: KPIs **measured**, **analysed** against the prior year as a trend, read as evidence of a **need for change**, and then answered with specific changes.

Source: Domino's Pizza Enterprises, "Domino's FY25: Stable performance, strategic reset underway", 27 August 2025 — https://www.dominospizzaenterprises.com/newsroom-media/fy25-mediarelease. Accurate as at July 2026.

Worked examples

Example 1 — scaffolded

A café chain records the following over two years: number of customer complaints up from 40 to 110 per month, and number of sales down from 9,000 to 7,600 per month. Using these KPIs, explain what they suggest about the business's performance and the need for change.

Working	Comment
Complaints **rose** (40 → 110): for complaints, a rise is **unfavourable**.	State the direction and whether it is favourable for that KPI.
Sales **fell** (9,000 → 7,600), about a 16% drop: for sales, a fall is **unfavourable**.	Do the same for the second KPI, noting the size.
The two are likely **related** — more complaints (e.g. about product or service quality) can drive customers away, reducing sales.	Reason about the *relationship*, not just each number.
Both indicators are deteriorating, so performance is declining and there is a **need for change** — e.g. investigating and fixing the source of complaints.	Link the analysis to the need for change.

Example 2 — scaffolded

Refer to the Marlo & Vine figure above. Interpret what the two KPIs together indicate about the business.

Working	Comment
Net profit peaked at \$4.6m (2022) then fell to \$2.8m (2025) — an **unfavourable** downward trend.	Read the first KPI's direction and magnitude from the graph.
Staff turnover climbed from 12% to 31% — also **unfavourable** (lower is better for turnover).	Read the second KPI; recall its favourable direction.
The indicators move in **opposite directions**, and rising turnover (lost experience, recruitment and training costs) is a plausible cause of the falling profit.	Interpret the *relationship* with a causal reason.
Together they signal declining performance and a **need for change**, probably in human resource management.	Draw the performance/need-for-change conclusion.

Example 3 — unscaffolded

Explain why a manager should not rely on the number of website hits alone to judge the performance of an online store.

The number of website hits measures the **traffic or interest** a site attracts, but it does **not** measure whether those visitors actually **buy** anything. An online store could see website hits rise sharply while **sales stay flat or fall** — for example, if visitors leave without purchasing because prices are uncompetitive or the checkout is difficult. Relying on hits alone would give a misleadingly positive picture. To judge performance properly, the manager should read website hits **alongside** other KPIs such as the number of sales and net profit, and look at the **relationship** between them. ∴ website hits are useful only as one indicator among several, not as a stand-alone measure of performance.

Example 4 — unscaffolded

Distinguish between using a KPI to *measure* performance and using it to *analyse* performance.

Measuring performance with a KPI means recording the raw figure — for example, noting that staff absenteeism was 8% last quarter. **Analysing** performance means interpreting that figure: comparing it with previous quarters, targets or industry benchmarks, judging whether the movement is favourable or unfavourable, and reasoning about the likely cause and its consequences for the business. Measuring tells the manager **what** the number is; analysing tells them **what it means** and whether a change is needed. ∴ measuring produces the data, while analysing turns the data into a judgement about performance.

Practice questions

Scaffolded

Q1. Define the term *key performance indicator (KPI)*.

Q2. For each of the following KPIs, state whether a **rise** or a **fall** is the favourable movement: (a) percentage of market share; (b) level of staff turnover; (c) number of workplace accidents.

Q3. Identify **three** KPIs a manager could use to assess the performance of a business's employees.

Q4. A bakery's level of wastage rises from 5% to 12% of ingredients over six months. (a) State whether this movement is favourable or unfavourable. (b) Explain what this KPI suggests about the business's operations.

Q5. Explain why a manager should review **several** KPIs rather than just one.

Q6. A business's number of sales is rising but its net profit is falling. (a) State whether each movement is favourable. (b) Suggest one reason the two KPIs might be moving in different directions.

Unscaffolded

Q7. Identify **two** key performance indicators a business could use to measure customer satisfaction. *(2 marks)*

Q8. Describe how a manager uses key performance indicators to identify the need for change. *(3 marks)*

Q9. Explain why a rise in the *level of staff turnover* is considered an unfavourable movement. *(3 marks)*

Q10. Distinguish between the KPIs *number of sales* and *percentage of market share*. *(4 marks)*

Q11. *Data interpretation.* The graph above shows two KPIs for the homewares retailer **Marlo & Vine** from 2021 to 2025. (a) Identify the year in which net profit was highest. *(1 mark)* (b) Describe the trend in staff turnover over the period. *(2 marks)* (c) Interpret the relationship between the two KPIs and explain what it suggests about the need for change at Marlo & Vine. *(4 marks)*

Q12. Explain the difference between using a KPI to *measure* performance and using it to *analyse* performance. *(3 marks)*

Q13. A gym reports that its number of website hits increased by 40% last year, yet new memberships fell. Explain what this suggests and why website hits alone are an unreliable indicator of performance. *(4 marks)*

Q14. *Case study.* **Coral Bay Seafoods** is a seafood processor. Over the past year its number of workplace accidents rose from 3 to 14, its rate of staff absenteeism rose from 4% to 11%, and its rate of productivity growth fell from +6% to −2%. (a) State whether each of the three KPI movements is favourable or unfavourable. *(3 marks)* (b) Analyse how these KPIs together indicate a need for change at Coral Bay Seafoods. *(4 marks)*

Q15. Explain why comparing a KPI against a **benchmark or target** makes it more useful for analysing performance. *(3 marks)*

Q16. A manager states, "Our net profit rose this year, so there is no need for change anywhere in the business." Discuss the use of **net profit figures** as a single indicator of whether a business needs to change. *(4 marks)*

Q17. Explain why two KPIs moving together (for example, rising customer complaints and falling sales) show a *relationship* but not necessarily a *cause*. *(3 marks)*

Q18. *Data interpretation.* A clothing label records: market share 18% → 15% → 11% over three years, and number of customer complaints 120 → 260 → 540 over the same years. (a) Describe the trend in each KPI. *(2 marks)* (b) Interpret what the two trends together suggest about the business and the need for change. *(4 marks)*

Q19. *Extended response.* Analyse how a manager could use key performance indicators to analyse the performance of a business and identify the need for change. In your answer, refer to at least **three** different KPIs and explain how reading them together supports a sound conclusion. *(10 marks)*

Q20. *Contemporary example.* On 27 August 2025, **Domino’s Pizza Enterprises** reported same store sales of −0.2% for the 2025 financial year, down from +1.5% the previous year, and network sales of $4.15 billion, a fall of 0.9%. In the same release the company set out completed store closures in Japan, a group-wide cost efficiency program and a shift in marketing away from discounting. Analyse how these key performance indicators supported the conclusion that change was needed. *(5 marks)*

Answers

Q1. A specific, measurable criterion used to assess how well a business is achieving its objectives. **Q2.** (a) rise; (b) fall; (c) fall. **Q3.** Any three of: level of staff turnover, rates of staff absenteeism, rate of productivity growth, number of workplace accidents. **Q4.** (a) Unfavourable. (b) More resources are being lost in production, suggesting declining operational efficiency and rising costs. **Q5.** Because each KPI measures only one aspect of performance; reading several together gives a fuller, more reliable picture and avoids being misled by one figure. **Q6.** (a) Rising sales = favourable; falling net profit = unfavourable. (b) e.g. costs or discounts rising faster than sales, so each sale earns less profit. **Q7.** Number of customer complaints; number of sales / percentage of market share (any two reasonable). See solutions. **Q8.** Track KPIs over time/against targets; an unfavourable trend flags a problem and the need for change. See solutions. **Q9.** Turnover = staff leaving and needing replacement; a rise means lost experience and higher recruitment/training costs. See solutions. **Q10.** Sales = volume sold (absolute); market share = sales as a % of the whole industry (relative). See solutions. **Q11.** (a) 2022. (b) Rose steadily from 12% to 31% (more than doubled) — unfavourable. (c) Profit fell while turnover rose; rising turnover is a plausible cause of falling profit → need for change in HRM. See solutions. **Q12.** Measuring = recording the figure; analysing = interpreting it (vs targets/trend, cause, meaning). See solutions. **Q13.** Hits measure interest not purchases; if memberships fell, the site may not be converting visitors → need other KPIs. See solutions. **Q14.** (a) All three unfavourable. (b) Rising accidents/absenteeism and falling productivity together signal serious operational and HR problems → need for change. See solutions. **Q15.** A benchmark/target gives a reference point, so the manager can judge whether the figure is good or bad and by how much. See solutions. **Q16.** Advantages — objective, easily tracked against a target, measures a central objective, so a sustained rise is real evidence of stronger financial performance; disadvantages — covers the financial aspect only, lagging, and can rise for one-off reasons. See solutions. **Q17.** They move together but a third factor or coincidence could explain it; correlation is a reason to investigate, not proof. See solutions. **Q18.** (a) Market share falling (18→11%); complaints rising sharply (120→540). (b) Both unfavourable and likely linked → declining performance, clear need for change. See solutions. **Q19.** Model response in solutions. **Q20.** Both sales KPIs unfavourable against the prior year, and the decline showed across the network rather than in isolated stores → evidence of underperformance and a need for change, answered with closures, cost savings and a marketing shift. See solutions.

Fully-worked solutions

Q7. Two KPIs that reflect customer satisfaction are the **number of customer complaints** (a rise suggests dissatisfaction) and the **number of sales** or **percentage of market share** (falling sales or share can indicate customers are unhappy or switching to competitors).

Q8. A manager **measures the relevant KPIs and tracks them over time**, comparing each against **previous results, targets or benchmarks**. When an indicator moves in an **unfavourable direction** — for example, rising customer complaints or falling productivity — it flags an area that is underperforming. The manager then investigates the likely cause and decides whether a **change** is needed to correct it. In this way KPIs provide the evidence that signals the need for change.

Q9. The **level of staff turnover** measures the rate at which employees leave the business and must be replaced. A **rise** is unfavourable because higher turnover means the business is **losing experienced staff**, incurring **recruitment and training costs** for replacements, and may suffer **lower productivity and morale** while new staff settle in. Persistent high turnover can also signal underlying problems such as poor management or low job satisfaction.

Q10. The **number of sales** measures the **absolute volume** of goods or services the business sells. The **percentage of market share** measures the business's sales as a **proportion of total industry sales** — a *relative* measure. The key difference is that sales can **rise** while market share **falls**, if the whole market is growing faster than the business; market share therefore shows performance **relative to competitors**, whereas number of sales shows the business's own volume in isolation.

Q11. (a) **2022** (net profit $4.6 million). (b) Staff turnover **rose steadily every year, from 12% in 2021 to 31% in 2025 — more than doubling** — which is an unfavourable trend. (c) As turnover rose, net profit **fell** (from $4.6m in 2022 to $2.8m in 2025). The indicators move in **opposite directions**, and the rising turnover is a **plausible cause** of the falling profit: constantly losing and replacing staff raises recruitment and training costs and reduces the productivity of an inexperienced workforce. Together the KPIs show **declining performance** and a clear **need for change**, most likely in how Marlo & Vine manages and retains its employees. (The relationship is grounds to investigate, not final proof of cause.)

Q12. Measuring performance means simply **recording the KPI figure** — for example, that staff absenteeism was 8%. **Analysing** performance means **interpreting** that figure: comparing it with previous periods, targets or benchmarks, judging whether the movement is favourable or unfavourable, and reasoning about its likely **cause and consequences**. Measuring produces the data; analysing turns the data into a judgement about how the business is performing and whether change is needed.

Q13. A 40% rise in **website hits** shows more people are visiting the site, but hits measure only **interest/traffic**, not purchases. Because **new memberships fell**, the extra visitors are **not converting** into customers — perhaps because pricing, the sign-up process or the offer is unattractive. This shows website hits are an **unreliable stand-alone indicator**: the manager should read them alongside KPIs that capture actual outcomes (memberships/sales and net profit) to judge performance and identify where change is needed (for example, improving the website's conversion).

Q14. (a) All three movements are **unfavourable**: workplace accidents **rose** (3 → 14; lower is better), absenteeism **rose** (4% → 11%; lower is better) and productivity growth **fell** (+6% → −2%; higher is better). (b) The three KPIs together point to serious, connected problems. The sharp rise in **workplace accidents** suggests deteriorating safety, which may be driving the rise in **absenteeism** (injured or unsafe-feeling staff take more days off); fewer staff at work, and possibly lower morale, in turn help explain the **fall in productivity growth** into negative territory. Read together, the indicators show performance declining across safety, human resources and operations, giving Coral Bay Seafoods a clear **need for change** — for example, reviewing safety procedures and staffing.

Q15. A KPI figure on its own has no context. Comparing it against a **benchmark** (such as an industry average) or a **target** (the business's own goal) provides a **reference point**, so the manager can judge whether the result is **good or bad, and by how much**. For example, 6% staff turnover looks concerning against a 3% target but strong against a 15% industry average. The comparison makes the KPI meaningful for analysing performance and deciding whether change is required.

Q16. *(Discuss — advantages and disadvantages; no judgement required, and points kept distinct.)* **Advantages:** net profit is an **objective, quantifiable** figure taken straight from the business's accounts, so it is easily tracked over time and compared against a **target or industry benchmark**, and it measures performance against a **central objective** of most businesses. As the "bottom line" it also captures the combined effect of sales revenue and every cost, so a **sustained rise** is genuine evidence that the business is performing more strongly in **financial** terms. **Disadvantages:** net profit reveals nothing about the other areas of performance — **customer complaints, staff turnover, absenteeism, wastage or workplace accidents** could all be deteriorating while profit rises — and it is a **lagging** figure that reports a result after the event rather than warning of a developing problem. Net profit can also rise for **one-off reasons** (an asset sale, deferred maintenance, a competitor leaving the market) that flatter the result and mask underlying weakness. The manager's claim therefore goes further than one indicator can support: only reading **several KPIs together** shows whether change is needed elsewhere in the business.

Q17. When two KPIs such as **rising customer complaints and falling sales** move together, they show a **relationship** — the two are associated — but this is not proof that one **caused** the other. The sales fall might be explained by a **third factor** (a new competitor, an economic downturn) or the timing could be coincidental. A relationship is a legitimate **reason to investigate** the possible link, but the manager should confirm the cause before acting, rather than assuming the complaints alone explain the fall.

Q18. (a) **Market share** is **falling** (18% → 15% → 11%), an unfavourable trend, while the **number of customer complaints** is **rising sharply** (120 → 260 → 540), also unfavourable. (b) The two trends are likely **connected**: rising complaints suggest growing dissatisfaction with the label's products or service, which would push customers to competitors and **erode market share**. Together the KPIs show **clearly declining performance** and a strong **need for change** — for example, identifying and fixing the source of the complaints (such as product quality) before more customers are lost. (The link is a strong prompt to investigate rather than conclusive proof.)

Q19. *Model response (10 marks).* Key performance indicators are measurable criteria that let a manager assess how well a business is meeting its objectives, and they are central to identifying the need for change. To analyse performance, a manager **measures** relevant KPIs, then **interprets** them by reading the **trend over time**, the **size** of any movement, and comparisons against **targets, past results or benchmarks**, judging in each case whether the movement is favourable or unfavourable.

Consider three indicators. **Net profit figures** capture the overall financial result; a sustained fall signals declining financial performance and prompts the manager to ask why. **Level of staff turnover** captures the human-resource dimension; a rise is unfavourable because losing and replacing experienced staff raises costs and can reduce productivity. **Number of customer complaints** captures the customer dimension; a rise suggests dissatisfaction that may cost future sales. Read individually, each flags a possible problem — but read **together** they are far more powerful. If profit is falling **while** turnover and complaints are both rising, the manager can reason about the **relationships**: high turnover may be lowering service quality (raising complaints) and productivity, which in turn erodes profit. This integrated reading points to **where** change is most needed — here, in human resource management and service quality — rather than treating each symptom in isolation.

Reading KPIs together also guards against being **misled by a single figure**: profit alone might rise for a one-off reason while the business deteriorates elsewhere, and website hits alone can rise without any increase in sales. A manager should also remember that KPIs **measure** performance rather than explain it, and that two indicators moving together show a **relationship, not proof of cause** — so an unfavourable pattern is a well-evidenced **prompt to investigate and change**, not a finished diagnosis. Used this way — several complementary KPIs, tracked over time and against benchmarks, and interpreted for their relationships — KPIs give the manager reliable evidence of the need for change. *(Full marks require: at least three distinct KPIs correctly explained; interpretation of trends and relationships, not just definitions; and a clear link to identifying the need for change, including the limits of KPIs.)*

Q20. Both figures reported are measures of **sales**, and both moved in an **unfavourable** direction. **Same store sales** of **−0.2%** meant existing stores sold slightly less than in the previous year, a deterioration from **+1.5%**, while **network sales** fell 0.9% to **$4.15 billion**. Comparing each figure against the **previous year's result** is what turns the raw numbers into an analysis: it establishes a **trend** rather than a single figure read in isolation. Read **together**, the two indicators point the same way — the decline was not confined to a few stores but appeared across the network — so the weakness was more likely to be broad than local. That pattern is evidence of **declining performance** and therefore of a **need for change**. The company's response — closing stores in Japan, running a cost efficiency program and moving marketing away from discounting — shows the indicators being used for their real purpose: not simply to record performance, but to identify **where** change was required. The same KPIs could later be re-checked to **evaluate** whether those changes worked. *(Note: the KPIs identify the need for change; they do not by themselves establish its cause.)*