

The changes at New Zealand Aluminium Smelters Limited (NZAS) in 1991 were the result of a resolve, previously without parallel, to manage the smelter such that employees were clear about the authority of the management to manage fairly and in the long-term interests of all stakeholders. The change process began in 1985 when CRA, now Rio Tinto, commissioned me, with a small team, to recommend a revised organisation structure based on the theories of Elliott Jaques.

In the period following the restructuring of the organisation in 1986 until the end of 1990 the management embarked on a period of systematic change, the purpose of which was to create an environment where people could work more productively. During this period I occupied several of the operational line management roles. There were a number of critical events throughout this six-year period to the end of 1990 that shaped the culture of the organisation. These events, while not recounted here, demonstrated that the management had the courage to change the way work was undertaken at the smelter and to improve work practices that had developed over the period since the original commissioning. However one of the major barriers to change was the structure of the collective agreement, which covered the work rules for the unionised workforce.

The viability of the smelter was also being threatened. The NZ Government served notice on Comalco that it believed the price for electricity supplied to the smelter required revision. Following lengthy negotiations, which did not resolve the situation, the NZ Government, informed Comalco that if the position did not improve then legislation would be enacted to address the situation.

## The business case for change

### CONTEXT

NZAS was a business with a unionised workforce of some 850 people. New employees to operator and trades-based roles were legally required to be union members and therefore were bound by the NZAS collective agreement. The staff workforce numbered around 300 and was not covered by a collective agreement but each staff person was employed on a staff contract that differed little from each other in substance except for salary and conditions that were linked to the work of the role.

The smelter, while not in the bottom quartile of the distribution of world aluminium smelters in terms of cost per tonne, was performing acceptably. However the threat of increased

## 2 Systems Leadership

power costs arising from negotiations being held between Comalco and the NZ Government would inevitably drive the smelter's cost structure further up the cost curve. The outcome of a situation such as this, particularly in the cyclical aluminium business, would be to threaten the smelter's very existence and the consequent loss of thousands of jobs.

The smelter's costs were approximately one-third electricity, labour one-third and raw materials/supplies the balance. With the almost inevitable rise in electricity costs, the labour dimension needed to change. Raw material costs were a product of supply and demand from smelters around the globe.

Comalco began a drive to improve the smelter's labour cost base particularly with respect to total employee numbers, work practices, overtime levels and demarcation rules that were imbedded in the 77-page collective agreement.

The collective agreement was a complex document and had grown from 17 pages in 1971 to 77 pages in 1990. The wording of the document was such that most people found the task of interpretation quite daunting and were comfortable to leave it to the company's IR specialists and union leaders to manage.

The protracted negotiations each year, the complexity and inflexibility of the collective agreement and the imminent change to the employment laws of New Zealand formed the basis for formulating a different approach to managing the total workforce of 1300 people.

### THE CHANGE PROCESS

I was appointed general manager of NZAS in December 1990. I had been well trained in the clarity and understanding that Jaques' work brought to organisation structures and in the use of the Macdonald systems leadership models in the workplace. I was now in a position to use the integration of these theories and models to good effect. The managing director of Comalco Smelting was Karl Stewart (one of the co-authors of this book), and so knowledge of the systems leadership models was significant.

The negotiations for the collective agreement had not reached a conclusion upon my appointment in late 1990. The negotiations were suspended during the Christmas period and resumed in January 1991 and ultimately concluded. To demonstrate the inflexibility that was built into the agreement, it took three days and nights to negotiate whether or not a fitter welder could use a grease gun, a task all mechanical tradespersons were trained to perform. Because of the peculiarities of the agreement and the perceived threat to the overtime and job security of the trades assistants, who uniquely performed the greasing function, the union leadership vigorously opposed any change. There were many other unsatisfactory inflexibilities in the agreement, and it was determined that a piecemeal approach to change would take far too long and this was therefore unacceptable.

The first significant task assigned to me by my managing director was to reduce overtime levels, which were running in excess of 25 per cent overtime hours, to rostered hours. To address this issue I personally designed a system to change the behaviour of the frontline supervisor and the workforce. I did not delegate this piece of work because I was clear that designing systems was the work of occupants of level III roles and above. This system was designed such that the frontline supervisor was required to log the name of the person accepting overtime and the reason overtime was required to be worked. This log was then sent directly to me. To properly introduce the system, following consultation with my leadership team, I briefed the frontline supervisors and explained the context and the purpose of the new system. As a consequence of the implementation of this system, a new belief was generated in the minds of

the workforce: 'Overtime is finished at Tiwai Point'. In walking around the site in the months following implementation of the system this story was recounted to me many times.

On May 15, 1991 the Employment Contracts Act came into force. The smelter managers briefed their employees using a presentation pack prepared by the principal adviser personnel, regarding the options that the act provided. During the discussions it became apparent that there was significant interest in many parts of the smelter regarding the individual contract provisions of the new act. The managers were well prepared and explained that the existing staff were already employed on individual contracts of employment.

It was decided in discussion with the highest levels of leadership in Comalco Smelting that offers of staff employment be made to the unionised workforce and in essence eliminate the 'us and them' culture that had prevailed from the inception of the smelter. With a clear understanding of workforce mythologies, it was decided to write to all employees and post the letters to their home addresses. The importance of the decision for the employee required family involvement. The letter contained the general terms and conditions of a staff employment contract plus the requirement to perform any smelter task provided the person was trained, the task was legal and judged to be safe. The letter advised employees if they wished to examine the offer of a staff contract they should make an appointment with their manager once removed (the employee's manager's manager). Each letter was individually signed by me to symbolise my personal commitment to the proposed change.

Separately another letter was sent to all staff and unionised employees advising them there would be a voluntary redundancy programme with the goal of reducing the size of the workforce and therefore reducing the smelter's labour cost base. It was stated that it was hoped that the target number of 1000 employees would be achieved without resorting to forced redundancies. Again I signed 1500 individual letters, which were posted to the home of each employee.

In response the workforce was required to attend a mass meeting in the Invercargill Town Hall, to be addressed by union officials and the convenor. The entire 850 strong workforce turned up to hear the views of their union leadership. Staff operated the smelter in their absence, which was accepted custom and practice. A vote was put regarding staff contracts. The workforce unanimously rejected the concept and in addition each union member signed a document authorising their union leadership to be their bargaining agent as required under the new act. The locally respected *Southland Times* reported the meeting on their front page along with the resolutions that were carried unanimously (see Figures CS8.1, CS8.2 and CS8.3).

The union officials, carrying with them the set of forms authorising them as bargaining agents and the workforce's unanimous resolutions, met with the principal personnel adviser and myself to discuss the way forward and demanded that the staff offer to employees covered by the collective agreement be rescinded. Having been advised the workforce had unanimously resolved to reject the offer of staff contracts, I was quite bemused as it was in contradiction to the questions at recent manager briefings and the information I was receiving from my supervisors and superintendents. I discussed this at length with my managers' team and the decision was to proceed with the staff offer.

The very next day the managers were flooded with requests to discuss staff contracts and appointments were made over the next few weeks. This was clearly not concordant with Town Hall resolutions. Clearly significant cultural change was imminent and it was recognised that the individual meetings needed to be handled with detail and care. I arranged for Dr Ian Macdonald, the author of much of the systems leadership modelling theory, to meet with my management team in Christchurch, NZ, to discuss in detail how to handle the change

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FRIDAY, AUGUST 2, 1991

# Tiwai Workers unite In face of change

**Workers at New Zealand Aluminium Smelters' Tiwai Point plant are united in the face of change.**

With job losses looming and offers of individual contracts, workers have endorsed the option of a collective employment contract.

About 850 workers yesterday met combined union officials, affirming their support and authorising the union to continue steps towards negotiating a collective agreement.

Engineers Union South Island assistant district secretary Jed O'Connell said the two-hour meeting at the Civic Theatre in Invercargill was to inform members of the ramifications of recent events at the smelter.

Discussions included the company's offer of individual contracts, this week's announcement of up to 350 redundancies and the proposed reduction in overtime, which also involved manning levels and job content.

Workers were also invited to sign bargaining authority forms, which authorised the union to act as a bargaining agent on the worker's behalf.

The company this week delivered letters to workers outlining a proposed reorganisation of the plant, including a reduction of jobs and overtime cuts.

Workers had also recently received individual contract packages and had been invited to

meet company representatives to discuss the options.

Mr O'Connell said the unions had told workers there was no need to sign anything at this stage, but that they were entitled to check the contracts out.

At the moment there was "a contest on for the hearts and minds of workers at Tiwai. "We've been planning for this since February," he said.

A lack of information from the company had caused consternation.

"We're (the union) concerned that we're not being communicated with as well as we should be," Mr O'Connell said.

It was hoped that now bargaining authority forms had been signed, communication would change.

Site convenor Brian Devlin said there was a feeling of insecurity among workers.

"When you get a letter in the mail concerning redundancies and an individual contract package just out of the blue - the insecurity is certainly there," he said.

The union had looked at restructuring as early as 18 months ago, but its presentation had fallen on deaf ears.

"We discussed restructuring and how to go about that.

"We put a presentation to the company of a style of bargaining and negotiation in relation to restructuring, but they did not respond to it," Mr Devlin said.

He did not believe any workers had so far signed individual contracts.

"We advise workers to sit down with the company and find out in detail (what's involved in the individual contract), because the offer's fairly vague.

"Collectively everyone is together with the same conditions across the board.

"As an individual you're on your own against a multinational company," he said.

In the new industrial environment few people had resigned from the union.

The union was happy with the support and the "reaction from the guys" yesterday, Mr Devlin said.

Mr O'Connell said the workers endorsed the union's plan, and supported a continuation of its "five-point plan."

This included receiving claims from members, filing those claims and setting out to negotiate a new collective agreement.

In many ways the new industrial environment offered the union opportunities to widen cover to others already on individual contracts at Tiwai, Mr Devlin said.

"We understand that joining the collective contract could be quite attractive to some individuals."

**Figure CS8.1** *Southland Times Article, August 2, 1991*

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WEDNESDAY, SEPTEMBER 11, 1991

# Tiwai workers flock to sign contracts

Workers at the New Zealand Aluminium Smelters Tiwai Point plant have been signing individual contracts en masse, and the site union is now unsure about the future of the collective agreement.

Site union convener Brian Devlin said yesterday that well over 60 percent of Tiwai's 1295 employees had signed contracts in recent weeks.

Large groups had signed on September 1 and September 8, and still more were expected to sign in the weeks to come.

"I suppose in a way I'm disappointed (about the numbers signing)," he said, "but the guys have voted with their feet."

"The company has bought their way through these individual contracts - there's a lot of money involved."

Mr Devlin said each of the contracts offered was virtually identical, "apart from the salary."

"It's the standard contract they've always used."

Before the introduction of the Employment Contracts Act in May, there were 350 salaried staff at Tiwai.

The award covering workers at Tiwai expires on November 17.

"We don't know whether we'll negotiate a collective agreement at this stage, because the number who've signed (individual contracts) isn't clear," Mr Devlin said.

They're fairly high, but until we know the numbers, I can't say. "However, if it's the will of the people it'll go ahead."

Meantime, Mr Devlin urged workers not to leave the union. "No matter what the guys decide to do, they should stay with the union - for a bit of insurance. Individual contracts are really a step into the unknown."

"What the company's saying is that they'll prove themselves to be trustworthy, but for a guy of my background it's a hard pill to swallow."

By MARY WITSEY

"If the company is sincere, then no harm can come. They say they've looked after their workers in the past and they will in the future."

"I hope for the people who've signed, that does happen."

"But that \$4.20 (weekly union fee) is a good investment. I hope the guys are sensible enough to stay."

Smelter public affairs officer Graeme Purches said there had been an overwhelming response to the offer of individual contracts.

"We're very pleased with the way things have gone," he said yesterday.

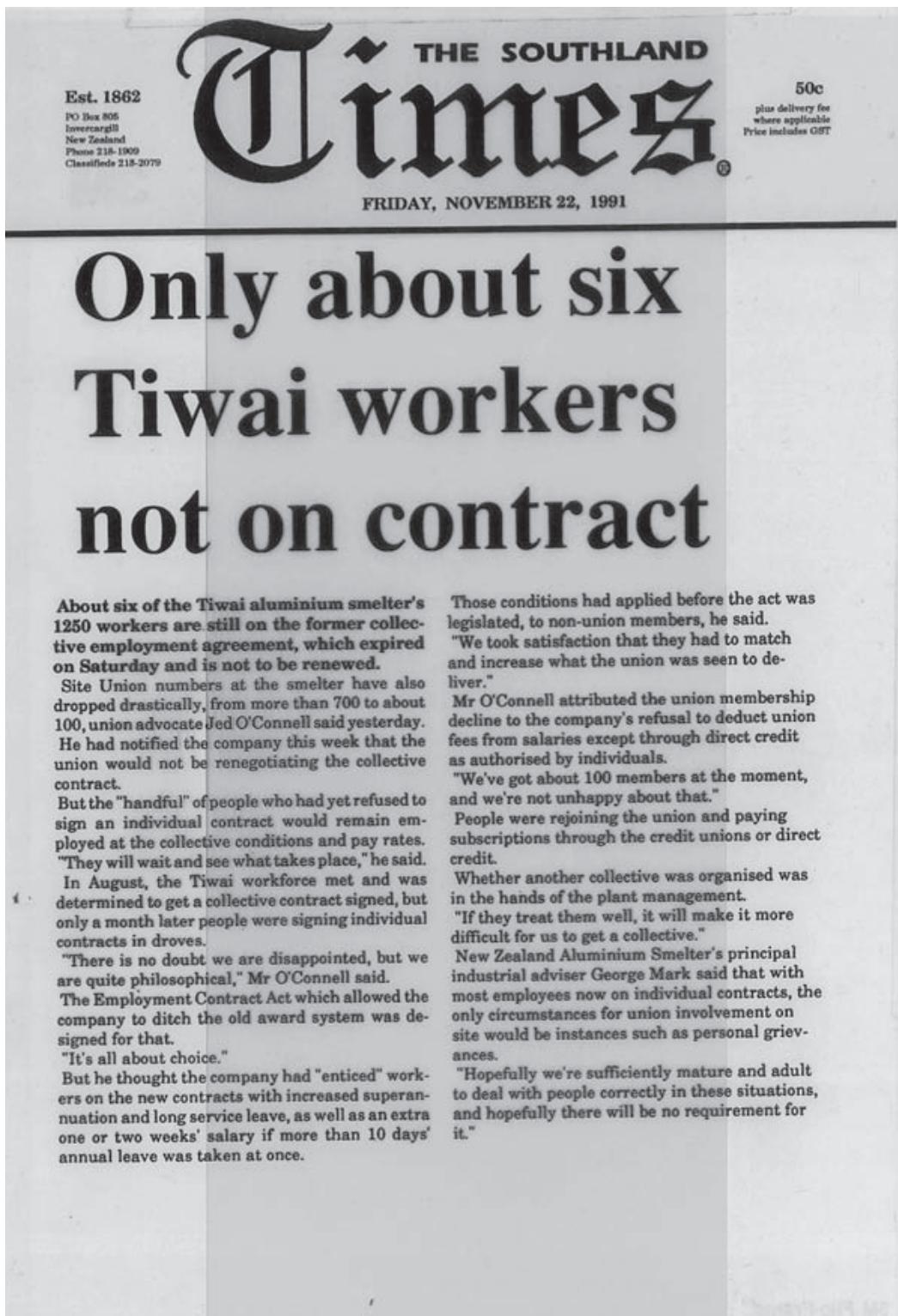
There would be no overtime paid to those on contract.

"But they'll be substantially better off with the package than they were before," he said.

"There will be no overtime payments - but virtually none is being worked anyway."

It would take a couple of months to get all the contracts completed, Mr Purches said.

Figure CS8.2 *Southland Times* Article, September 11, 1991



**Figure CS8.3** *Southland Times* Article, November 22, 1991

process. There was an understanding of workforce mythologies regarding the trustworthiness of management and the need to be rigorous and consistent in the application of systems and symbols that applied to the change of working under collective arrangements to working under individual staff arrangements. The two-day workshop was a major and important event. The management team with Ian Macdonald examined every system and symbol that applied to staff and then worked through the process of how each would apply to employees who were wishing to learn about a staff contract of employment. Bringing the modelling to bear, very clearly there was likely to be a massive change in workplace culture as a result of a change from a system that differentiated between the unionised workforce and the staff workforce to one where all were treated equally.

The first system to be modified was the remuneration system. Intense managerial effort was applied to integrating the employees covered by the collective into the staff remuneration system. This was done such that the existing staff and those joining staff from the collective would judge the changes as positive.

Interestingly, yet on reflection not surprisingly, three questions were asked by most, and none involved remuneration:

1. 'Will I have access to company-supplied tea and coffee?' (Staff had tea and coffee provided; the unionised workforce were paid an allowance.)
2. 'Am I invited to the staff quarterly GM briefing?' (Staff attended a quarterly briefing where dinner was provided and the GM gave a 'state of the nation address'.)
3. 'Will I have open access to safety gear?' (It came to light that the union leadership had propagated a story that the company would restrict access to safety equipment.)

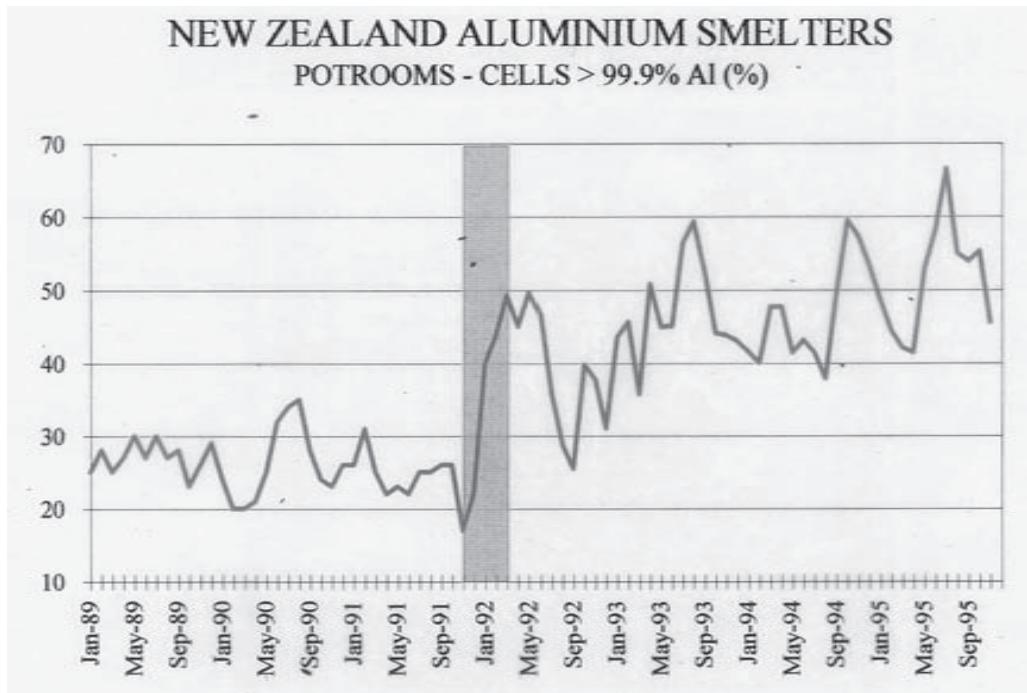
The workforce then signed staff contracts en masse. All demarcation practices in word and deed disappeared. People who could not accept the new culture were provided with a dignified way out with the opportunity to apply for a voluntary termination package.

## The outcome

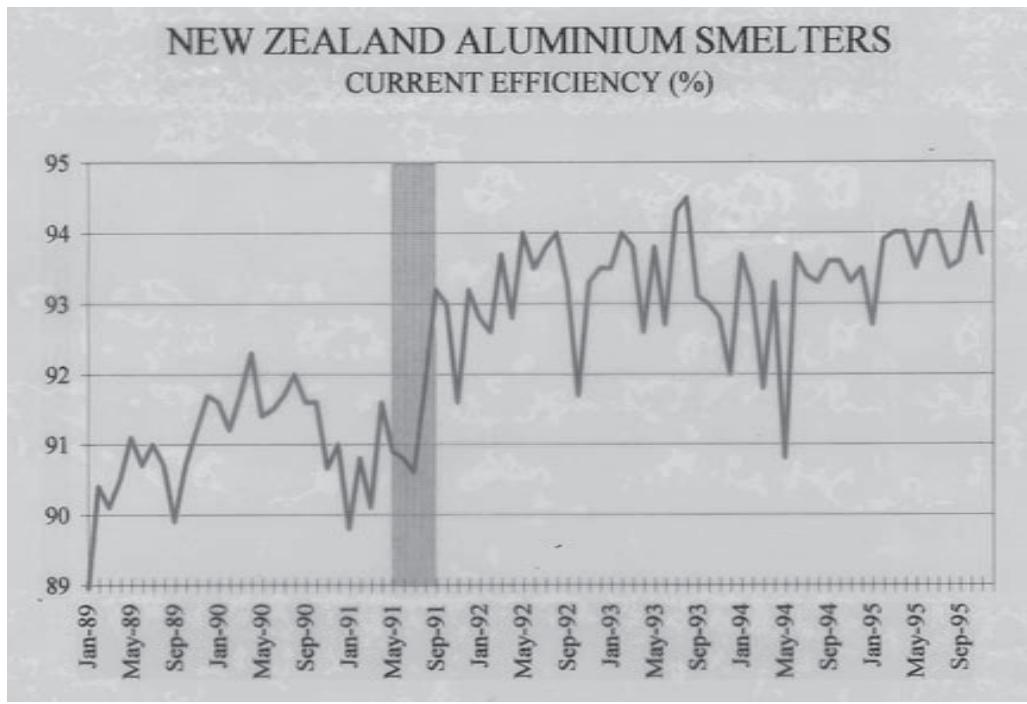
The size of the cultural shift immediately began to show impact on the smelter's key performance indicators. People, freed from the restrictive practices of the past, began to use their considerable talents to run the operation more effectively. The leadership, systems and symbols changes, rigorously introduced, created new mythologies. The behaviour of the workforce changed dramatically as a result. Indicators such as number of employees, metal purity, current efficiency (the efficiency of electricity utilisation), and ultimately the cost per tonne of metal produced, were reduced by one-third. Figures CS8.4, CS8.5, CS8.6, CS8.7 and CS8.8 demonstrate – with the exception of cost per tonne because of its sensitive nature – the magnitude of the change.

It is important to note that the cultural shift delivered results that far outweigh any technological improvement. The change was on a scale not encountered before and delivered significant positive results to all stakeholders.

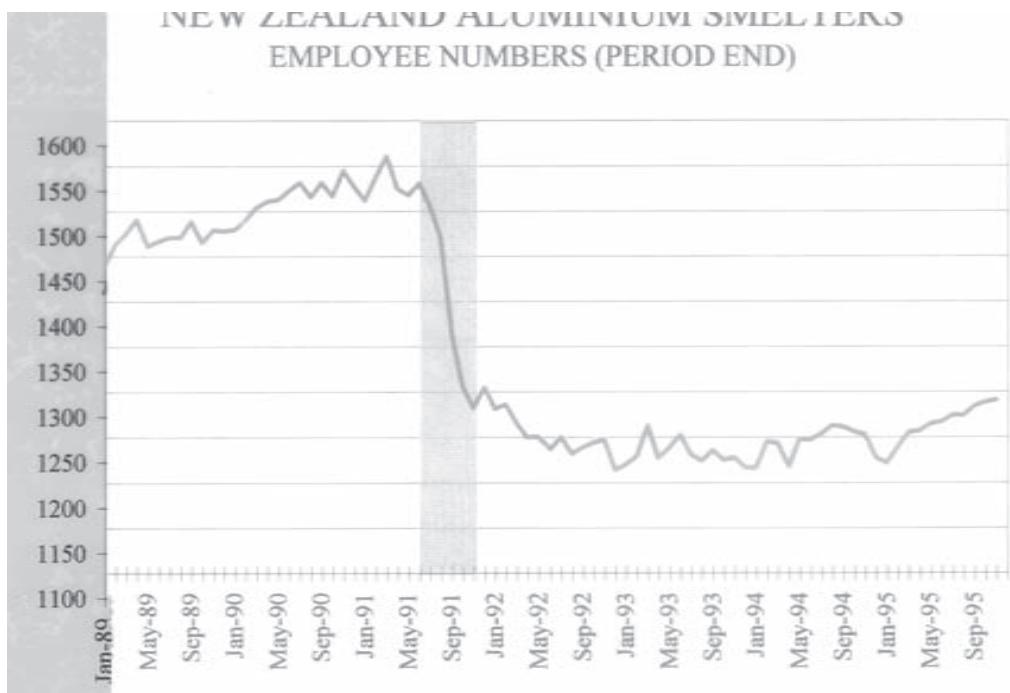
Fifteen years on, the culture at the New Zealand-based smelter is still such that it retains its leading performance with respect to other operations with similar technology.



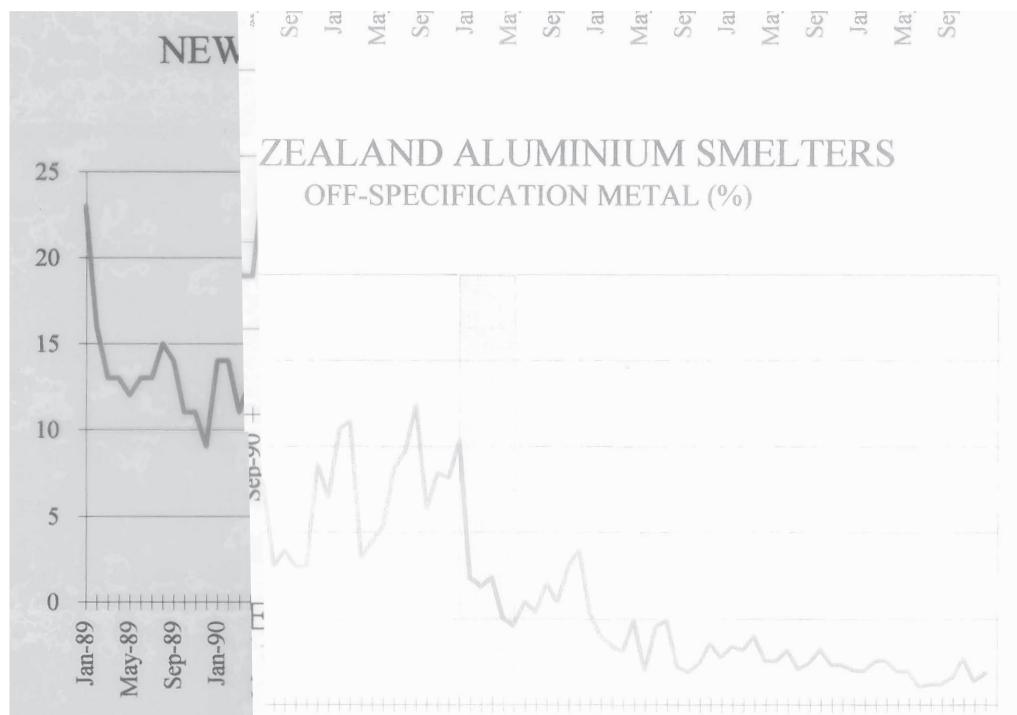
**Figure CS8.4** Potrooms – Cells >99.9%Al



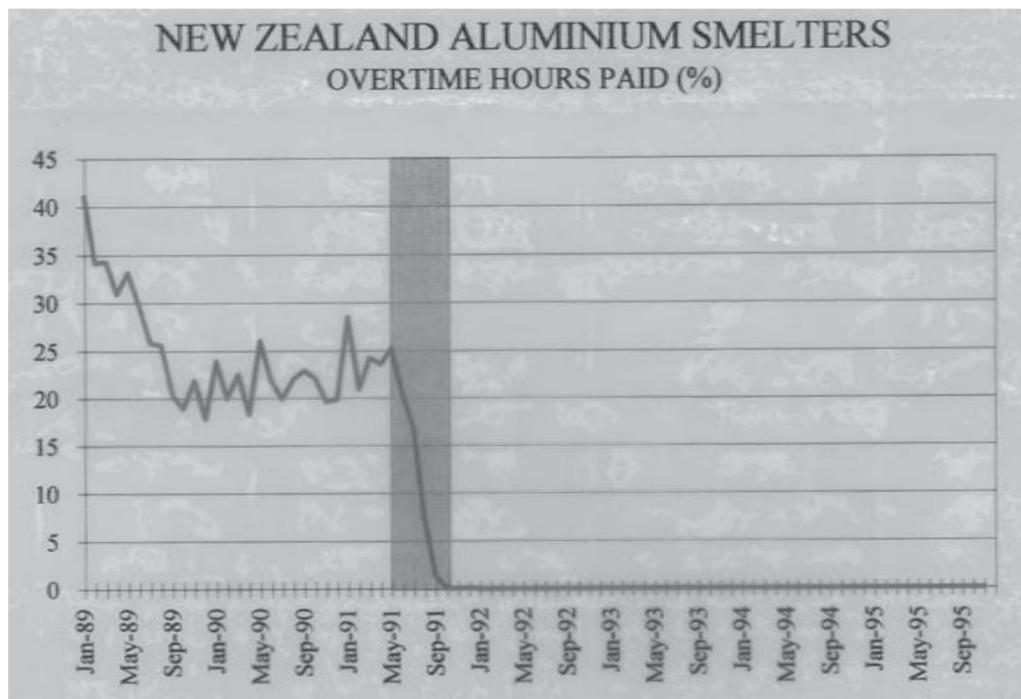
**Figure CS8.5** Current Efficiency



**Figure CS8.6** Employee Numbers (Period End)



**Figure CS8.7** Off-Specification Metal



**Figure CS8.8** Overtime Hours Paid