business growth and decline

- stages of the business life cycle
  – establishment
  – growth
  – maturity
  – post-maturity
- responding to challenges at each stage of the business life cycle
- factors that can contribute to business decline
- voluntary and involuntary cessation – liquidation

Chapter 6

BUSINESS GROWTH AND DECLINE

Overview 06

Businesses have been observed to follow a common path throughout their life - much like biological processes - moving through common stages from birth, through growth, and then to decline (the ending or cessation of the business).

This was first observed and documented by economist Kenneth Boulding in 1950, who argued that organisations experience the common stages of birth, maturation, eventual decline and death. For Boulding:

- **birth** is primarily a struggle to survive
- **maturation** occurs after an organisation has established a foothold in the marketplace, develops external reputations and internal management systems
- **decline** is characterised by reducing efficiencies, declining customer bases and a loss of profitability
- **death** occurs when the organisation ceases to exist because it is no longer profitable and cannot meet costs and runs out of cash

Boulding's work has then been refined by a number of writers and a common expression of the business life cycle has four stages outlined in the syllabus as follows:

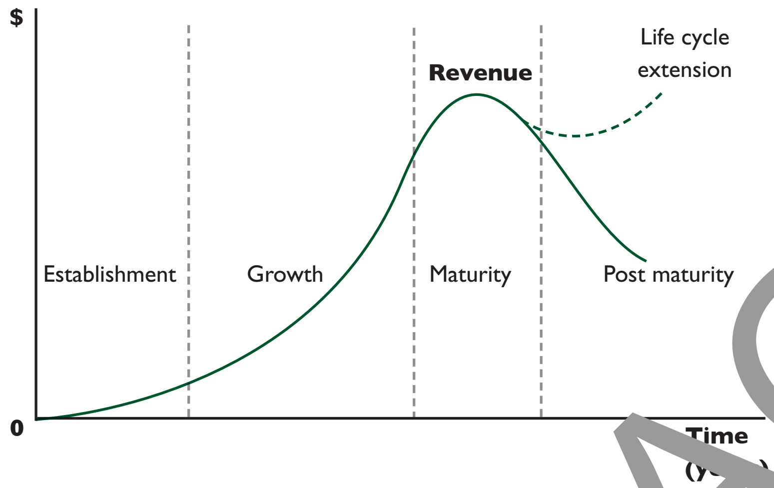
1. **Establishment**
2. **Growth**
3. **Maturity**
4. **Post-maturity**

Typically the business life cycle is presented graphically, showing time on the horizontal axis and revenue on the vertical axis. Given that both revenue and profit both vary according to the stage of the business in the business life cycle we have examined both in the graphs that follow. As can be seen in the figures, most businesses typically make losses in their first years of operations before generating profits in the growth phase of the business.

Video
L77

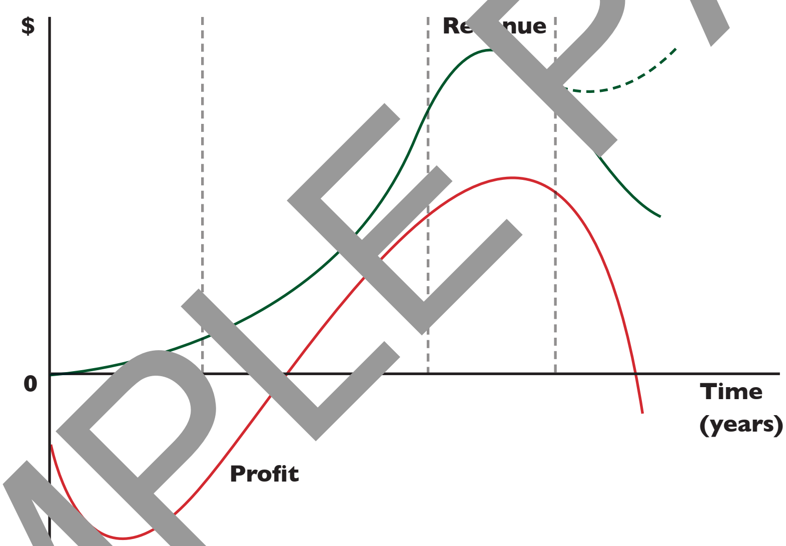
Stages of the business life cycle (revenue only)

6.1



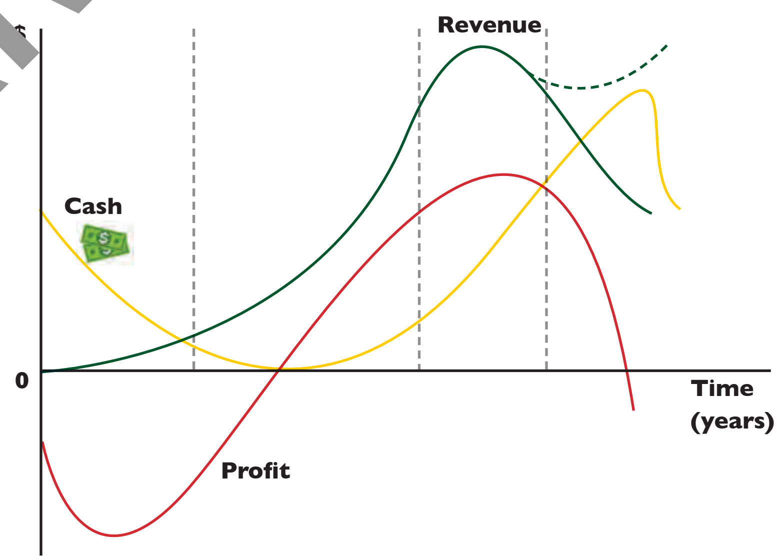
Stages of the business life cycle (adding profit)

6.2



Stages of the business life cycle (adding cash balance)

6.3



First of all considering Figure 6.1, which just graphs revenue against time.
The four phases of the business life cycle essentially relate to how revenue of the business (also called sales, or turnover) changes as the business ages. In the first stage of life, revenue starts at zero and grows slowly (the establishment phase). Where the business survives this first phase, the business increases brand awareness, develops customers, and revenue increases (the growth phase). Here the word growth is referring to revenue - revenue is rapidly growing during this phase. After the growth phase revenue growth continues, and then starts to decline as the product is selling in a mature market, often with many competitors (the maturity phase). Finally, the business may decline and enter the post maturity phase, where revenue will decline unless changes are made to the products sold by the business to its customers. Where change, or reinvention occurs, then the business may have a life cycle extension.

As we will shortly see, the strategies used by the managers during each of the four phases of the business life cycle are quite different. This is why managers consider where the business is in the business life cycle as an input to determining their strategic plans for the business. For example the marketing strategy (which includes the pricing of the product) will vary widely depending upon which of the four phases of the business life cycle that the business is presently in.

Syllabus
Stages of the business life cycle
- establishment
- growth
- maturity
- post maturity

Take your time
These are important concepts which will return in topic 3, business planning. Students should make sure that they can draw each of the graphs throughout the phases of the business life cycle. This is a great way to ensure that you understand how revenue, profit and cash vary across the stages of the business life cycle.

Next, considering Figure 6.2, which adds profit to the graph
For most businesses, in the early years the revenue of the business does not cover the costs of the business, and the business will therefore make losses - often quite large, and increasing losses, as the business develops its product, its various premises and operations, and invests in significant promotion efforts to establish the business in its markets.

As indicated in the graph (the red line), it is typical for businesses to incur losses during the establishment phase (as revenues are low). However eventually the growth in revenue is sufficient to cover costs and the business commences earning profits which increase as revenue increases. Eventually as the business reaches the end of the maturity phase and enters post maturity, profits decrease and if the business continues to operate without changing its products the business will return to losses.

Finally considering Figure 6.3, which adds cash resources of the business to the graph
Given that the business is making losses in the early years, this has significant implications for the amount of cash that the business will need in order to survive during the establishment phase. In the graph shown the business commenced with **just enough cash** to survive the early phases, with cash being quickly spent and the business risking running out of cash and failing. Once the business starts to make profits, it is more likely that the cash reserves of the business will increase - although that may lag somewhat as the business may use cash to build additional capacity, or purchase increased inventory and the like during the growth phase.

If the operations of the business are cash flow positive (more cash coming in than cash leaving the business) then the level of cash resources of the business will increase, until they may again reduce where the business returns to making losses in the post maturity phase.

As indicated in the table below (across two pages), the strategic objective of the business varies across the various stages of the business life cycle, as do revenue, profit, pricing, cash resources and the key challenges which are encountered by the managers in each of the key business functions of the business.

	Establishment	Growth
Description	The start of the business.	After surviving the establishment phase the business builds customers, revenue and size.
Common other names	Start-up, birth, launch	Rapid growth
Strategic objective	Survival of the difficult, challenging establishment phase, building systems, processes and foundations to support the coming growth phase	Constantly increase annual sales, explore growth through mergers and acquisitions (buying other businesses) and adding additional product offerings (diversification)
Promotion strategy	Highest impact promotion with limited promotion budget target key segments to maximise chance of sales conversion. Focus on competitive advantage and value proposition of the business's products	Marketing develop new products for new market segments, with a reduction in average production costs (economies of scale) enabling more price competitive offerings. Widen place and promotion strategies and increase promotion spend.
Revenue	Sales are low, but increasing. May be difficult to generate revenue where product idea is novel, or where strong existing competitors in the market	Very fast rate of growth of sales when entering the phase, which may slow towards the end. Some early products may be discontinued if sales slow down.
Pricing	Consider higher prices for early adopters (price skimming) if possible	May be able to reduce costs to widen appeal and increase sales
Profit	With low revenue, and establishment costs including product and market development it is likely losses will be incurred in this phase for a period of up to several years.	First profits are made, and continue to grow as sales rapidly increase, and addition of profits of businesses that have been acquired as part of growth strategy.
Cash	Negative cash flow (more cash out than cash in as a result of both losses, and the purchase of equipment and inventory for the business) resulting in a draining of cash reserves of the business.	Expansion requires additional cash to fund increase in operations scale and inventory - must be managed so that cash needs do not outstrip available cash resources. More financial planning, forecasting and management required.
Customers	Seek to identify and build customer relationships for repeat sales. Careful market segmentation to engage with market segment with greatest likelihood of sales conversion. Invest in customer relationship management.	Keep existing customers, and convert new customer relationships domestically and overseas. Significant increase in market share and segments serviced.
Employees	Few, informal management and quick decision making.	HR more formalised, larger staff, increased specialisation, training and compliance.
Failure rate	Very high. 33% failure rate within a year.	Less than establishment - acquired businesses may provide stable earnings.
Key challenges	Planning and ensuring sufficient cash to survive cash drain (avoid undercapitalising the business)	Ensuring too rapid expansion does not outstrip cash resources, obtaining additional finance, diversification risk, lose cohesion

Review the table and consider how each of the rows changes over the course of the business life cycle - you can relate these changes to the previous graphs in terms of the changes in revenue, profit and cash balance of the business.

Maturity	Post maturity	
After surviving the growth phase, revenue growth slows	Unless the product changes revenue declines and the business risks closure	**Description**
	Decline, renewal	**Common other names**
Maintain profit levels	Attempt to increase sales and profits by changing product offering or seeking new markets for existing products. Sell or close businesses with declining revenue.	**Strategic objective**
Significant promotion spend to maintain brand awareness and brand values to maintain customer loyalty and sales. Risk of decline of market share to new entrants requiring marketing to redesign product/ add features to refresh and differentiate.	Work with new or potential customers to identify new product needs or seek new markets to generate sales to offset reduction in revenue in existing markets. Undertake promotional activities in new markets to generate awareness.	**Promotion strategy**
Sales are high, but the rate of growth in sales slows and may decline. Total revenue may plateau (remain constant over time).	May increase over time if new products and market developed, otherwise may significantly decline over time.	**Revenue**
Focus on reducing production costs to preserve margins if discounting required	Actively use discounting to sell inventory in established markets.	**Pricing**
As revenue growth slows, profit growth slows and profit may peak and decline	May increase over time if new products and markets developed, otherwise may significantly decline over time and business may move into losses.	**Profit**
Positive cash flows may reduce as profit reduces	Expenses associated with research and development and market expansion may increase cash outflows, coupled with lower profit levels may cause decrease in cash. If new products/markets not developed cashflow will eventually turn negative.	**Cash**
Existing customers may be alienated by increased scale of business. Maintaining customers becomes more difficult in the face of competition and new products	Customer numbers may decline in existing markets, and potentially increase in new markets where new products or markets developed.	**Customers**
Larger numbers, increased focus on efficiency, quality and meeting targets	Numbers may be reduced as revenues drop and production slows. Retention issues.	**Employees**
At risk if changes are not made before proceeding to post maturity phase	Unless new products and markets developed business eventually ceases.	**Failure rate**
Decrease in sales reduces profits and positive cash flow. Slower decision making, more bureaucracy and group think.	Funding reinvention of products and markets with declining revenues and market share. Retaining good staff is harder.	**Key challenges**

Syllabus
- responding to challenges at each stage of the business life cycle

Responding to challenges at each stage of the business life cycle

The syllabus provides that students have to learn about responding to challenges at each stage of the business life cycle. That is, what are the challenges at each stage of the business cycle and how does business respond. In some ways, this is a blend of the key challenges and strategic objective from the previous table analysing the characteristics of the different phases of the business life cycle. Focusing on responding to key challenges at each stage of the business cycle:

Phase	Key Challenge	Management response
Establishment	Planning and ensuring sufficient cash to survive cash drain (avoid undercapitalising the business)	Critical for managers to forecast and plan the financial and other resource needs of the business to ensure that the business can survive the struggle of the establishment phase. Particular attention must be paid to ensuring sufficient cash resources. Ensuring planning (and tracking actual results against the plan) for each of the four key business functions (operations, human resources, finance and marketing) is key
Growth	Ensuring too rapid expansion does not outstrip cash resources, obtaining additional finance, diversification risk, lose cohesion	Continue to track and manage cash needs - may need to secure additional sources of funding through debt (loans) or equity (selling new shares in the business). Extending the product range needs to be carefully managed, and growth managed so that the needs for additional funds (for stores, factories, inventory) do not exhaust cash, and that sufficient management resources are in place to provide effective oversight and control. Care needs to be exercised in purchasing other businesses through merger and acquisition (refer next page), in relation to the selection, pricing and integration of those businesses with the existing business.
Maturity	Decrease in sales reduces profit and positive cash flow. Slower decision making, more bureaucracy and group think.	Actively manage resistance to change in the organisation (and group think leading to a lack of innovation) where there may be reluctance to change products, or discontinue products. Consider how to balance the need for processes, rules and procedures within the business with the need for agile decision making and empowering employees. Continue to manage mergers and acquisitions.
Post-maturity	Funding reinvention of products and markets with declining revenues and market share. Retaining good staff is harder.	Forecast need for additional cash to fund research and development, and obtain additional debt (loan) or equity (issue new shares) funding. Be prepared to make significant changes to distribution channels, pricing and product range, and the significant impacts of those decisions in relation to selling businesses, machinery and factories and making staff redundant (reducing the number of employees). Actively manage human capital to ensure quality employees are retained within changed business and management structures.

Mergers and acquisitions

Mergers and acquisitions (or M&A) is a commonly used term in business, and refers to where a business combines with (merges with), or purchases (acquires) another business.

In an **acquisition**, one business purchases another business, and it becomes part of the acquiring business. For example, this would occur if one coffee shop purchased another coffee shop in order to expand the business. In this case, the owners of the first business now own both businesses. On the other hand, a **merger** is the combination of two business into one, which is then owned by ALL the initial owners of both businesses. For example this would occur where two coffee shops decided to join into one business, which would then be owned jointly by the owners of both coffee shops.

By conducting mergers and acquisitions **during the growth and maturity phase in particular** the business is able to continue to increase revenue and profit and address the challenges associated with the maturity phase where the original products of the business at establishment are no longer sufficient to generate the revenue and profit objectives of the business.

The table below provides examples of how mergers and acquisitions work for two business, called Business A and Business B.

Transaction type	Description	Business after transaction
Acquisition	Business A purchases Business B for $500,000	The owners of Business A now own an expanded business which includes Business B. The prior owners of Business B receive $500,000 but have no further interest in the businesses
Merger	Business A merges with Business B	The businesses are combined into a new business (Business C) which may result in efficiencies by sharing marketing and finance costs. The prior owners of Business A and Business B become the new owners of Business C.

When considering suitable businesses to acquire (purchase) or merge with (join to become a new larger business) a business will consider what are referred to as vertical integration, horizontal integration, or diversification. Those categories are outlined in the table below:

Vertical integration	The business purchases businesses which supply the business (backwards vertical integration) or customers of the business (forwards vertical integration).By doing this the business captures an additional share of the value chain in which it is involved (that is the profit made by suppliers and customers of the business).
Horizontal integration	The business purchases businesses which compete with the business and sell similar products (increasing the market share of the business). This is less risky than diversification or vertical integration because the business is already skilled at managing and operating this type of business.
Diversification	The business purchases a business which produces entirely different and unrelated goods and services. For example an airline purchases a musical instrument manufacturer.

Link
L82

FACTORS THAT CAN CONTRIBUTE TO BUSINESS DECLINE

We now understand that every business will go through various distinct phases on its journey from establishment to decline, and that every stage presents significant challenges to the management of the business in order to respond to those challenges and survive to the next stage. Of course, if the challenges of the stage are not properly managed then the business can fail in any of the stages. That is, the business may fail in establishment and never reach growth, or may fail in growth and never reach maturity.

Syllabus
- factors that can contribute to business decline

Now we consider the common reasons that businesses fail (within any of the stages), and then consider the actual legal processes which are followed when businesses decline and cease (stop) trading, referred to as cessation of the business. In reality of course, many reasons often combine to cause the decline and failure of a business, however figure [illegible] provides us a path through which to understand and group the common factors that contribute to business decline.

A bad business idea

The first reason for business failure is a bad idea - whilst the person establishing the business was confident that customers would purchase the product the sad reality is that the customers were never going to purchase the product in a way which would make the business profitable and sustainable.

Decline of SMEs
In topic 3 we examine critical issues for success and failure of small to medium enterprises.

Consider how such a business would proceed through the business life cycle. In the establishment phase the business would face declining cash, and a lower level of actual sales than the plan forecast or projected. In this case, a stage would be reached where whilst the business still had some cash resources it becomes evident that the idea is a bad idea, and if the business continues then it will run out of cash and fail.

Faced with this prospect, management has a choice. To continue to believe and trade (in which case the business will continue to trade, lose money, drain cash resources and eventually fail), or to stop the business now rather than continuing to trade on. Where the owners of the business decide to stop now, the actual steps taken will differ depending upon whether the legal structure of the business is unincorporated (not a separate legal person, that is a sole trader or a partnership) or whether the legal structure of the business is incorporated (a separate legal person, that is a private company or a public company).

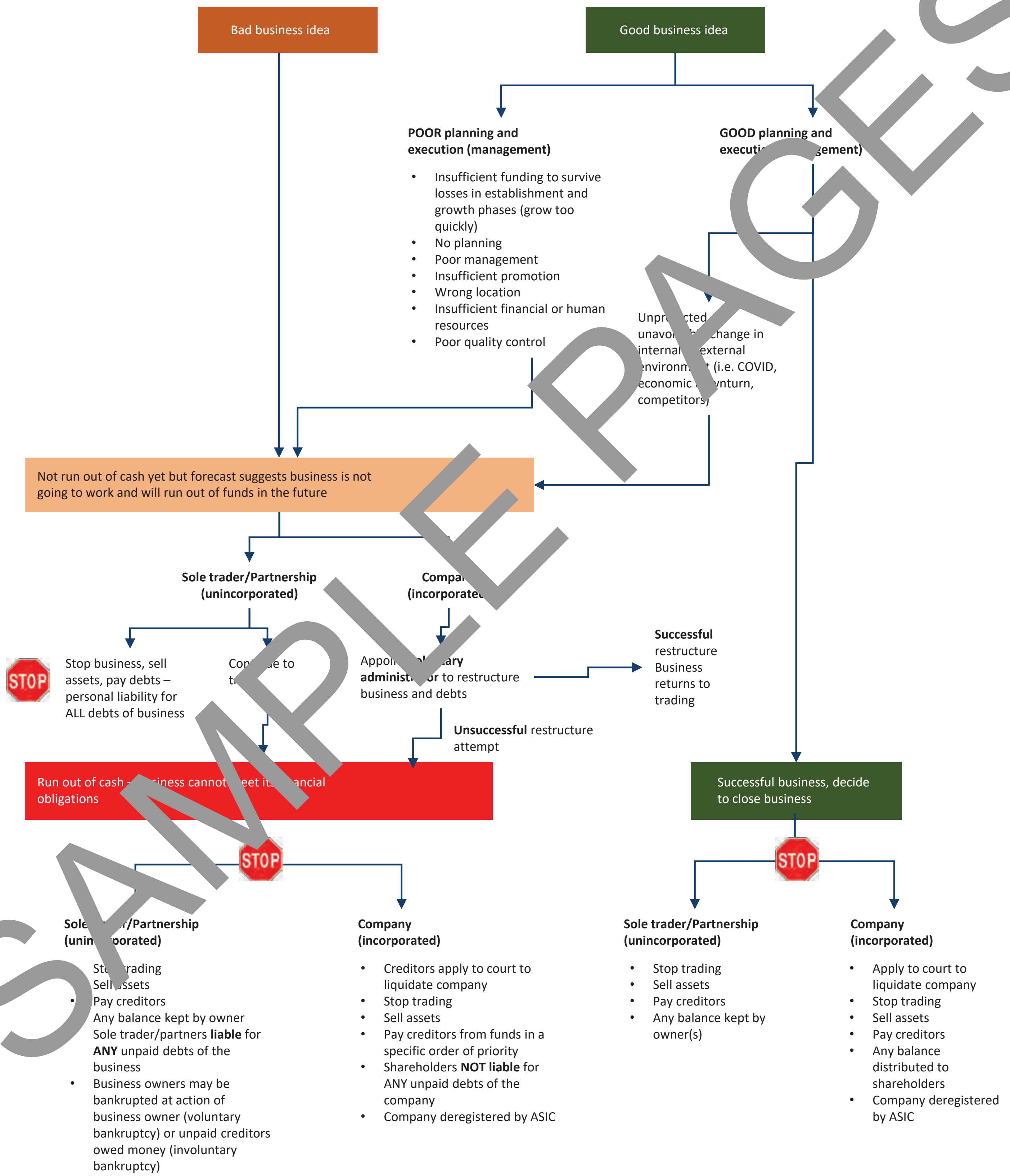
Changes to Australia's insolvency laws
In 2020 the Federal Treasurer announced the most consequential changes to Australia's insolvency laws in [illegible] years. The changes are styled on the Chapter 11 regime utilised in the United States. It represents a significant shift from the current 'creditor-in-possession' regime to a 'debtor-in-possession' system. Incorporated entities with liabilities of less than $1 million will be able to access the scheme.

Where the business is **unincorporated** (sole trader or partnership), the business ceases to trade, sells all the assets of the business (inventory, machinery), pays all debts (also referred to as creditors) and then distributes to the owner or the partners any money that is left over. Because there is no separate legal entity, no further legal steps need to be taken.

Where the business is **incorporated** (private company or public company) the directors of the business may decide to take the legal step of appointing a voluntary administrator to run the business. This is referred to as the business entering voluntary administration. The directors of a business may take this step because under the Corporations Law the directors of a business are personally liable for any debts that the business incurs after a reasonable person would suspect that the business is no longer able to pay its debts as and when they fall due (referred to as being liable for insolvent trading). This means that the personal assets of the directors may be at risk if they continue to operate the business when it cannot pay its debts as and when they are due. A voluntary administrator then takes over the management of the company, and attempts to restructure the operations and finances of the company (which may involve persons owed money by the business agreeing to write-off some of the amounts owed). If the voluntary administrator is successful in restructuring the business so that it will be able to meet its restructured financial obligations, then the business is returned to the prior management. If however the administration is not successful, then the company will have failed and proceeds to liquidation.

Video
F64

FIGURE 6.4: The paths to cessation of a business in Australia



Where the business idea is poor, and the owners of the business continue to trade past the point where it is clear that the business will fail, the business will eventually reach the point where it is unable to meet its financial obligations (to pay its debts) and is referred to as **insolvent**.

The next step again depends upon the legal structure of the business, whether it is unincorporated (sole trader or partnership) or incorporated (private company or public company).

Syllabus
- voluntary and involuntary cessation

Where the business is **unincorporated**, persons owed money by the business can sue the owner (the sole trader) or each of the partners for the amount of the unpaid debt. Where the amount owed is greater than $5,000, and the creditor has obtained a court judgement against the owner or partners, the creditor serves a bankruptcy notice requiring payment within 21 days. If the amount is not paid, the creditor owed money can make an application to the court (referred to as a creditor's petition) to have the owner of the business (or the partners) declared bankrupt. If the Court grants the order the owner of the business (or the partners) is declared bankrupt, with the result that a third person (the Trustee) is appointed to take temporary charge of the financial affairs of the owner of the business (or the partners).

During bankruptcy, which lasts three years, the Trustee has a responsibility to use the assets and income of the bankrupt to meet the outstanding debts and financial obligations. Some income and assets are protected (tools, a low level of income, a moderate car), and during the three years the bankrupt cannot travel overseas. At the end of three years, remaining debts are written off, and the person becomes known as a discharged bankrupt which will have adverse implications for their credit rating, ability to borrow funds, and ability to be employed in certain occupations.

If the business is **incorporated** (a private company or public company where there is a separate legal person to be addressed) a very different process is followed - referred to as **liquidation** as against the bankruptcy process which applies to the owners of unincorporated businesses that fail. Commonly, where the process of voluntary administration has failed, the creditors of the company vote to liquidate the company, and apply to the court for an order to appoint a third party, the liquidator, to wind up the company. The liquidator sells (liquidates - converts to cash) the assets of the business and then makes payments to creditors in a legally specified order (after any secured creditors have appointed receivers to sell the assets over which they have security):

1. costs and expenses of the liquidation, including liquidators' fees
2. outstanding employee wages and superannuation
3. outstanding employee leave of absence (including annual leave and long service leave)
4. employee retrenchment pay
5. unsecured creditors (those without mortgages over specific assets)

Where an unpaid creditor of the business (someone owed money) has a security over assets of the business - for example a mortgage over property, if the business does not pay the loan which is secured by a security interest then the creditor can apply to the court to have a receiver appointed in relation to the secured property. The receiver then takes control of the secured property, sells it, pays the creditor the amount outstanding, and then any excess is returned to the business. If the creditor has security over all of the assets of the business (referred to as a fixed and floating charge), when a receiver is appointed they control all of the operations of the business, which is said to be **in receivership**.

A good business idea
Even businesses which have a good business idea can get into trouble and fail - for a variety of reasons often associated with a lack of planning and insufficient financial resources. **Poor planning and execution** can turn a good business idea into a failed business.

Common reasons for businesses with good ideas to fail include:

- **insufficient funding to survive losses in the startup or growth phases.** Referred to as undercapitalisation, this occurs where the business has not obtained sufficient financial resources in order to survive the early losses, and negative cash flows associated with the establishment and growth phases of the phases.

- **a lack of planning.** The common adage or proverb in relation to planning: failing to plan is planning to fail. Businesses are often commenced by people with skills in the provision of particular good or service - for example a plumber opens a plumbing business. In this case the business owner may know a lot about operational processes, but little about finance, human resources and marketing. As a result, business planning, the development of marketing strategy, and financial forecasting, monitoring and controlling may not occur which in turn results in business failure.

- **poor management.** As the business grows more people within the business will be in management roles throughout each of the four key business functions of marketing, human resources, finance and operations. If the individuals in these roles do not have the skills and experience to perform those roles, and to support the work of those in each of the other key business functions, then this can impair business performance. The impact can be seen in a wide range of problems including poor recruitment, poor people management, bad decision making, poor promotion campaigns, not sending invoices out, and poor customer service with adverse impacts on costs, revenue and brand reputation.

- **wrong location.** Whilst the market may have space for another coffee shop, if the business is then located in an inaccessible, or poorly visible location, the business may not attract customers and therefore may fail. This would also be an example of poor management, where the location strategy (referred to as the place strategy) developed by marketing would not be appropriate for the good or service being offered by the business.

- **insufficient financial or human resources**: The first of these would cover undercapitalisation of the business, which is actually just a specific example of poor management and decision making resulting in significant adverse impacts on the business. For example, the business may have insufficient human resources, which results in staff being over stretched, then making mistakes or errors in product creation and service delivery, or then leaving the business as the demands of the role exceeds the time available. Insufficient human resources is a common problem in businesses in the establishment and growth phases where the business owner may be reluctant to incur additional costs in those phases where insufficient financial resources have been planned and available.

- **poor quality control:** Whilst the business idea may be a good one, execution problems in creating the product or delivering the good or service may lead to unhappy customers, poor market reputation, and insufficient revenue in order to cover costs. Again, this derives from poor management - this time within the operations key business function and issues in relation to quality control and quality management which can result in the failure of the business.

Finally, a business with a good business idea, and with good planning and execution, can fail as a result of **unpredicted, unavoidable changes** in the internal or external business environment which then result in the decline and failure of the business.

For example, consider a new restaurant in Melbourne, with a great chef, and an outstanding reputation that opened in February 2020. The planning was excellent. Excellent human resources had been recruited. Finances had been forecast, with sufficient funding available to meet the expected losses in the early months. And then COVID hit, with the external influence of government regulation and shutdowns in order to control the spread of COVID-19. As a result of the inability to trade, and the need to continue to pay rent, interest and other costs (albeit with the support of some government programs including the wage subsidies available through JobKeeper) the business may fail as a result of running out of cash without the revenue that was planned to come through restaurant sales.

In other words, changes may occur in the external or internal environment which, despite good planning and execution by the management of the business, which result in the business facing financial difficulties. Of course, some changes occur which the business is able to respond to, and adapt to, without threatening the ongoing survival of the business. This did occur during COVID where many businesses pivoted to providing different goods and services during that period in order to continue to generate sufficient revenues in order for the businesses to remain viable.

As indicated on the right hand side of Figure 6.4, a business with a good idea, and with good planning and execution may stop trading as a result of the decision of the business owners to cease trading. For example, a successful photographer decides to retire, with the result that the sole trader business which she operated will close and cease trading. Alternatively, the shareholders of a business may decide to no longer operate the business, and decide to shut the business down - possibly as a result of being in the post maturity phase of the business and wishing to cease trading before financial difficulties arise.

In this case the path followed depends upon whether the business is **unincorporated** (sole trader or partnership), or **incorporated** (private company or public company). In both cases the process is being started at the choice and timing of the business owners, not as a result of the actions of unpaid creditors of the business.

If the successful business that is ceasing is an unincorporated business then the process is the same as the process to cease trading if the business was a bad idea and the owners decided to close the business before it had financial difficulties. In this case the business stops trading, sells the assets, pays creditors the amounts that they are owed and then any surplus from the sale of the assets and the payment of creditors is given to the owner of the business (sole trader) or the partners (partnership).

If the successful business that is ceasing is an incorporated business then the process is referred to as voluntary liquidation - voluntary because it is the shareholders of the business, and not unpaid creditors, that are petitioning the court to appoint a liquidator to the company. When appointed, the third party liquidator takes over the business, stops trading, sells assets, pays creditors and then any surplus is distributed to the shareholders. At the end of the process ASIC deregisters the company, at which time the company as a separate legal entity no longer exists at law.

PROBLEMS FOR STAKEHOLDERS WHEN COMPANIES GO INTO LIQUIDATION

The final part of the syllabus in this section, business growth and decline, is a learn to styled:

> "students learn to identify problems that arise for stakeholders when companies go into liquidation"

Syllabus
- identify problems that arise for stakeholders when companies go into liquidation

This is referring to where the business which has failed is a private or a public company (an incorporated legal structure as against the unincorporated legal structures of sole traders or partnerships). The decline of a company can have a range of very significant adverse impacts on a range of stakeholders, although unlike an unincorporated legal structure, the owners of the business have limited liability and can only lose the amount that they have paid for their shares in the business.

To provide some idea of how common this is, in 2019-2020 some 10,602 companies had liquidators appointed, with a high of around 16,000 businesses entering liquidation in 2012-2013. When this occurs, unsecured creditors only collect a portion of the debt outstanding. In 2017, ASIC data suggests in 96% of cases creditors average 11 cents on the dollar, or less, which worsened in 2018 with 97% of cases resulting in returns of 11 cents on the dollar or less. The table below outlines the significant problems that arise for stakeholders when companies go into liquidation:

Stakeholder	Description
Secured creditor	Secured creditor obtains court order to appoint receiver to the asset over which security has been granted and receives payment of the debt secured by the security from the proceeds of sale of the asset.
Unsecured creditors	May recover little, if any of the amount owed as they receive payments from the liquidation in the legally required order of payments from liquidation. Often the secured creditors will receive payment under their security arrangements, leaving little if any funds for payment of the debts owed to unsecured creditors of the business being liquidated.
Employees	Employees will lose their jobs when the business is liquidated. If the liquidator is able to sell some or all of the business to another party then some jobs may be preserved however this is uncommon. May receive payments in the legally required order of payments after paying liquidators costs and in advance of unsecured creditors - or may be able to apply under the government's Fair Entitlement Guarantee Scheme
Shareholders	Rank last in the order of priority for payment and are unlikely to receive any payments from the liquidation. However, the shareholders are not required to personally contribute further funds in order to meet the unpaid debts of the company (assuming shares were fully paid). Partly paid shares may be required to become fully paid.
Society	A loss of jobs, production, and indirect impacts including adverse impacts throughout the supply chain from which the business purchased goods and services. Unemployment may require an increase in social welfare payments, and associated financial and psychological distress.

Business life cycle

The business life cycle is a model of how revenue and profit and the life of the business changes over time, which has common stages of establishment, growth, maturity and post maturity. Each stage of the business cycle has different challenges and different implications for strategy in order for the business to survive and grow to the next stage rather than declining.

	Establishment	Growth	Maturity	Post-maturity
Revenue	Nil, slow growth	Fast growth	Plateaus	Decline
Profits	Losses	Growing profits	Plateaus	Decline
Cash flow	Negative	Becoming positive	Positive	Becoming negative
Objective	Survival. Build systems, processes and commencing selling	Constantly increase sales, explore growth via M&A or diversification	Maintain profit levels	Increase sales through changes to products/markets. Sell/exit products.
Challenges	Planning and ensuring sufficient cash to survive cash drain (avoid undercapitalising the business)	Ensuring too rapid expansion does not outstrip cash resources, obtaining additional finance, diversification risk, lose cohesion	Decrease in sales reduces profits and positive cash flow. Slower decision making, more bureaucracy and group think	Funding reinvention of products and markets with declining revenues and market share. Retaining good staff is harder.

Factors that can contribute to business decline

A number of common factors lead to business decline including:

- a bad business idea,
- poor management (poor planning, poor management, undercapitalisation, poor product delivery/quality, insufficient financial or human resources, poor location, poor technology)
- unpredicted, unforeseen changes in internal or external business environment

Voluntary and involuntary cessation - liquidation

	Unincorporated	Incorporated
	Sole trader, partnership	Private company, public company
Voluntary	Business ceases trading. Assets sold, creditors paid, any surplus paid to the business owners	Apply to Court to appoint liquidator Liquidator takes over affairs of business, sells assets (liquidate), pays creditors. Any surplus paid to the shareholders in proportion to their shareholding ASIC deregisters company which then ceases to exist
Involuntary	Unpaid creditors apply to court to have business owners declared personally **bankrupt**. Sole trader liable for all debts of business, each partner responsible for all unpaid debts (joint and several liability). Personal assets sold to partly pay debts, trustee in bankruptcy appointed	Unpaid creditors apply to Court to appoint liquidator to wind up company. Liquidator sells assets (liquidates) and then applies those proceeds in statutory order which preferences taxation and employees. Unpaid creditors remain unpaid. No additional liability for shareholders. ASIC deregisters company.

BUSINESS GROWTH AND DECLINE

Chapter C6

Answers
Videos
Revision

1. Draw and explain the implications of the business life cycle for revenue, profits and cash resources of the business over time.

2. Why it important for the manager of the business to know what stage of the business life cycle the business is in?

3. Using an example, outline what happens if the business does not respond to the challenges in the post maturity stage of the business life cycle.

4. Explain how growth can be a reason for failure of a business.

5. Distinguish between the establishment and growth phases of the business life cycle.

6. Outline how a manager should respond to the challenges in the establishment and growth phases of the business life cycle.

7. How does undercapitalisation impact a business?

8. Outline TWO ways that a business with a good idea can decline and fail.

9. Explain TWO factors that can contribute to business decline.

10. How does the process for closing a business change if the business is incorporated or unincorporated?

11. Distinguish between the impact on the business owners of a business when a partnership fails as against a private company fails.

12. Outline the role of a voluntary administrator.

13. Outline the role of a liquidator.

14. Outline the role of a trustee in bankruptcy.

Nature of management
- features of effective management
- skills of management
  - interpersonal, communication, strategic thinking, vision, problem-solving, decision-making, flexibility, adaptability to change, reconciling the conflicting interests of stakeholders
- achieving business goals
  - profits, market share, growth, share price, social, environmental
  - achieving a mix of the above goals
  - staff involvement – innovation, motivation, mentoring, training

Chapter 7

NATURE OF MANAGEMENT

Overview Q7

Topic 2 of the 3 topics in the syllabus is "**Business Management**" and is where students learn about what managers do generally in a business and then specifically investigate the actual processes within each of the four key business functions that the manager of those functions ensures happen.

This first chapter in the topic, "nature of management" introduces students to the role of managers - what they actually do. For most students, this is an area of preconceptions and misconceptions in terms of what managers actually do - and it is important content that influences content in the HSC course.

It is also a part of the syllabus which is not particularly well structured for student understanding, and we will be restructuring as we go along and I will explain why as we go along.

The order we will follow is:

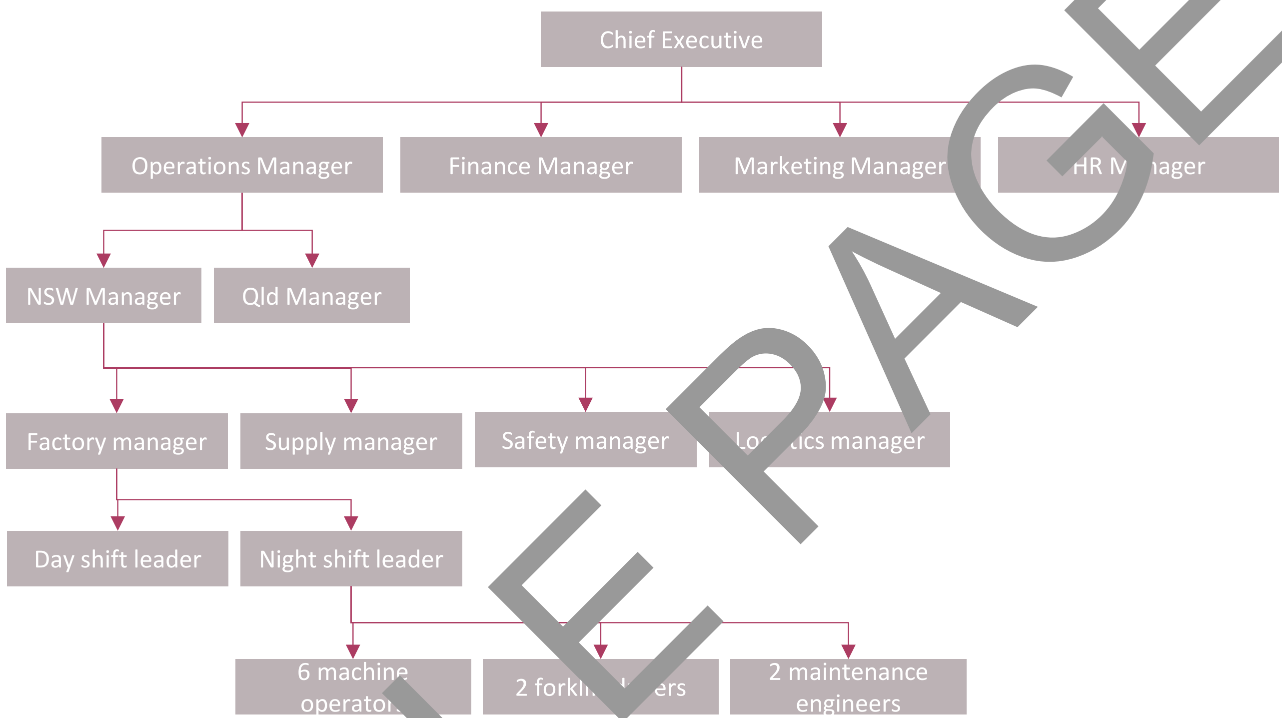
1. the overall role of managers: to achieve business goals with and through other people
2. what goals managers are trying to achieve (achieving business goals)
3. the several roles that managers perform in order to achieve their overall role
4. the skills which are needed by effective managers in order to perform the several roles of managers
5. how staff are involved by effective managers (innovation, motivation, mentoring and training)

Link
L93

THE OVERALL ROLE OF MANAGERS

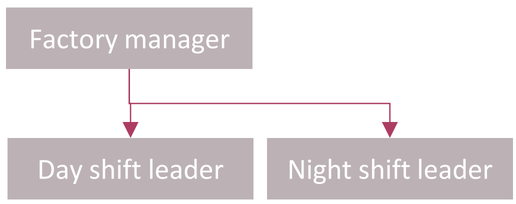
When we think of managers, textbooks often start by providing a functional organisation chart for a business to show the relationship and reporting lines between the various people in the organisation. These typically start from the CEO and work down through the layers of authority and accountability throughout the business.

A typical example of a extract of a functional organisation chart is below:



Here we can see a wide number of managers. A manager for each of the key business functions of operations, finance, marketing and human resources. Then, for our example, look at the functional organisation structure for the night shift within the NSW factory. We can see the NSW Manager and the Qld Manager report to the Operations Manager, and the Factory Manager has two reports, namely the Day shift leader and the Night shift leader. Finally, the Night shift leader has a team of 10 people, being 6 machine operators, 2 forklift drivers and 2 maintenance engineers.

When we look at such a functional organisation chart and consider the role of a manager it would seem that the role of the manager is quite atomic - in that we can clearly see the manager and their direct reports, and we conclude that the role of the manager is to oversee the work of their direct reports. So, for example, when considering the role of the NSW Factory Manager we see the following:



This view leads to a common misconception of the role of the manager as merely directing and controlling the activities of direct reports. As we shall see, the role of the manager is more complex, and needs a better fitting representation than the functional organisation chart suggests.

The overall role of the manager is expressed as follows, and is an expression which students should learn off by heart.

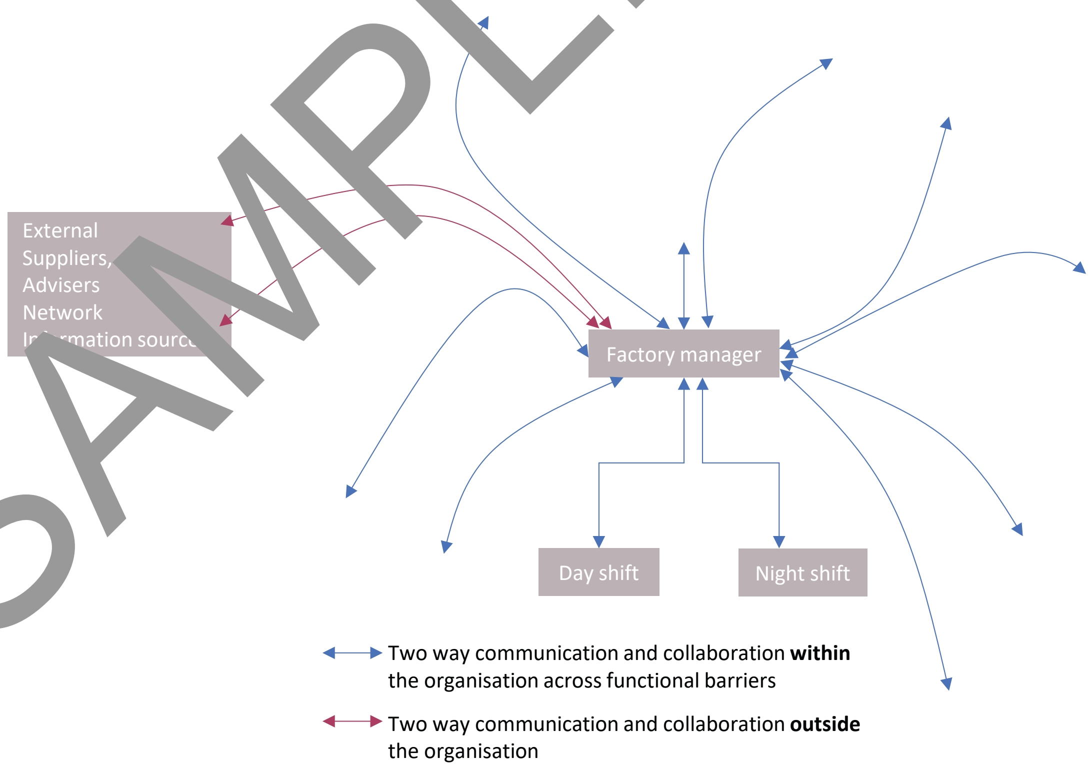
> **The role of the manager is to achieve the objectives of the business with and through other people.**

This is somewhat a restatement of the work of Mary Parker Follett, an American management consultant and writer in organisational theory and organisational behaviour (1868-1933) and Harold Koontz, another American organisational theorist and Professor of Business Management at the University of California (1909-1984). Their formulations are as follows:

Mary Parker Follett:
Management is the art of getting things done through people.

Harold Koontz
Management is the art of getting things done through and with people in formally organised groups

The key here is that the role of management, and the role of the manager, is broader than just overseeing the work of others as the functional organisational chart would suggest. Indeed, as we will discover, there are several distinct, different roles that the manager performs in order to achieve this overall strategic role of management, such that we will end our journey in this chapter with an understanding of the role of management more like the following illustration which emphasises the communication and relationships with a large number of people inside and outside the business which is the actual role played by managers in business. Working with and through other people.



Link
L94

Organisational structures do not exist – they are a myth!

Phil Jones

https://www.excitant.co.uk/organisational-structures-do-not-exist-they-are-a-myth/

OK, I can hear the squeals of anguish and dissent. "Of course organisational structures exist" I hear people say.

We have organisations and we create structures and we do organisational design to place people within those structures.

We spend time and effort and energy creating and maintaining and adjusting these organisational structures.

Why organisational structures are a myth

The equivalent of "Wake up and smell the coffee" is asking you simply to observe what is really going on in your organisation. What you see is a social system in operation. This is operating across, and often despite, the organisational structure. It is not an organisational structure that is operating. Rather, people are working together to get stuff done. What you see are people interacting and doing things by working across the organisation. What really makes an organisation work is the social networks and social system that connects people. People who come together to get stuff done.

More and more today they are working with people outside the organisation. The social network extends beyond the organisational structure. Where is the organisational boundary? There is not one any more. More and more, the organisation works with partners and customers and third parties to make stuff happen. Social networks (beyond organisations) are created and come together are created to solve problems. They are solved better with help from outside the organisation, not just internally. If there is no "organisational boundary" externally, why have these artificial organisational boundaries internally?

A social network

Just think about who is most successful in your organisation? Those who work within silos and remain within existing organisational structures? Or is it those people who have a good network around the organisation. Those who can get stuff done through conversation and influence across the organisation. This is no longer the provenance of senior managers to coordinate and liaise across divisions, departments and teams. It is the role of individuals to create, maintain and use these social networks.

What is a meeting? In many cases it is a group coming together to explore and make decisions. The solution often requires a team that transcends organisational groups, otherwise silo thinking and silo working results.

The organisational structure is just an artificial construct of finance and HR so they can work out where the costs are and who reports to whom!

In reality, how organisations work is to bring people together to make stuff happen.
In reality – organisations are social systems with people who have social networks: networks of knowledge, influence and action.

In reality the organisation is part of a wider social system, beyond the organisational boundary, of people who have social networks: networks of knowledge, influence and action. In reality, the organisational structure is a myth. It is the organisation's extended social systems (including outside the 'organisation') that make it work.

Some believe in organisational structures and they spend a fortune optimising them. Have you ever been though a "re-organisation"? You know the sort. They take about nine months and typically cost anything between £1 million and £10 million. (I am counting consultancy fees, disruption, effort spent in none operational activities and conversations while people fight for new places). There is a lot of huffing and puffing as people jostle for power and position. People are "recruited into new roles".

In reality what has happened is that the silos and structures have been moved around to, apparently, make them more efficient. In reality the social networks remain unchanged. The people who knew people still know those same people. It is just that their desk, phone number or reporting line manager has changed.

I have met many who complain that their 'organisation' has gone through four, five or six 're-organisation' in as many years. Did these re-organisations achieve what they intended, that is lasting change. Few did. All caused disruption, distraction and cost.

I have seen many re-organisations. Few have fundamentally changed and improved things. Some have removed some blockers, but they have very rarely being the whole solution. Guess what, each reorganisation failed to solve the underlying problem it was trying to address. Why? because that is not where the problem lies.

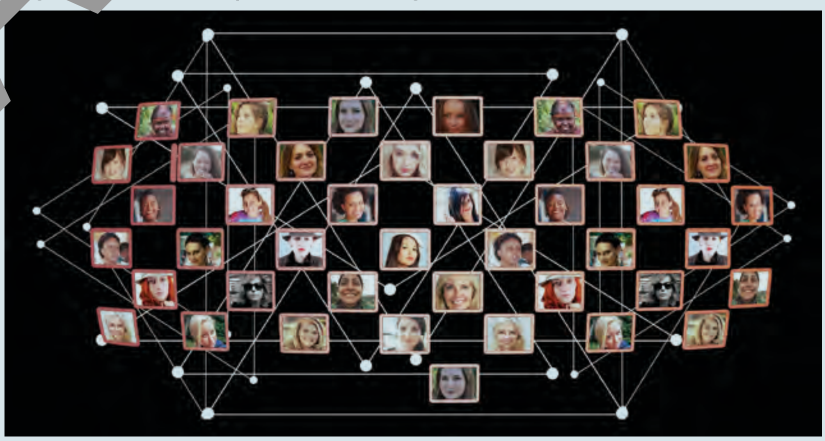
If you frame a communication problem as one of "How should we be organised?" you get a different result to framing it as one of "What social networks do we need to facilitate?".

The latter might, in part lead to some change in the organisational structures and groups, but it will not be the whole solution.

The problem lies in the social network
If there are problems of connectivity, working collaboration, they are problems of the social system – not the organisational structure.

- The social system is breaking down or not forming.
- The social system in the organisation is not connected.
- The social influences that are working are not the ones that need to work.

Organisations (what we call organisations) are social systems and should be thought of as such. You organise the social systems in an organisation, not the structures.



A very common error of junior managers, or first time managers, is to think that their role is about micro managing the work of their team, or stepping in to do the work of team members when it is not done to the higher standard which the manager could achieve. However, the young manager quickly learns that this process leads to not enough of the work getting done, demotivating the staff managed in this way, and the young manager risks burnout as there are simply not enough hours in the day in order to do everyone's job.

In other words, the junior manager, in error, thinks a manager achieves things by themselves.

Remember, a manager achieves the goals of the business **with and through other people**.

So, lets consider the goals of business, which it is the manager's role to achieve with and through other people.

Video L97

Manager: Achieve things with and through other people

in order to achieve →

The goals of the business:

- Profits (revenue less expenses)
- Market share (share of total market revenue)
- Growth (increase in revenue and scale)
- Share price (increase where a public company)
- Social
- Environmental

in an appropriate mix

ACHIEVING BUSINESS GOALS

Whilst the objective of profit was seen earlier in the syllabus in the nature of a business, this is the first time that students have seen the other, important goals of business which the manager is expected to help the business achieve by working with and through other people. Each of the goals of the business are outlined in order below.

Syllabus
- achieving business goals
  - profits

Profits

Profits for a business are calculated by adding all of the sales of the business to its customers (also referred to as revenue, or turnover) and then deducting from that the expenses which the business has incurred during the year (for example production costs for goods sold, wages for staff, interest and advertising costs).

The mathematics here is very simple:

Profit = Revenue - Expenses

Business goals
- revisit this content in topic 3 which examining business planning for a new business and the goal setting for the business.

A business will typically set a goal to increase its level of profits compared to the previous year - to maximise profits for the business which is in the interests of the owners of the business. Profits can of course can be increased by either or both of increasing revenue (more sales, or possibly less sales at a higher price) or decreasing expenses (through more cost effective, efficient production processes for the good or service sold by the business to its customers). Sometimes it will be necessary to incur higher expenses (and lower profits) in the short term in order to develop a new product or market which will provide higher profits in the future, so there is sometimes a trade-off between short term and long term profits in business.

Each of the managers, then, is responsible to work with and through other people to assist the business to achieve its profit objectives which have been set.

Market share

Market share is the proportion (share) of total market revenue for a product which is obtained by the business. For example, if the cola beverages market total revenue is $100 million, and Coca-Cola's sales are $80 million then we would say that Coca-Cola has an 80% market share.

A common goal of business is to increase market share - to increase the proportion of total market revenue which is being earned by the business to increase both revenue and profit. As a general rule, as market share increases, profitability of the firm increases through being able to increase the scale of production and use more efficient equipment (economies of scale) as well as being able to sustain price increases with an established, loyal customer base with positive brand experiences.

One of the roles of managers is therefore to perform their roles in a way in which market share enjoyed by the business is maximised. The year 11 course typically is focussed towards the establishment and operation of smaller businesses, who therefore may be more moderate in their market share ambitions. For example, to establish a 5% market share within 5 years may be an ambitious goal for a small business entering an established market.

Syllabus
- achieving business goals
  - market share

Link
98

Growth

Closely related to market share is the business goal of growth. This refers to increasing the revenue of the business (the value of goods and services sold to customers, which is also referred to as sales, or turnover).

By growing the business (in terms of sales, or number of locations, or employee size) the business is better able to compete in the marketplace. Advantages of growth for a business include:

- greater sustainability of the business
- lower costs of production as a result of economies of scale through purchasing higher productivity equipment, or securing bulk discounts for supplier purchases
- greater market dominance
- ability to reduce commercial risks through diversification and different businesses in different markets
- ability to reduce the threat of competition
- greater ability to survive economic and market donwturns through building greater financial and other resources
- ability to attract and retain the best talent and staff

Growth can occur organically. **Organic growth** refers to where the business grows its existing products and sales internally. On the other hand, **inorganic growth** occurs where growth is achieved through the business buying other businesses through mergers and acquisitions activities. Inorganic growth can be a way to rapidly grow, and reduce business risk through purchasing existing, profitable businesses with a history of financial and operational performance. The risk, however, with inorganic growth is that the implementation of technology and the integration of the new employees and business into the existing business can take time and complexity can arise.

Of course, a small business (like a restaurant, coffee shop, or a tutoring business) may set moderate or negligible growth goals if the size of the existing business is sufficient for the owners.

Syllabus
- achieving business goals
  - growth

Syllabus
- achieving business goals
  - share price

Share price

A share is a part of the ownership of a company. Remember that companies can be private companies (limited to 50 shareholders) or public companies with an unlimited number of shareholders. Only shares in public companies can be listed on the Australian Stock Exchange (ASX) and the shares in the company bought and sold as an investment by shareholders.

This is the case, for example, for the shares in Telstra or JB Hifi Limited. Similar concepts apply in other countries, although they are called slightly different things. The shares in foreign companies are bought and sold on share markets in those countries, which include the New York Stock Exchange and the London Stock Exchange amongst others.

Where the business is a public company, and its shares are traded on the stock exchange, the business may set a goal in relation to growth in the company's share price over time. Where the business is profitable, and has favourable prospects, typically the share price will increase as market participants in the share market want to purchase the share, increasing the price of the share. Companies with an increasing share price will find it easier, and often cheaper, to raise additional funds for expansion when needed through either borrowing money (debt finance) or selling new shares in the company (equity finance). Of course, the share price of a company can vary as a result of external factors as well, for example the occurrence of the GFC or the COVID-19 pandemic can have very significant impact on the share price of listed companies.

Link
L99

Remember that all large companies are not necessarily listed on stock markets - for example LEGO, as a private company, would not set a business goal related to share price as LEGO shares are held by family members and cannot be purchased on any stock exchange.

The Tesla share price has demonstrated quite dramatic movements over the last several years, however the strong upwards trend makes it easier for Tesla to obtain additional finance (which it has) in order to survive the establishment and growth phases of the business life cycle.

Social goals

So far the goals have been directed towards rewarding the owners of the business through higher profits, and a higher share price (where the business is a public company and its shares are listed on a stock exchange). In addition to these financial goals in favour of the owners of the business (the shareholders, or the sole trader or partners), increasingly businesses are also setting a range of social goals to be achieved by the business.

Syllabus
- achieving business goals
 - social

The need for social goals has arisen because the business does not operate in a vacuum, but is part of a community. The business uses resources of the community, produces waste into the community, provides employment for members of the community, and may undertake activities for the betterment of the community. Social goals are a recognition that financial goals are not sufficient goals for a business, and that a business increasingly must set additional goals in relation to corporate social responsibility.

12

Corporate social responsibility is a self-regulating business model that helps a business to be socially accountable - to the business itself, to its various stakeholders, and to the society in which it operates. By practicing corporate social responsibility a business is said to be a good corporate citizen, and involves the business being conscious of and managing the impacts that the various operations of the business have on all aspects of society including economic matters, social matters, and environmental matters. Note that the syllabus has environmental goals as a separate business goal, however environmental goals are actually a subset of social goals and corporate social responsibility.

Corporate responsibility goals and activities can take a variety of different forms depending upon the particular business, its locations, and the goods and services that it produces. Particular programs, and goals, can include:

Link
L100

- engaging with the community either through the provision of funding and donations (referred to as philanthropy) or providing goods, services or the time of their employees to charitable or community groups
- building employment of locals in the surrounding community of the business
- ensuring ethical treatment of employees by obeying legal responsibilities in relation to anti discrimination and fair treatment and going beyond the legal requirements where it is the morally right thing to do

One framework to plan, achieve and communicate social goals is what is referred to as the **triple bottom line.** Whereas financial statements of the profit and loss of the business have one bottom line - the profit number at the bottom of the page, the concept of the triple bottom line means that the business is setting two additional goals in addition to the financial goals.

The three elements then of the triple bottom line approach are the three dimensions of performance by the business: social, environmental, and financial. These three elements are also sometimes referred to as the 3Ps, being People, Planet and Profits.

Syllabus
- achieving business goals
  - environmental

12

Link
L101

Environmental goals

These are a part of social goals, however have been isolated out in the syllabus to provide particular emphasis in educating our future business managers and leaders in relation to this important issue. The influence of environmental concerns on the decisions and strategies of managers also features prominently in the HSC course.

Business use a range of resource inputs in order to create their goods and services - which include physical parts for production (timber and metal) as well as services in the form of electricity which is generated in part by burning fossil fuels. Both of these processes can result in degradation of the environment through depletion of natural resources or damage to the environment, which will then cause resources to either be more expensive, or not available in the future for business. In this way, setting environmental goals is both an ethical concern of managers (the right thing to do) as well as a financial concern - failure to manage environmental impacts may have adverse financial and profit implications in the future.

This realisation has then led to a focus on what is referred to as sustainable growth - that is, businesses producing goods and services in a way which will be sustainable having regard to the level of resource use and environmental impact. This leads to the concept of Ecologically Sustainable Development (ESD).

ESD is a long-standing and internationally recognised concept, affirmed by the 2002 World Summit for Sustainable Development and included in over 60 pieces of NSW legislation. Australia's National Strategy for Ecologically Sustainable Development (1992) defines ecologically sustainable development as:

> 'using, conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, now and in the future, can be increased.'

ESD requires the effective integration of economic, environmental, social and equity considerations in decision-making processes. It aims to provide for the needs of present generations without compromising the ability of future generations to meet their own needs.

Concern for the environment is now a mainstream, common issue for managers to address within all businesses, small and large - often leading ahead of government regulation or being legally required to change behaviours. That is, the ethical consideration (doing the right thing) has seen businesses make changes to processes and inputs before being legally required to do so (legal compliance).

In November 2020, Woolworths announced it is going to power all its operations, including 3,300 stores, with renewable energy by 2025. This one business uses around 1% of Australia's electricity, and is planning to achieve the target through the purchase of power generated through wind and solar, and also through further use of rooftop solar panels on its stores (which already are installed in 150 stores). This followed other major Australian businesses including ALDI, Bunnings, Officeworks and Telstra in setting strong renewable energy targets. To achieve this, Woolworths will be spending tens of millions of dollars in renewable energy partnerships with other businesses, and new green energy projects throughout Australia. Woolworths also joined the RE100 initiative, which brings together influential global businesses committed to 100 per cent renewable power.

By 2020, 14 Australian companies with a combined market capitalisation of more than $470 billion have joined RE100.

At a global level, the United Nations Global Compact is calling businesses around the world to align their strategies and operations with universal principles on human rights, labour rights, environmental protection and anti corruption processes in order to take actions to advance social goals for their various affected communities. The Compact is a voluntary initiative based on Chief Executive Officer commitments to implement universal sustainability principles, and to take steps to support UN goals. Those goals can be seen in the UN's Sustainable Development Goals, a good overview of which can be found at https://www.unglobalcompact.org/sdgs which students should review.

Link
L102

In setting strategic goals for corporate sustainability, the Compact have identified four best practices they recommend:

1. **Focus on issues that are strategically important to your company:** Start with where you believe the company has the most significant impact and where important business opportunities exist. This may mean going beyond operational boundaries. For example, you may want to set goals related to your supply chain or product use.
2. **Set stretch goals:** This means setting some ambitious goals, even if you don't yet know how to achieve them. This will stimulate innovation, investments, positive engagement and, ultimately, performance. Leading companies are setting science-based targets, defined by what the external world requires, rather than by what seems easily achievable.
3. **Connect your goals to your business strategy:** Link each sustainability goal to how it will support revenue generation, productivity and/or risk management.
4. **Ensure support and ownership:** You will need to secure and maintain broad organizational support for your company's sustainability goals. This includes internal and external support, both from the top down and bottom up.

Achieving a mix of the goals of business

Syllabus
- achieving business goals
  - achieving a mix of the above goals

The syllabus has therefore identified six goals which managers take action to achieve, and the role of the manager is to work with and through people in order to achieve those six objectives of profits, market share, growth, share price, social and environmental goals. However, this suggests that the various goals are independent from each other, and that it is possible to simultaneously (at the same time) maximise the performance of the business against each of those measures. In reality in business, that is not the case, and sometimes actions to increase one measure (like profit) actually have a negative impact on another of the goals being measured (like environmental sustainability).

What this means for the business is that trade offs must be made in order to determine the mix of the goals that the managers will be tasked with achieving. For example, will the business accept a lower level of growth (smaller revenues) through keeping prices high in order to maximise the profit margin the business achieves. Common trade offs which arise are between profit margin and revenue, or market share and profit margin, or growth and environmental sustainability as protecting the environment may result in higher input and operational costs in particular.

For economics students, this is referred to in their preliminary syllabus as satisficing behaviour - which is a word which means the business accepts a satisfactory level of the various interacting goals.

Syllabus
features of effective management

Link
L103

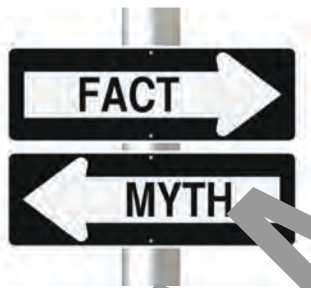
The several roles that managers perform in order to achieve their overall role

Whilst the strategic or overall role of managers is clear, to achieve the goals of the business through working with and through other people, the question then becomes what do managers actually do in order to achieve that. We discover now that the role of the manager is complex, many and varied, and the various roles have been helpfully categorised through the work of Henry Mintzberg published in the 1990 issue of Harvard Business Review. Even though written decades ago, his thinking is regarded so highly that you will encounter it and read it in your university studies of business.

Mintzberg decided to research what managers actually did in their days. When he asked people what managers do, the typical reply was that managers plan, organise, coordinate and control. This language of plan, organise, co-ordinate and control comes from the work of the 20th Century French industrialist Henri Fayol (1841 - 1925) who wrote about management in 1916 based on his work as a manager in a large French mining company, Compagnie de Commentry-Fourchambault-Decazeville in Commentary. These four words then dominated management thinking right through to Mintzberg's work in 1990, although interestingly, the non French world could only read his 1916 book General and Industrial Administration when the English translation was published in 1949).

This sounds very planned, very strategic: plan, organise, co-ordinate, control.

However, when Mintzberg watched what managers did in a range of actual businesses he discovered that what you think managers do is NOT in fact what a manager does. Before outlining what managers actually do, Mintzberg outlined what he referred to as folklore (myths) and facts about managerial work as follows:



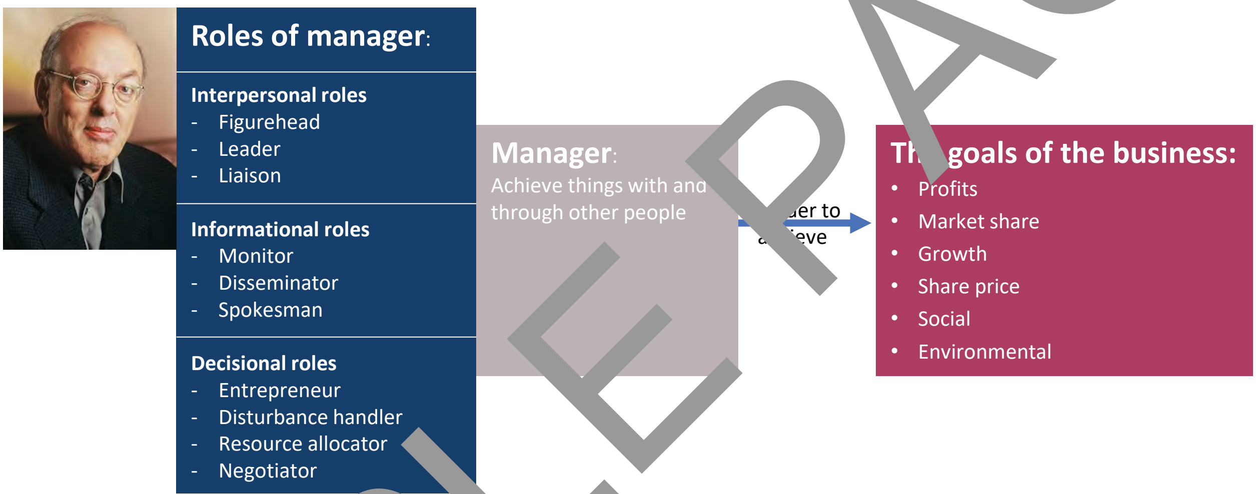
Myth	Fact
The manager is a reflective, systematic planner.	Study after study has shown that managers work at an unrelenting pace, that their activities are characterised by brevity, variety, and discontinuity, and that they are strongly oriented to action and dislike reflective activities. Half the CEO activities lasted less than nine minutes, only 10% were more than one hour. In 1990 they averaged almost 600 activities per eight hour day, an average of almost one every two minutes.
The effective manager has no regular duties to perform	Managerial work involves performing a number of regular duties, including ritual and ceremony, negotiations, and processing of soft information that links the organisation with its environment
The senior manager needs aggregated information, which a formal management information system best provides	Managers strongly favor verbal media, telephone calls and meetings, over documents
Management is, or at least is quickly becoming, a science and a profession.	The managers' programs—to schedule time, process information, make decisions, and so on—remain locked deep inside their brains

After debunking the myths, and based on his observations of managers actually working, Mintzberg identified three distinct roles of managers, which he styled:

- Interpersonal roles
- Informational roles
- Decisional roles

Within each of these three overall roles, he proceeded to identify clear sub components - there are three elements within each of interpersonal and informational roles, and four distinct elements within the decisional roles. In this way, we can now add the roles of a manager to the strategic role of a manager. We can see that the manager performs these various roles of a manager, in order to achieve things with and through other people in order to achieve the goals of the business.

Link
L104



I would highly recommend students read the original article from 1990 which can be found at http://www.stempelwang.nl/uploads/4/8/5/5/4855530/mintzberg.pdf. What follows below is a short overview of each of the roles in the various categories.

Interpersonal roles

The interpersonal roles of the manager involve the manager providing information and ideas. The distinct elements within the overall role are:

- **Figurehead**: the manager has social, ceremonial and legal responsibilities to discharge. The manager's actions will set the cultural tone for the organisation, and the manager is expected to be a source of inspiration. People inside and outside the business look to the manager as a person of authority and as a figurehead.
- **Leader**: the manager is expected to provide leadership to their team - to the people that report to them, and others in the organisation. The manager is accountable to manage the performance and responsibilities of all the members of the group to achieve the goals of the business.
- **Liaison**: the role of the manager is not just to communicate with their direct reports, but includes communicating with a wide and diverse range of internal and external contacts. The manager needs to be able to network effectively both within the business, and outside the business, in order access information and build collaborative relationships in order to make better decisions and to develop business opportunities.

Informational roles
In addition to the interpersonal roles, the manager also discharges a range of informational roles which involve the access, processing, and distribution of information and knowledge. The distinct elements within the overall role are:

- **Monitor**: the manager regularly seeks out information related to the business, its industry, its suppliers and its customers looking for relevant changes in the external and internal environment. This includes monitoring the internal resources within the business in terms of the performance and characteristics of human resources, physical resources and financial resources.
- **Disseminator**: the manager has an important role to communicate potentially useful information that has come to their attention in the monitoring role, and to ensure that the appropriate people within their team are provided with the information and also that it is shared with the internal organisation, or external network, as appropriate to advance the ability of the business to achieve its goals. It may be necessary for the manager to work with the information, and add value to it, rather than being a passive transmitter of discovered information.
- **Spokesperson**: the manager represents and speaks for the organisation, and their team. In this role the manager is transmitting information outside their reporting line, informing other parts of the business, and the external environment, about the team and its goals.

Decisional roles
The final of the three categories of the roles of managers, in addition to the interpersonal roles and the informational roles is the decisional roles. The decisional roles relate to using information and taking some decision or action. The distinct elements within the overall role are:

- **Entrepreneur**: the manager designs, creates and controls change within the organisation or within the team or department that they lead,. In this role the manager solves problems, generates new ideas (with and through others - not alone) and implements them.
- **Disturbance handler:** the manager is the person who must resolve the difficulties, unexpected challenges and roadblocks which will inevitably occur for the team as they are implementing the plan. The manager is responsible to take charge and to resolve these obstacles to progress.
- **Resource allocator**: the manager does not have unlimited resources available, and therefore the manager will need to determine where the human, physical and financial resources of the business will be best structured and best applied in order to achieve the goals of the business. This will involve decisions on funding, staffing and allocating all organisational resources.
- **Negotiator:** Beyond handling disturbances, the manager will also be needed to participate in, and lead, important negotiations within the organisation, and with outside suppliers. This includes negotiating commercial and legal terms for the basis on which the organisation engages with suppliers, employees and customers and how it manages financial risks that arise.

Now that we understand what the various roles of the manager are in order to achieve things with and through other people in order to achieve the goals of the business, the question becomes what skills do managers need in order to be effective in the role of the manager. That is, what skills do people need in order to discharge the various roles of the manager as identified by Mintzberg? Various writers have different lists of the skills of managers, some common ones are:

Syllabus
skills of management

From Robert Katz in *Skills of an Effective Administrator*, Harvard Business Review, 1955:

Skill	Description
Technical skills	These skills are related to an individual's specific area of expertise. They are the ability of an accountant to understand cash flow statements, income statements and balance sheets. These are the basic "languages of the task" if you will.
Human skills	These skills are related to an individual's ability to effectively interact with others. These are the skills that make some individuals great team members and others terrible. They are the skills that allow some people to succeed as mangers and others to fail. They allow individuals to multiply their abilities by interacting with others
Conceptual Skills	These skills are related to an individual's ability to think beyond the task at hand These skills are the ability to picture how a new product will impact a company's position in the market. They are the ability to envision how things will look five years in the future AND to take this vision of the future and translate it in to a series of discrete step.

International recruiting firm, Robert Half, outlines the key skills of managers in the following terms:

Skill	Description
An effective manager understands the value of employees	Bosses need to appreciate the role employees play in the organisation and the contribution they make daily. By underestimating the effort put in by staff members and the value they add, this can lead to unhappy, demotivated and under performing staff and high turnover.
You express gratitude	An effective manager should always show their appreciation to staff for a job well done. Expressing gratitude helps develop loyalty, boost motivation and productivity within the team.
You communicate clearly	It's important for employees to understand what is expected of them. Managers must communicate clearly with workers on a one-to-one basis, or as a team, to ensure everyone knows what they're meant to be doing.
You listen effectively	As a manager, you need to be able to listen to what your employees have to stay, especially during performance reviews. This could be a work matter, or something more personal.
You make decisions	A team of employees is ready to follow your lead, but they need to be given appropriate direction. Therefore, an effective manager needs to be decisive to provide clarity to the team on what to do next.
You trust your employees to achieve	Good managers break down projects into more manageable chunks and delegate according to the team's strengths. However, to delegate work, you need to trust that your workers can handle important tasks. An effective manager doesn't micromanage, but trusts staff to do a good job.
You resolve conflicts	Sometimes, it is necessary for managers to be a good mediator of conflicts, particularly if two members of the team have fallen out or just cannot see eye to eye. Conflicts must be resolved quickly and effectively.
You get to know your employees	An effective manager takes time to get to know employees better. Find out what their key motivators are and what they really value in their job. By finding this out you can create more motivated employees.
You set a good example	Employees are looking for somebody they can look up to, and aspire to emulate. Strong team leaders are ethical, honest, collaborative, creative, empowering, innovative, dedicated, and trustworthy.
You're transparent	Being open and transparent is part of setting a good example. If employees believe they are being misled, or information is being withheld, this can lead to a breakdown of trust and undermine the employer/employee relationship.
You stay one step ahead of everyone else	Of course, as a manager, it's important to always stay slightly ahead of others in terms of knowledge, maturity and confidence. An effective manager never stops growing, learning and developing their character.

Syllabus
features of effective management

In other words, many different management writers have different lists of the skills that effective managers need in order to do the roles identified by Mintzberg in order to work with and through people to achieve the business goals. Indeed, if you google skills of management you will find a veritable blizzard of different lists, with some common elements and themes, and then differences reflecting the particular views of different management writers based on their experience of what effective managers do in practice.

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Skills of management in order to perform the roles of a manager effectively

The syllabus has identified a set of ten skills for students to examine as the skills which are necessary in order for managers to perform their roles in order to achieve things with and through other people in order to achieve the goals of business. Those skills and the relationship of those skills to the Mintzberg roles, are in the graphic below.

Note that the first two skills relate to the two Mintzberg roles of Interpersonal roles and Informational roles, and the other eight skills from the syllabus relate to the Decisional roles within the Mintzberg framework.

Interpersonal and Communication skills

Syllabus
skills of management
- interpersonal

Interpersonal and communication skills are skills required to discharge the first two of Mintzberg's three roles of a manager, namely the Interpersonal roles and the Informational roles, and are actually related. Since the role of a manager is to achieve things with and through other people, skills in working with people (interpersonal skills), and skills in communicating and receiving messages when working with people (communication skills) are going to be very important skills for an effective manager.

They are related in that communication skills are a subset of interpersonal skills. There is often confusion about these two skills, with some thinking in error that there are the same thing. They are not. Essentially interpersonal skills means skills that contribute to dealing successfully with other people. Interpersonal skills are sometimes referred to as soft skills, or skills associated with emotional intelligence. Some authors define interpersonal skills as the way in which people can effectively manage their professional relationships, those skills which are necessary to produce desired effects on other people in social situations, or the skills and traits used when interacting and communicating with others.

The set of interpersonal skills includes

- communication
- problem solving
- adaptability
- collaboration
- honesty and positivity
- work ethic
- ability to manage stress

Note that communication skills, the skills of giving messages, and receiving messages, to other humans inside and outside the business, is a key skill within the interpersonal skill set. However, the breadth of interpersonal skills needed in order to build relationships and contribute to dealing successfully with other people goes beyond just the technical skill of being able to give and receive messages. Interpersonal skills is the extent to which, through a range of activities of which communication is one, the manager develops relationships and works with other people to achieve the goals of the business.

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Of course, as management practice is an art, not a science, there are differing views on what different writers consider the most important interpersonal skills. For some it is self-management, communication, supportiveness, motivation and conflict resolution, and for others it is more of a checklist like the following:

1. Ask better questions.
2. Listen more carefully and responsively.
3. Give effective feedback.
4. Recognise agreement and explore the causes of differences.
5. Communicate your message effectively.
6. Make requests (instead of complain and criticise!).
7. Express appreciation, gratitude, and encouragement.

Given its importance, we will spend a little time exploring communication skills within interpersonal skills in more detail. The syllabus has chosen to list communication skills separately as it a very important skill within the set of interpersonal skills - however remember that it is a subset of interpersonal skills.

Syllabus
skills of management
- communication

Communication for the manager is a dual concept, both receiving and giving information. Given that the heart of management is achieving things with and through other people, effective communication is generally regarded as the most important management skill. Given that is at the heart of the role of the manager, it is perhaps not surprising that there are actually a wide range of skills within communications skills for the effective manager to master.

Alison Davies writing in Inc Magazine (Feb 2019) provides a useful exposition and categorisation of the various communication skills required by an effective manager which demonstrates the wide range of management activities in which strong communication skills are required. Consider her list below, and the many and varied communication contexts where the manager will call upon their communication skills - often using different communication skills every couple of minutes throughout the day.

Category	Communication skills
Interpersonal skills	Listening
	Delivering information
	Responding
	Communicating verbally
Collective/team skills	Using email
	Brainstorming
	Negotiating
	Resolving conflicts
	Communicating goals
	Recognising team members
Comprehension skills	Using storytelling to communicate
	Making information relevant
	Communicating persuasively
	Facilitating dialogue
	Writing
	Coaching
	Presenting
Process skills	Making meetings matter
	Communicating performance
	Interviewing
	Dismissing staff
Leadership skills	Communicating change
	Motivating employees
	Building consensus
	Getting leadership buy-in

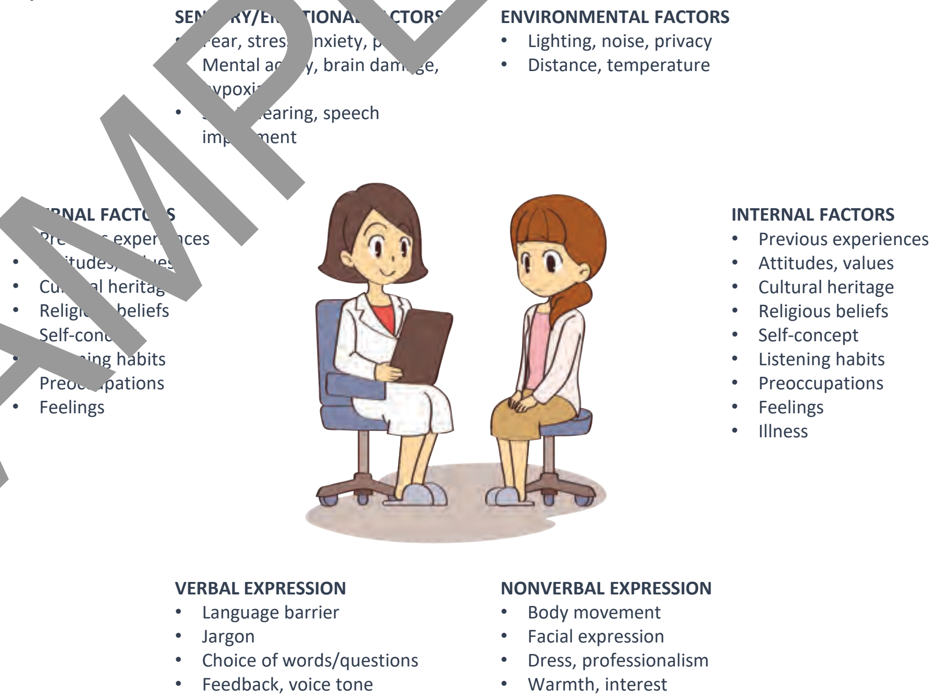
Many of the communication skills in Davies' framework relate to the creation and framing of the message (what is to be conveyed) which is the message which will be received by:

- the direct receivers of the message (who may be inside, or outside the business); and
- indirect receivers of the message through the process of retelling or sharing the message by the direct receivers (a complex original message will be much simplified in the retelling to indirect receivers which must be considered when crafting the original message)

However, communication is not a mechanistic, perfect process where the content, and intention of the manager passes seamlessly, unaltered into the consciousness of the direct and indirect receivers. This is a key error made by new managers - what is actually important is what the receiver perceives, not what the sender of the message intended - and what the receiver perceives will depend on a vast range of factors including, in addition to the actual content of the message:

- any concerns or biases of the receiver through which they filter new messages from the sender, including cultural context, values and norms
- tone, pace and vocabulary selection with which the message is conveyed
- non verbal elements including the range of body language behaviour of humans (including eye contact, gesture, stance, facial expressions, physical posture and placement of limbs, dress, perceived warmth and interest)
- physical factors impacting the receiver (noisy environment, poor sound quality, poor lighting, too hot or cold to maintain attention, inability to see the sender of the message)

The extent of factors which can impact both the sender and receiver is well illustrated by the graphic below which demonstrates factors in the context of communication in a clinical setting between doctor and patient. These same influences are at work in every interpersonal communication context in which a manager is involved in order to achieve things with and through people.



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Consider the range of these factors - effective communication is a challenging skill to develop and execute.

Body language has a very powerful impact on what message the receiver perceives, and is the subject of extensive research and study in order to assist managers improve their communication skills. The ability of the manager to inspire and positively impact people depends upon communication - and body language will either assist that goal, or lead to the receiver forming an adverse view or misunderstanding the message which will impair the ability of the manager to achieve their goal. Indeed, nonverbal cues have over four times the impact on the impression the manager makes when communicating than anything they say.

Writing in Forbes magazine, Carol Kinsey Gorman (2018) outlined five ways that body language impacts leadership results (the first four of which are extracted below). Note the extent to which first impressions matter, how quickly they are formed and the wide range of non verbal matters that the effective manager must master in addition to crafting the right message to send.

1. You make an impression in less than seven seconds

In business interactions, first impressions are crucial. Once someone mentally labels you as "trustworthy" or "suspicious," "powerful" or "submissive," everything else you do will be viewed through such a filter. If someone likes you, she'll look for the best in you. If she mistrusts you, she'll suspect all of your actions. While you can't stop people from making snap decisions – the human brain is hardwired in this way as a survival mechanism – you can understand how to make those decisions work in your favor.

First impressions are made in less than seven seconds and are heavily influenced by your body language. In fact, studies have found that nonverbal cues have over four times the impact on the impression you make than anything you say. Here are a few tips to keep in mind:

- **Adjust your attitude.** People pick up your attitude instantly. Before you greet a client, or enter the conference room for a business meeting, or step onstage to make a presentation, think about the situation and make a conscious choice about the attitude you want to embody.
- **Smile.** Smiling is a positive signal that is underused by leaders. A smile is an invitation, a sign of welcome and inclusion. It says, "I'm friendly and approachable."
- **Make eye contact.** Looking at someone's eyes transmits energy and indicates interest and openness. (To improve your eye contact, make a practice of noticing the eye color of everyone you meet.)
- **Lean in slightly.** Leaning forward shows you're engaged and interested. But be respectful of the other person's space. That means, in most business situations, stay about two feet away.
- **Watch your posture.** Research from Kellogg School of Management at Northwestern University discovered that "posture expansiveness," positioning oneself in a way that opens up the body and takes up space, activated a sense of power that produced behavioral changes in a subject independent of their actual rank or role in an organisation. In fact, it was consistently found across three studies that posture mattered more than hierarchy in making a person think, act, and be perceived in a more powerful way.
- **Shake hands.** This is the quickest way to establish rapport. It's also the most effective. Research shows it takes an average of three hours of continuous interaction to develop the same level of rapport that you can get with a single handshake. (Just make sure you have palm-to-palm contact and that your grip is firm but not bone-crushing.)

2. Building trust depends on your verbal-nonverbal alignment
Trust is established through a perfect alignment between what is being said and the body language that accompanies it. If your gestures are not in full congruence with your verbal message, people subconsciously perceive duplicity, uncertainty, or (at the very least) internal conflict.

Neuroscientists at Colgate University study the effects of gestures by using an electroencephalograph (EEG) machines to measure "event related potentials" – brain waves that form peaks and valleys. One of these valleys occurs when subjects are shown gestures that contradict what's spoken. This is the same brain wave dip that occurs when people listen to nonsensical language. So, in a very real way, whenever leaders say one thing and their gestures indicate another, they simply don't make sense. Whenever your body language doesn't match your words (for example, dropping eye contact and glancing around the room while trying to convey candor, rocking back on heels when talking about the organisation's solid future, or folding arms across chest while declaring openness) your verbal message is lost.

3. What you say when you talk with your hands
Research shows that audiences tend to view people who use a greater variety of gestures in a more favorable light. Studies also find that people who communicate through active gesturing tend to be evaluated as warm, agreeable, and energetic, while those who remain still (or whose gestures seem mechanical or "wooden") are seen as logical, cold, and analytic.

To use gestures effectively, leaders need to be aware of how those movements will most likely be perceived. Here are four common hand gestures and the messages behind them:

- **Hidden hands.** Hidden hands make you look less trustworthy. This is one of the nonverbal signals that is deeply ingrained in our subconscious. Our ancestors made survival decisions based solely on bits of visual information they picked up from one another. In our prehistory, when someone approached with hands out of view, it was a signal of potential danger. Although today the threat of hidden hands is more symbolic than real, our ingrained psychological discomfort remains.
- **Finger pointing.** We often see executives use this gesture in meetings, negotiations, or interviews for emphasis or to show dominance. The problem is that aggressive finger pointing can suggest that the leader is losing control of the situation – and the gesture smacks of parental scolding or playground bullying.
- **Enthusiastic gestures.** There is an interesting equation of hand and arm movement with energy. If you want to project more enthusiasm and drive, you can do so by increased gesturing. On the other hand, over-gesturing (especially when hands are raised above the shoulders) can make you appear erratic, less believable, and less powerful.
- **Grounded gestures.** Arms held at waist height, and gestures within that horizontal plane, help you - and the audience - feel centered and composed. Arms at waist and bent at a 45-degree angle (accompanied by a stance about shoulder-width wide) will also help you keep grounded, energised, and focused.

4. Your most influential communication medium is (still) face-to-face
In this fast-paced, techno-charged era of email, texts, teleconferences, and video chats, one universal truth remains: Face-to-face is the most preferred, productive, and powerful communication medium. In fact, the more business leaders communicate electronically, the more pressing becomes the need for personal interaction. Here's why: In face-to-face meetings, our brains process the continual cascade of nonverbal cues that we use as the basis for building trust and professional intimacy. Face-to-face interaction is information-rich. We interpret what people say to us only partially from the words they use. We get most of the message (and all of the emotional nuance behind the words) from vocal tone, pacing, facial expressions, and other nonverbal cues. And we rely on immediate feedback – the instantaneous responses of others – to help us gauge how well our ideas are being accepted.

Skills required for decisional roles

Having considered the interpersonal and communication skills which are necessary for the interpersonal and informational roles, we now consider the range of skills which are necessary to support the decisional roles of the manager, and we commence with strategic thinking skills.

Syllabus
skills of management
- strategic thinking

Strategic thinking

Strategic thinking skills are any skills that enable the manager to use critical thinking to solve complex problems and plan for the future. These skills are essential to accomplish business objectives, overcome obstacles, and address challenges which arise in the internal or external business environment. Like most concepts in management, there is no universally accepted definition.

Abraham, Stan, Stretching strategic thinking, Strategy & Leadership, Vol. 33, No. 5 (2005)
Strategic thinking is defined as coming up with alternative viable strategies or business models that deliver customer value.

Mintzberg
Planning has always been about analysis – about breaking down a goal or set of intentions into steps, formalising those steps so that they can be implemented almost automatically and articulating the anticipated consequences or results of each step. (...) [and] Strategic thinking, in contrast, is about synthesis. It involves intuition and creativity. The outcome of strategic thinking is an integrated perspective of the enterprise.

Harvard Business Review
Strategic people create connections between ideas, plans and people that others fail to see

Link
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Ingrid Bonn
a way of solving strategic problems that combines a rational and convergent approach with creative and divergent thought processes. Such process orientation focuses this investigation on how senior managers in an organizational setting attempt to understand and take strategic action in an environment that is highly complex, ambiguous and competitive. It represents an important antecedent to strategic decision-making and may provide a key to better understand organisational change phenomena and ultimately, organisational performance and survival.

Rich Horwath of the Strategic Thinking Institute
the generation and application of business insights on a continual basis to achieve competitive advantage.

Center for Simplified Strategic Planning Inc
a process that defines the manner in which people think about, assess, view, and create the future for themselves and others.

Embedded in all of these definitions is a concept that the manager is seeing the bigger picture, rather than focusing on small details, in order to see how things fit together, and how the challenges and opportunities that are being encountered relate to the business and its overall objectives and goals. To think in this way requires the manager to understand the fundamental drivers of the business and to develop and unlock opportunities for the business (or their team within the business) through enabling a provocative, creative and constructive dialogue amongst key stakeholders and decision makers.

Keelin and Arnold in *Five Habits of Highly Strategic Thinkers* (2002) provide a useful table contrasting the characteristics of strategic thinking compared to non strategic thinkers:

Strategic thinkers	**Non-Strategic thinkers**
Broad view with zoom in	Narrow view
Abstract with powerful engagement of the imagination	Concrete with no engagement of the imagination
Abstraction illustrated with concrete examples	Concrete illustration only
Important, non-intuitive, framework breaking ideas	Generally understood ideas that fit within a consensus framework
Embrace alternatives and uncertainties	Embraces neither alternatives nor uncertainties
Aims to achieve an over-arching goal	Focuses on supporting goals

Managers at all levels of the organisation are required to use strategic thinking skills in order to perform the entrepreneur and resource allocator roles within Mintzberg's framework. Strategic thinking is not a skill required only by members of the Board, or the Chief Executive - it is a required management skill at all levels of the business.

Key questions which a manager may ask themselves when thinking strategically include:

- What is the business environment in which we must operate, and what changes are occurring within it?
- What skills and competencies does the business have which provide a sustainable competitive advantage in that environment?
- What resources support, or constrain the actions the business may take in engaging with that changing environment?
- What opportunities are available to the business, and which should be pursued, and which should not be pursued at this time?
- For opportunities we pursue, how will progress be measured and how will the plan be revised as required?

Strategic thinking skills are so important for managers, they are the subject of specific university courses including Macquarie University's course, Strategic Thinking, run by Macquarie Business School. The course is designed to equip managers with the strategic thinking mindset, skills and tools to create and communicate a sustainable future of growth and profitability for their organisation. The course is facilitated by Associate Professor Steve Jaynes, who has over 20 years' experience in research, teaching, executive development and consulting in the fields of business strategy, leadership, culture and change.

It is not uncommon for leading businesses to engage academics from university business schools to present to their managers, or run specific training programs for the business. For example, Associate Professor Jaynes has designed and delivered a wide range of business strategy and leadership programs for private and public sector organisations in Australia and the Asia Pacific. Clients include the ANZ bank, Australian Unity, Australian Pharmaceutical Industries Ltd., BlueScope Steel, AIS, PFD Foods, AKEPT (Malaysian Higher Education sector), and a range of SME's in South Australia and Tasmania (Better Business Program).

Syllabus
skills of management
- vision

Vision building

The next of the management skills to support Mintzberg's decisional roles is vision building. Note that the syllabus, for this skill, has not used a verb but the singular word of vision. Vision is not the skill - the skill is the ability to build the vision as will become clear below.

Some students may be familiar with the concept of a vision statement, which is a statement of what the business wishes to be like in some year's time. The vision statement is typically created by senior management and generally results from a strategic thinking process and is crafted to take the thinking of those in the business beyond the day to day in a clear, memorable, easily communicated way.

Some examples of vision statements include:

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Business	Vision statement
IKEA	Our vision is to create a better everyday life for many people.
Nike	Bring inspiration and innovation to every athlete* in the world. (*If you have a body, you are an athlete.)
McDonald's	To be the best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness and value, so that we make every customer in every restaurant smile.
LEGO	Inspire and develop the builders of tomorrow. Our ultimate purpose is to inspire and develop children to think creatively, reason systematically and release their potential to shape their own future - experiencing the endless human possibility.
Disney	To make people happy.
Microsoft	Empower every person and every organisation on the planet to achieve more.
Honda (in 197[illegible])	We will destroy Yamaha.
Tesla	To accelerate the world's transition to sustainable energy
JB Hi Fi	To deliver the most extensive range, lowest prices, best brands, convenient locations, and most importantly genuine personal service from our specialist staff.

These vision statements are typically the work of the top senior management within the organisation, however, every effective manager within an organisation needs to have the ability to develop (and communicate) a vision for the people that they lead.

In this context, for the individual manager, vision means a clear, shared concept of the future - it is a picture in the manager's imagination that motivates people to action when communicated compellingly, passionately and clearly. The ability to create, and communicate that vision is fundamental to effective management. Peter Drucker in the *Practice of Management*:

> The function which distinguishes the manager above all others is his educational one. The one contribution he is uniquely expected to make is to give others vision and ability to perform. It is vision and moral responsibility that, in the last analysis, define the manager.

In 2002 Google identified a list of attributes that made some Google managers more effective than others, and within the eight habits of highly effective Google managers was developing and communicating a clear vision and strategy for the team. To assist Google managers create a shared vision for their teams they published an outline of the five components that Google managers need to create their vision:

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Component	Description
Core values	These will influence team behaviours even when the manager is not present. Describe the team's deeply held beliefs, sociocultural norms and unwritten rules that team members respect. This, over time, builds and reinforces the culture in the team.
Purpose	Connect the jobs of each team member to the big picture and communicate the impact of their work in achieving the big picture. This results in higher psychological satisfaction, increased engagement and alignment and increased retention.
Mission	Describe what the team is trying to achieve. This should include a compelling vision of the future which will appeal to all team members. It needs to be clear enough to be easily communicable and memorable, and to guide decision making. Google also encourages its managers to ensure that the team mission is general enough to accommodate changing business conditions and be successfully explained within two minutes.
Strategy	Create a strategy outlining in detail how the team will achieve the mission.
Goals	Set meaningful and actionable goals to be achieved in the course of execution of the strategy to achieve the overall mission. A framework like SMART (specific, measurable, achievable, relevant and time constrained) can be used.

As Drucker says in *The Essential Drucker*:

> "Every enterprise requires commitment to common goals and shared values. Without such commitment there is no enterprise; there is only a mob. The enterprise must have simple, clear, and unifying objectives. The mission of the organisation has to be clear enough and big enough to provide common vision. The goals that embody it have to be clear, public, and constantly reaffirmed. Management's first job is to think through, set, and exemplify those objectives, values, and goals. Management."

Indeed, as evident in the Google guidance to its managers, vision building is a skill expected of every manager and is a key part of the role of the manager as achieving things with and through other people. Vision building is not a skill which applies only to senior managers - it is vital for every person in the organisation with some management responsibility. Returning to Drucker:

> "Management is about human beings. Its task is to make people capable of joint performance, to make their strengths effective and their weaknesses irrelevant."

A clear vision is a pre requisite to joint performance, else effort is disjointed, misaligned, and pursuing different individual visions of the future.

Syllabus
skills of management
- problem solving

Problem solving

Managers are called upon every day to problem solve, to work with and through others to identify and resolve problems which arise in the course of implementing the strategy to achieve the vision. Note that this formulation is not saying that the manager in a quiet office, by themselves, solves problems. Again, the role of the manager is to leverage the knowledge, talent and skill of the human resources available to them within and outside the organisation in order to problem solve.

Sometimes the manager can problem solve quickly, based on recognition of the problem from past experience. This can occur rapidly, and enable the team to more forward past the apparent problem or obstacle.

On the other hand, many problems are more complex, and require the manager to typically engage with a problem solving process. Managers must have skills in problem solving, and be able to work through a four step process:

Process	Description
Define the problem	Working with others, define the problem to be solved. This may require analysis, observation, conversation and collaboration.
Brainstorm alternatives	The role of the manager is not to solve the problem by themselves. Here working with and through other people the manager identifies and compares possible alternative solutions, considering the time, cost, effectiveness and return of each of the alternative solutions to the problem.
Choose the best strategy to solve the problem	Here the manager themselves, or working with the group, brings the analysis to an end and selects and persists with a solution. An effective manager must proceed to this point as soon as practicable in a way in which affected stakeholders will engage with the selected strategy.
Implement the solution	Develop, communicate and implement the action plan which includes appropriate measurement processes to assess success in solving the problem. Review data and change as necessary.

Decision making

The skill of decision making is in many contexts a subset of problem solving.

Mintzberg argued that making decisions is the most crucial part of any management activity. Indeed the language of decision making as a management skill emerged in the 20th century when, Chester Barnard, a retired telephone executive and author of *The Functions of the Executive*, imported the term "decision making" from the vocabulary of public administration into the business world. From then it began to replace narrower descriptors such as "resource allocation" and "policy making."

Assuming the other steps have occurred in the problem solving process, working with and through other people (inside and outside the organisation), the manager will need to ensure that a decision occurs in an appropriate time frame in order to resolve what actions will be taken, and how resources will be directed. Sometimes the manager will facilitate a team of others in reaching a decision, whereas in other cases the manager will be called upon to make the decision themselves and then communicate the decision to impacted stakeholders.

To make decisions requires the application of a broad range of analytic and conceptual skills, financial skills, critical thinking and emotional intelligence in terms of the relative merit of different approaches to solve the problem at hand.

Matt Gavin, in *5 Key decision making techniques for managers* in The Harvard Business School Online Blog (2020) noted that research by consulting firm Bain and Co of 750 companies found a 95% correlation between decision-making effectiveness and financial results. Those companies which excelled at decision making and execution generated returns nearly 6% higher than their competitors. Decision making skills of manager has a direct relationship with the financial performance of the firms.

Syllabus
skills of management
- decision-making

The five techniques from Gavin included:

Technique	Description
Take a process-oriented approach	Frame the issue for resolution, ensure the right questions are being asked, and everyone agrees on what needs to be decided. Build and facilitate the team to identify alternatives and design a viable solution
Involve the team in the process	Involving team members brings additional perspectives and can stimulate creative problem solving among the members of the group. Research shows that group decision making can result in more innovative solutions, and identify and manage otherwise hidden biases among group members
Foster a collaborative mindset	Avoid an advocacy mindset which sees decision making as a contest between entrenched positions and encourage an inquiry mindset with collective responsibility in framing the issue, identifying solutions and making a decision in view of the vision of the team and the overall organisation objectives
Create and uphold psychological safety	Team members will only fully participate, and fully bring their perspective, knowledge and skills to work collaboratively if the manager creates and maintains an environment of psychological safety. Research by Google found that this was the most important dynamic among high performing teams at Google.
Reiterate the goals and purpose of the decision	Ensure the goals that the team is working towards are clear, and agreed among members of the team. This should be clearly articulated at the beginning, and throughout the process to ensure the detail of the problem and the possible solutions do not obscure the overall context in which the decision is being taken.

Syllabus
skills of management
- flexibility

Flexibility

Flexibility is defined as the ability to bend easily or without breaking, or the ability and willingness to adjust one's thinking or behaviour. One can also consider it simply as the opposite of being rigid, or inflexible, as shown below:

Flexible	**Inflexible**
Ability to bend easily or without breaking The ability and willingness to adjust one's thinking or behaviour	Of a rigid or unyielding temper, purpose, will etc An inflexible determination, not permitting change or variation; unalterable.

Given that a manager is working with and through other people, and that people are individuals with vastly different contexts, and that they will encounter obstacles, difficulties and changes, working with and being managed by an inflexible manager can cause all sorts of problems. A manager operating inflexibly tends to lead to a situation where the subordinates of the manager, their peers and even the manager's superiors seek ways of avoiding direct communication and engagement with them.

Some researchers have suggested that an insensitive and inflexible manager increases tension, decreases productivity and has the single most negative impact on work life. An inflexible manager is not willing to make even the slightest change to their plans, rules, procedures and attitudes. It follows that an inflexible manager will continue to do what they have planned to do – even if it no longer works or it has become clear that the strategy will not work. Not only is this directly bad for the organisation (not adjusting the strategy) it can result in increased staff turnover as employees of the inflexible manager become dissatisfied and leave the business. The inflexible manager who does not listen, and does not react to changing circumstances is typically perceived by staff as uncaring and unfeeling towards their staff. The inflexible manager is not considered approachable by employees, and will often be the subject of adverse internal gossip and story telling.

The impact of the degree of flexibility on the effectiveness of the manager can be seen through the different approaches to their management style, employee arrangements, approach to calendar and appointments, approach to deadlines and tasks set for employees and very importantly, their approach to changes in the external environment. As indicated in the table the extent to which the manager can change and adapt to significant changes in the external or internal environment is referred to as **adaptability** (which is the next skill of management).

	Rigid/inflexible manager	Flexible manager
Style of management used to manage different employees	The same	Different in response to the different knowledge, skills and personality of the employees
Arrangements for employees – working hours etc	The same	Provides flexible working arrangements (different days, job sharing, part time)
Approach to their calendar and appointments	Does not depart from planned events and engagements. Employees have to make appointments or prior arrangements to meet with the manager	Make changes on the [illegible] to respond to pressures or events to assist the team to dynamically make changes to arrangements in order to increase team performance
Approach to deadlines and tasks set for employees	Not changing. Deadlines and tasks must be met as directed by the manager	Manager alters deadlines and work allocations dynamically in response to the needs of members to the team, subject to redressing poor performance where necessary
Response to changes in the external environment	Nil. Existing plans continued to be executed and managed.	Adaptable – the manager actively engages with the external environment to identify and consider significant external changes and then works with the team in order to determine the changes to make to the goals and work of the team. **The skill of Adaptability**

Flexible managers have the ability to change their plans to match the reality of the situation, which means that they maintain the productivity of their team even when circumstances deviate from the plan. Flexible managers embrace change, are open to new ideas, and can work with a wide variety of different people.

For example, a flexible manager may adopt different management styles depending upon the skills and nature of the particular employee being managed. A rigid manager would adopt the same approach to managing all employees, whereas a flexible manager may take a more hands on, directional approach with one employee, and yet be more hands off and democratic with an employee with stronger competencies and greater experience.

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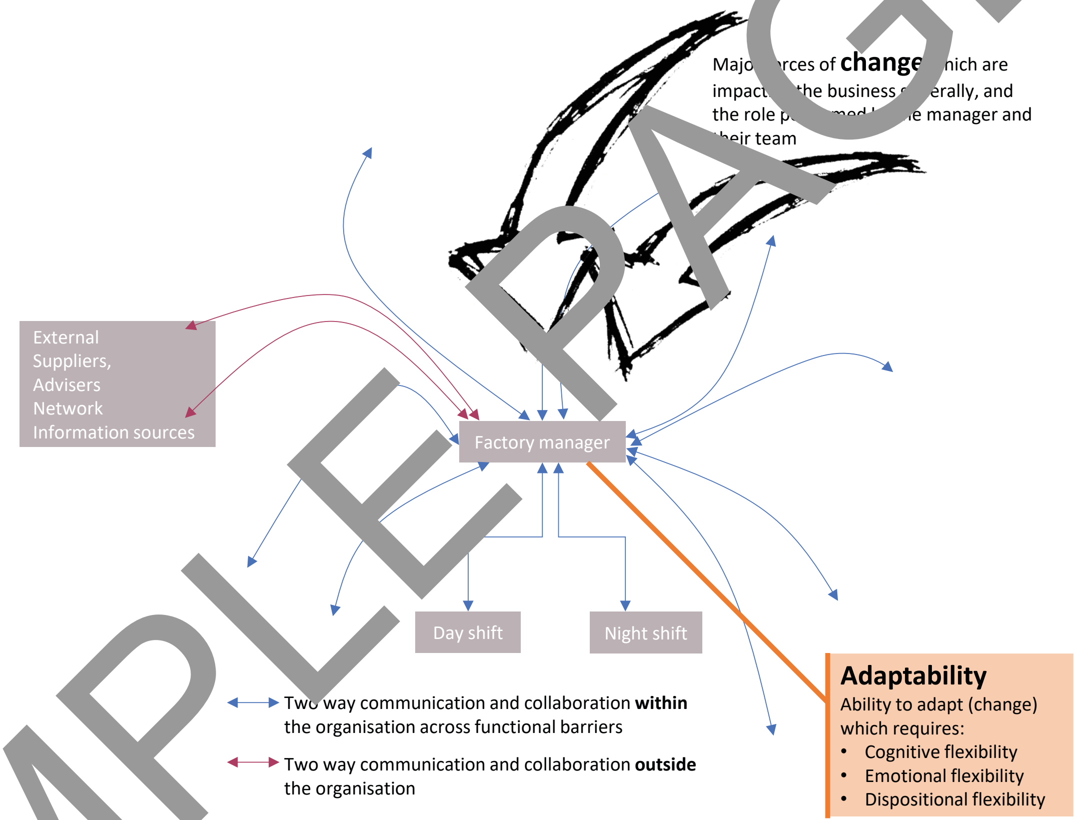
Adaptability

On the other hand, adaptability is the ability to change (or be changed) to fit changed circumstances. Adaptability is about having ready access to a range of behaviours that enable the manager to shift and experiment as things change. Adaptability requires flexibility.

Today's managers are facing constant, and sometimes unexpected waves of change and complexity, from legal regulation to pandemic shutdowns, supply chain disruptions to increased global competition and technology changes. Adaptability is a key skill for the manager because change is constant and inevitable, and the decisions which managers take in Mintzberg's Decisional role will require high levels of adaptability in order to be successful.



Successful managers:

- Adapt to the changing external pressures facing the business.
- Accept changes as positive.
- Revise plans as necessary.
- Consider other people's concerns during change.

The Centre for Creative Leadership identifies three types of flexibility that assist managers with change:

- cognitive flexibility
- emotional flexibility
- dispositional flexibility

Cognitive flexibility	The ability to use different thinking strategies and mental frameworks. Managers with cognitive flexibility can incorporate different thinking strategies and mental frameworks into their planning, decision-making, and management of day-to-day work. Cognitive flexibility indicates nimble, divergent thinking, an interest in developing new approaches, the ability to see and leverage new connections, and the propensity to work well across the business. These managers readily learn from experience and recognise when old approaches will not work.
Emotional flexibility	The ability of the manager to vary their approach to dealing with emotions and those of others. Managers with emotional flexibility vary their approach to dealing with their own and others' emotions — an area that many managers often fail to consider. An emotionally flexible manager is comfortable with the process of transition, including grieving, complaining and resistance. Adapting to change requires give and take between the manager and those experiencing the change (later we will consider strategies the manager can use to manage change). A manager without emotional flexibility is dismissive of others' concerns and emotions and shuts down discussion. At the same time, an emotionally adaptive leader moves the change or agenda forward.
Dispositional flexibility	The ability to remain optimistic and, at the same time, realistic. Managers who display dispositional flexibility (or personality-related flexibility) operate from a place of optimism grounded in realism and openness. They will acknowledge a bad situation but simultaneously visualise a better future. They are neither blindly positive nor pessimistic and defeatist. Ambiguity is well-tolerated. Dispositionally flexible managers see change as an opportunity rather than as a threat or danger.

Adaptability has been referred to as the new competitive advantage, which was the title of Reeves and Deimler's 2011 Harvard Business Review article, *Adaptability: The New Competitive Advantage*.

The authors suggest that traditional approaches to strategy development by managers assumed a relatively stable world, such that the goal was to build within the business an enduring, or sustainable, competitive advantage. This could be achieved through scale, occupying a key niche, or using unique skills or technologies. However, the globalisation era, driven by changes in transport, technology and communication, has led to profound and continuing changes in the business environment. In this context, sustainable competitive advantage can no longer arise from existing market position, or from the unique resources available to the business. They suggest that today, sustainable competitive advantages derives from the four organisational capabilities that foster rapid adaptation, including:

1. the ability to read and act on signals of change
2. the ability to experiment rapidly and frequently - not only with products and services but also with business models, processes and strategies
3. the ability to manage complex and interconnected systems of multiple stakeholders
4. the ability to motivate employees and partners

In other words, the management skill of adaptability.

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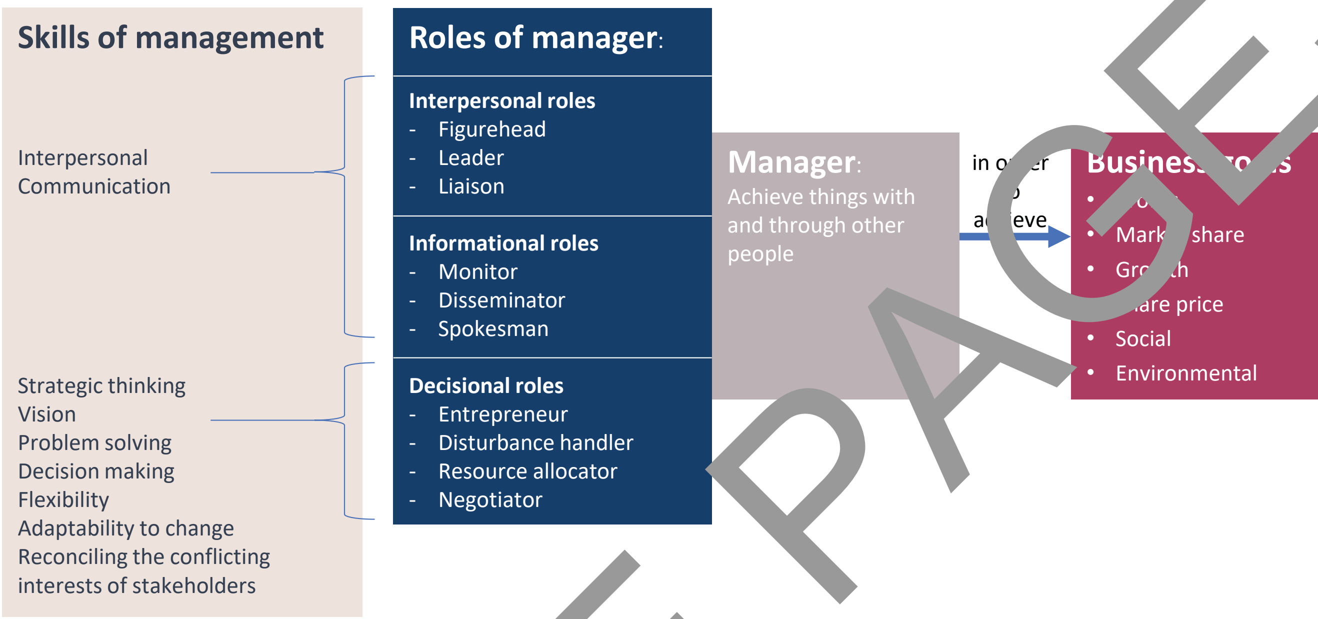
reconciling the conflicting interests of stakeholders

Reconciling the conflicting interests of stakeholders

The final of the skills of managers which are required in order to discharge Mintzberg's decisional roles is the ability to reconcile the conflicting interests of the various stakeholders who will be impacted by the decisions taken by the manager. The figure of management skills and Mintzberg's roles is repeated below for reference.



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Indeed, these negotiation and communication skills are needed for each of the decisional roles of entrepreneur, disturbance handler, resource allocator and negotiator. Recall that we have previously examined the external stakeholders in the context of the external business environment.

Of course, in most decisions rarely will all affected parties be impacted in the way they might desire. It is the role of the manager to balance those interests and make an appropriate decision but also, through the processes leading up to the decision and the communication of the decision, manage the expectations of and relationships with those stakeholders so that future interactions of the business with those stakeholders are not compromised.

Conflicting interests of stakeholders many include:

- business owners generally seek higher profits, and may be reluctant to have the business pay higher wages to staff
- a decision by the business to shift production overseas may be in the interests of the business owner (through lower costs and higher profits) but may negatively impact existing staff who would lose their jobs, and customers who may receive a poorer quality service (for example the experience of Australian customers where call centres are shifted overseas).
- managers may delay paying for goods from suppliers as long as possible (to preserve cash in the business) which will have a negative impact on the supplier who would like payment as soon as possible to improve their cash flow
- managers, and the business owners, may want the highest possible profit on sales, whereas customers may desire lower prices and higher quality goods
- managers and business owners may desire lower costs and therefore higher profits, however that may come at a negative cost for the environment (less environmentally friendly practices are often cheaper for business)