Name:

Mulberry Academy Shoreditch

Sixth Form

Summer Assignment

A Level Business

This Year 12 Summer Starter Pack has been designed with you in mind and how you can work effectively over the summer before you embark upon your new course. There are lots of case studies, some short, some long. Please read through them all. There are also business case studies with questions. Please answer all questions on the separate paper at the back. Good luck and enjoy. I look forward to meeting you all in September.

Understanding the nature and purpose of business

Fact file

Disney's mission and business objectives

Disney's mission is to provide quality entertainment for the whole family. Disney's main business objectives include: 'to be one of the world's leading producers and providers of entertainment and information, using its portfolio of brands to differentiate its content, services and consumer products'; 'to maximise earnings and cash flow, and to allocate capital toward growth initiatives that will drive long-term shareholder value.' This illustrates how a broad mission is being translated into more specific business objectives. In this case the objectives indicate how the business will try to achieve its basic purpose of meeting the entertainment needs of its customers, while at the same time generating earnings that will allow the business to grow and to satisfy its shareholders.

Source: adapted from information on Disney's website, www.disney.com, May 2014

Businesses exist essentially to provide goods and services for their customers. Customers could be in the UK or abroad, they might be individuals, other businesses or government departments. If a business can meet the needs of its customers in terms of the cost and quality of the goods or services it provides, it is likely to be successful and to survive in the longer term.

Most businesses, even the very largest, will have begun in a small way, often being set up by a single individual or small group of individuals. Individuals who have a business idea that they develop by setting up a new business and encouraging it to grow are known as entrepreneurs. They take the risk and reap the subsequent profits that come with success or bear the losses that come with failure.

Once a business has been established, its owners and managers will need to make sure that the business is able to cover its costs and make a reasonable profit if it is to survive. However, the owners may wish the business to do more than survive. For example, they may want the business to grow larger, to dominate the market or to diversify into making or selling different products and services.

This discussion illustrates the fact that all businesses, no matter how small or large, are likely to have a purpose or a mission and objectives or goals they wish to achieve.

IF YOU CAN DREAM IT, YOU CAN DO IT

BEATING THE ODDS AT START-UP

IN CONTEXT

FOCUS
Business start-ups

KEY DATES

18th century The term "entrepreneur" is used to describe someone who is willing to risk buying at certain prices and selling at uncertain prices.

1946 Professor Arthur Cole writes *An Approach to Entrepreneurship*, sparking interest in the phenomenon.

2005 The micro-finance, non-profit site Kiva.com launches to make small loans to very small businesses.

2009 Crowdfunding websites, such as Kickstarter.com, allow individuals to provide funding for businesses.

2013 A study by Ross Levine and Yona Rubinstein finds that as teenagers, many successful entrepreneurs exhibited aggressive behaviour, broke the rules, and got into trouble.

The reasons for starting a business are many. Some people dream of being their own boss – of turning their hobby into a profitable enterprise, of expressing their creativity, or of being richly rewarded for their hard work. Although Walt Disney's maxim "if you can dream it, you can do it" holds true for some, pursuing the dream is risky. Those who attempt it must have the entrepreneurial spirit to fearlessly quit a well-paid job, go it alone, and face a future filled with uncertainty. Others might need a push; often redundancy (and its associated lump-sum payment) can be a

See also: Finding a profitable niche 22–23 ▪ Managing risk 40–41 ▪ Luck (and how to get lucky) 42 ▪ Take the second step 43 ▪ From entrepreneur to leader 46–47 ▪ Learning from failure 164–65 ▪ Small is beautiful 172–77

springboard. Younger entrepreneurs are increasingly a part of the start-up scenario. They may have gained the necessary skills for business by their early twenties, and enjoy the excitement and freedom of running their own venture.

Keeping the faith

Whilst the reasons for start-up may vary, what all entrepreneurs have in common is the willingness to take risks. Few entrepreneurs get it right first time – it takes resilience and tenacity to keep going in the face of failure, and it takes perseverance to remain positive when customers, banks, and financial backers repeatedly say "no". Faith in the idea is essential. While some start-ups require very little capital, most require funding during their early growth phases. A business owner must be able to convince banks, or other financial backers, that their concept is valid and that they have the skills to turn the idea into a profitable venture, even though this may take some time. It took Amazon six years to make a profit.

In recent years, securing finance for start-ups has become a little easier. Many governments offer loan schemes or grants. Entrepreneurs with big ideas can access large sums of money and managerial support from venture capitalists, whose sole purpose is to incubate start-ups. For smaller start-ups, and for people with very little of their own capital, micro-loans and crowdfunding finance – such as that offered by Kickstarter.com – are increasingly popular.

The business plan

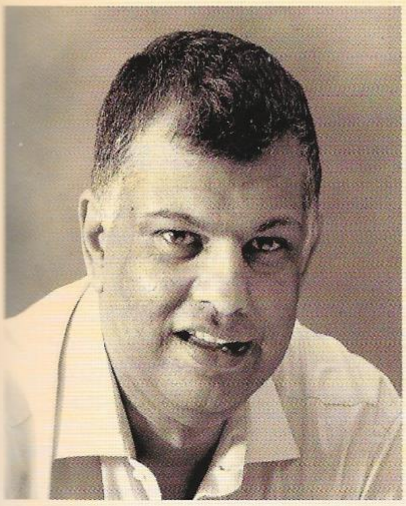
The key to securing financing is a business plan. A good plan will outline the idea itself, detail any supporting market research, describe operational and marketing activities, and give financial predictions. The plan should also outline a strategy for long-term growth and identify contingencies (alternative ideas or markets) if things do not go as planned.

Most importantly, a good business plan will acknowledge that the biggest reason for business failure is a lack of cash. While loan-capital can help for a while, eventually a business must fund its operations from revenue. A good business plan will analyse future cash flows and identify any potential shortfalls.

Beating the odds at start-up is defined by the tenacity to take an idea to market, the ability to secure sufficient finance, and the business acumen to turn a good plan into a long-term, profitable enterprise. ■

> "Sustaining a business is a hell of a lot of hard work, and staying hungry is half the battle."
>
> **Wendy Tan White**
> **UK business executive (1970–)**

"Tony" Fernandes



Tan Sri Anthony "Tony" Fernandes was born in Kuala Lumpur in 1964 to an Indian father and Malaysian mother. He went to school in England and graduated from the London School of Economics (LSE) in 1987. He worked briefly for Richard Branson at Virgin Records as a financial controller before becoming Southeast Asia Vice President for Warner Music Group in 1992. In 2001, Fernandes left Warner to go it alone. He mortgaged his home to raise the finance needed to buy the struggling young airline, AirAsia. His low-cost strategy was clear in the firm's tagline: "Now everyone can fly". One year after his takeover, the airline had cleared its debts of $11 million and had broken even. Fernandes estimates that around 50 per cent of its travellers are first-time flyers. The firm is now widely regarded as the world's best low-cost airline.

In 2007 Fernandes founded Tune Hotels, a low-cost hotel chain that promises "Five-star beds at one-star prices". He advises potential entrepreneurs to "dream the impossible. Never take no for an answer."

Case study: Sainsbury PLC

Sainsbury's vision or mission is to be 'the most trusted retailer where people love to work and shop'. To achieve this they have five broad business objectives:

Objective	Progress so far ...
• Great food: the quality and value of their food, combined with strong ethical standards and supplier 1 relationships, help customers to 'live well for less'	• Own brand sales growing faster than brands and accounting for half of food sales • £1 in every £5 spent on fresh fruit and vegetables in UK supermarkets is spent at Sainsbury's, suggesting customers trust the quality, integrity and provenance of the goods
• Compelling general merchandise and clothing: offering customers high street quality and style at supermarket prices	• Sales of general merchandise and clothing growing at more than twice the rate of food; general merchandise sales (excluding fashion) topping £1 billion for the first time • The TU clothing brand is now the seventh largest in the UK market by volume and has risen to twelfth place by value; childrenswear is now sixth in the market by volume, with sales having grown by over 20 per cent year-on-year
• Complementary channels and services: a mix of supermarkets, convenience stores and online sales	• Sainsbury's Bank delivered its fifth consecutive year of profit growth • Convenience stores have delivered sales growth of over 17 per cent year-on-year and online grocery orders exceed 190,000 a week, with an annual turnover of nearly £1 billion
• Developing new businesses: this is an important part of the long-term strategy for the future	• Expanding pharmacy provision with 270 in-store pharmacies • New customers for Sainsbury's Energy (providing gas and electricity) increased by 83 per cent
• Growing space and creating property value: a clearly defined strategy for growing space in terms of new supermarkets, adding space to existing stores through extensions and new convenience stores	• Sainsbury's has added 14 supermarkets, 97 convenience stores and eight extensions to its property portfolio – in line with its target of around 5 per cent gross space growth

Social, ethical and environmental objectives are included in Sainsbury's 20x20 Sustainability Plan. This involves 20 areas of social, environmental and ethical activity that it hopes to achieve by 2020. Examples of these objectives and the company's progress so far include the following:

Objective	Progress so far ...
• Active youth: By 2020, 20 million children will be encouraged to enjoy physical activity	• £10 million package pledges to Sainsbury's School Games over three years • £136 million worth of Active Kids equipment donated since 2005
• Animal welfare: By 2020, all meat, poultry, eggs, game and dairy products will be sourced from suppliers who adhere to independent higher welfare standards	• UK's largest retailer of RSPCA Freedom Food, accounting for over 60 per cent of all Freedom Food sales • Leading retailer of cage-free fresh eggs and first major retailer to use cage-free eggs as ingredients in all own-brand products
• Community investment: By 2020, over £400 million will have been donated to charitable causes	• £51.3 million invested in charities and communities by Sainsbury's, its colleagues, customers and suppliers • Record £11.5 million raised for Comic Relief in 2013, the largest amount ever donated from any partner
• Fairly traded: By 2020, sales of fairly traded products will hit £1 billion.	• Sainsbury's claims to be the world's largest Fairtrade retailer, accounting for £1 in every £4 spent on Fairtrade products in the UK
• Packaging: By 2020, own packaging will have been reduced by a half compared to 2005	• New smaller carrier bags introduced in convenience stores in March 2013, saved 125,000 kg plastic and 68,000 kg carbon in 2013/14 • Helping customers reduce food waste via amended 'display until' and 'freeze by' labelling

Questions

Total: 45 marks

1 Analyse why a business such as Sainsbury's might set social and ethical objectives. *(9 marks)*

2 Evaluate the benefits to a company of having detailed business objectives. *(16 marks)*

3 To what extent does the case study illustrate the importance to a business of ensuring a clear relationship between mission and objectives? *(20 marks)*

Source: adapted from information on Sainsbury's website, www.j-sainsbury.co.uk, May 2014

Care in crisis

With people living longer, changes in the way they live, the recession and reduced public funding and strains on the NHS, social care provision is experiencing a negative impact alongside claims that elderly people are being put at risk. A group of caring individuals formed a cooperative to help redress this problem, starting on a small scale locally and expanding over the last 10 years. They called the business CASA, an acronym for Care and Share Associates and grew to employ more than 850 staff by 2014. Shares in CASA are held by an Employee Ownership Trust, an Employee Benefit Trust, and individual employees.

CASA is an employee-owned social enterprise with a clear purpose. Their primary concern is providing care for older people, the disabled (including children) and those with learning difficulties. CASA's Managing Director explains their successful business is due to:

'Engaged employee owners provide the highest quality care and we also have low staff turnover, making the business more successful. Profits are then reinvested in staff and growth ... and shared amongst the workforce.'

Because the business does not have any external shareholders, the business can focus on delivering its aims for social care. One employee testimonial states:

'Because we are the owners it's easier to see that we can have a brilliant future if we manage it correctly and really get involved.'

Check your knowledge

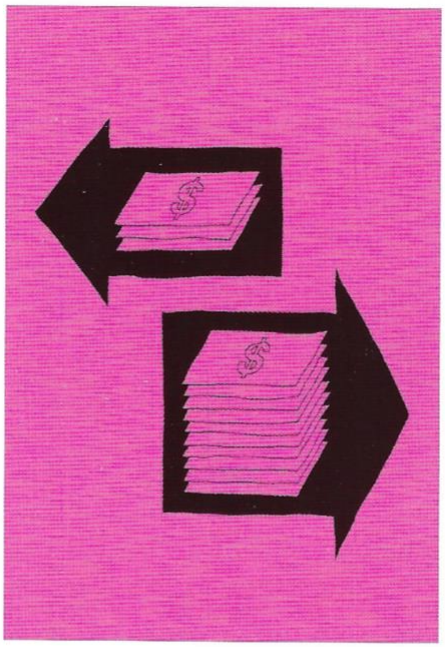
1 Which sector and type of ownership is this business?

2 What do you think are the aims and objectives of this business?

3 What is CASA's innovative approach to this business?

4 What are the most important assets of this business?

5 List the priorities for the Managing Director (MD). Can you put them in order of importance?



IF WEALTH IS PLACED WHERE IT BEARS INTEREST, IT COMES BACK TO YOU REDOUBLED

INVESTMENT AND DIVIDENDS

IN CONTEXT

FOCUS
Financial strategy

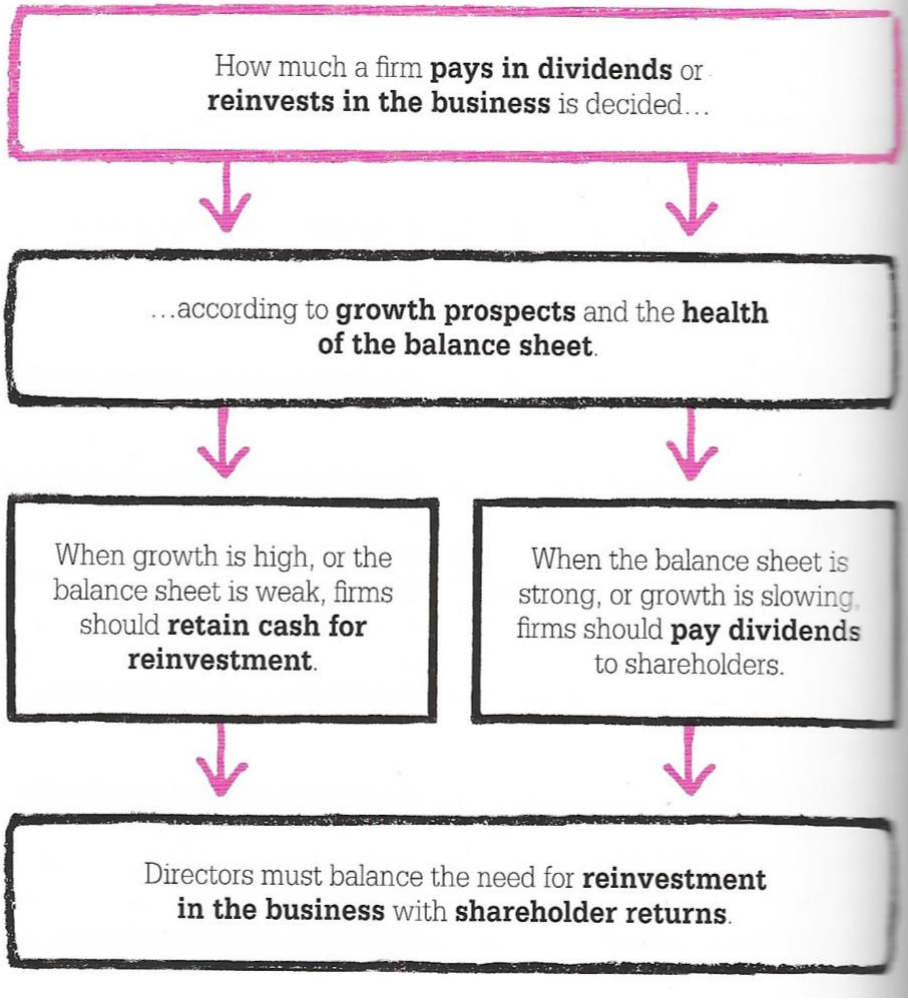
KEY DATES
1288 The first recorded share certificate is issued to the Bishop of Vasteras in Sweden by Stora Enso, a pulp and paper company.

17th century The Dutch East India Company issues shares, heralding the emergence of organized share trading.

1940 Peter Drucker writes on the need for businesses to balance short-term dividends and long-term reinvestment.

1961 Modigliani and Miller claim that paying or retaining dividends does not affect a business's long-term performance. Their seminal work is later disputed, with several studies showing that dividend increases boost a firm's share price.

After calculating the year's profit, a firm's directors can choose whether to pay a dividend to shareholders or reinvest the sum within the business. A dividend is the annual payment to shareholders that most businesses manage each year. It might amount to a 3 per cent return on the sum invested, which would make it comparable to the interest a saver might receive from a bank



See also: Accountability and governance 130–31 ▪ Who bears the risk? 138–45 ▪ Following the herd 146–49 ▪ Profit versus cash flow 152–53

The Dutch East India Company was the first public company to offer shares. Investors put up money for voyages in return for a share of the profits made from successful trips.

deposit. In 2012, for example, Honda Motor Company of Japan paid out just under half its $2.7 million profit in dividends, leaving just over half to reinvest in the firm.

The first dividend payments were made in the 17th century by the Dutch East India Company, which was the world's first firm to issue shares in exchange for capital. To encourage investors to buy shares, a promise of an annual payment (called a dividend) was made. Between 1600 and 1800 the Dutch East India Company paid annual dividends worth around 18 per cent of the value of the shares.

Invest or pay out?

Dividend payouts by firms are entirely the gift of the directors. The directors' decision is simple: what proportion of after-tax profit should be paid in dividends, and what should be retained inside the firm for reinvestment? The higher the firm's growth prospects, the greater the incentive to keep money within the business. Slow-growing firms should therefore pay out a high proportion of profits in dividends, whereas booming organizations are more likely to keep the cash within the business. There is no safer source of capital than retained profit: it does not need to be repaid, nor does it require the payment of interest. Another factor to consider is the health of the firm's finances. If they are weak, profits should be retained; only if the balance sheet is strong should generous dividends be paid to the shareholders.

Dividend payouts must be considered with care. In 2006, the Royal Bank of Scotland (RBS) declared a 25 per cent increase in dividends to shareholders. Market commentators praised the move, with one team of analysts issuing the note: "Thanks Fred [Goodwin, CEO of RBS], we love you". The dividend increase put money directly into the hands of the shareholders. Just two years later RBS was forced to ask shareholders to buy shares at 200p each, in order to raise £12 billion. Six months later, those shares were worth only 65p; three months after that, just 11p. The firm's generosity in 2006 cost its shareholders dearly.

In contrast, Apple did not pay dividends from its formation in 1977 until 2013. The directors, led by Steve Jobs, told shareholders that they would benefit in the long term by allowing Apple to reinvest all the firm's profits. Only in 2013, with its growth rate beginning to fall, did the firm announce dividend payouts, which it projected would average $30 billion a year until 2015. ■

John Kay

Professor John Kay is a British economist born in 1948. Best known for his sceptical support for free-market business behaviour, he is a visiting professor at the London School of Economics and regular contributor to the *Financial Times*. In 2012 he presented a detailed report to the UK government on the stock market, which emphasized that the normal purpose of stock markets is not speculation, but to provide firms with access to capital and to provide savers with an opportunity to share in economic growth. He also highlighted concern about excess dividend payouts.

Key works

1996 *The Business of Economics*
2003 *The Truth About Markets*
2006 *The Hare and the Tortoise*

Case study: Gnomes United

Gnomes United is a small garden centre in Colchester. The owner, Jim Tavare, has successfully increased sales in recent years by widening the range of products and services offered. A total of 70 per cent of the garden centre's revenue comes from the sale of plants and garden tools, but the opening last year of a nearby superstore led to a sharp reduction in sales of these items. Sales of plants have fully recovered, owing to quality problems at the superstore, but sales of garden tools are still low. Market research among his customers has led Jim to realise that the sale of garden tools in his garden centre is important, because customers see them as an essential element of any garden centre. Furthermore, Jim remembers how sales of plants at his cousin Jack's garden centre in Ipswich fell sharply when Jack decided to stop selling garden tools.

Sales records show that relatively few garden tools are bought in the run-up to Christmas.

Last year Jim experimented with selling some Christmas products, such as decorations, because many customers visit the centre once a year to buy their Christmas trees. The restaurant at the garden centre enjoys a boom time in the month before Christmas, and Jim's research shows that about 20 per cent of his customers first came to the garden centre to buy Christmas products and have come back since for other products.

Jim is wondering whether to stock Christmas tree lights this year – an item that he has not previously sold. He has asked 50 customers and they seem to be keen on the idea. Their responses have led him to conclude that he will sell 200 boxes in December. A standard box of lights will sell for £24.99. The lights will cost £16.50 to buy from the supplier. To cope with the increased work, Jim estimates that he will need to increase the number of part-time hours worked by 4 hours in total, at a rate of £7.25 per hour. This estimate is based on asking the owners of three other local garden centres.

Questions

Total: 35 marks

1 Name two other terms that also mean 'revenue'. *(2 marks)*

2 Jim is wondering whether to expand the restaurant at the garden centre. This will lead to 8,000 more customers a year and increase his revenue by £60,000 per annum. However, his variable costs are £2.20 per customer and he will incur extra fixed costs of £15,000. He estimates that the space needed will cut his profit on plant sales by £20,000 per annum. Use calculations to show whether expanding his restaurant will improve his overall level of profit. *(6 marks)*

3 Based on the figures in the case study, calculate the extra profit that Jim hopes to make from the Christmas tree lights. *(6 marks)*

4 Analyse one reason why it would be difficult to estimate the effect of stocking Christmas tree lights on the number of part-time hours needed. *(5 marks)*

5 Evaluate the other factors that Jim should consider before deciding whether to stock the Christmas tree lights. *(16 marks)*

Specification topic: Business objectives and profit

Case Study: Real Smoothies plc

Real Smoothies was formed when Jack Brown and Samir Milner met at university and decided to start up a small business cashing in on the growth in natural food products by ethically sourcing ingredients and making and selling smoothies from a kiosk in Wakefield shopping centre.

Unlike most soft drinks on the market Real Smoothies had no added preservatives or flavouring giving them a USP and adding value to the brand. As a result the founders were able to sell at a premium price and cash in on consumer "conscience spending" since a carton of each smoothie would contain 3 of the recommended 5 per day servings of fruit and vegetables. Unique flavours like Mango and Lemongrass added to the variety offered to consumers and very soon the plan was hatched to move production to a large industrial unit and start supplying supermarkets. Jack was determined to take the products to a national audience and they made a successful pitch to some retail buyers from the second largest UK supermarket chain. In order to raise finance for the venture the business was converted to a public limited company, selling shares to the public via the stock market.

With the success of their supermarket order, Jack and Samir closed their kiosk in Wakefield and moved on to supplying more supermarket chains, expanding their supplier network and producing new sizes of smoothies for children's lunch boxes as well as their regular 0.5 and 1 litre cartons. The smoothies keep up to 5 days in a fridge due to their suppliers using the "flash pasteurisation" technique which stops the natural fruit ingredients from perishing. Taking on larger orders allowed for bulk purchases from suppliers and flow production techniques to be used, both of which lowered variable costs of production.

At this point Samir started becoming even more ambitious. "We could take this brand to a global audience" he said after it had gained a 7% market share in the UK drinks market and was making huge sales through the supermarket chains. Customers liked the brand for their ingredients, simple packaging and their charitable work – 10% of their profits had always been donated to charities in the countries from which the fruit ingredients were sourced. After much deliberation Jack and Samir sold a large amount of their shareholding in the firm to a global drinks brand, International Drinks Ltd who promised to take the smoothies to the global audience using their vast distribution channels around the world.

Real Smoothies plc

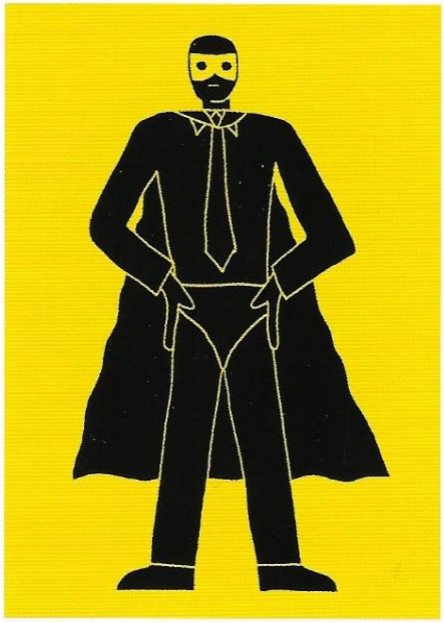
	Last year	**This year**
Revenue	£81m	£144m
Costs	£46m	£79m

Exam-style questions

1. Analyse the reasons why Real Smoothies plc have been a profitable company **(9 marks)**

2. To what extent has profit been the main objective of Samir and Jack? **(16 marks)**

Reading article: Leaders vs Managers



MANAGERS DO THINGS RIGHT, LEADERS DO THE RIGHT THINGS

LEADING WELL

IN CONTEXT

FOCUS
Organizational roles

KEY DATES

1977 US professor Abraham Zaleznik writes an article asking "Managers and Leaders: Are They Different?".

1985 In *Leaders: Strategies for Taking Charge*, Warren Bennis and Burt Nanus suggest four leadership strategies to help leaders do the right things.

1990 US leadership expert John Kotter publishes *What Leaders Really Do*.

1997 Robert House and Ram Aditya claim that management consists of implementing the vision and direction provided by leaders.

2005 Warren Bennis publishes *Reinventing Leadership: Strategies to Empower the Organization*.

Good managers do not necessarily make good leaders, and good leaders can be poor managers. This is because the two jobs are not the same, despite sharing similar characteristics – principally the need to drive human (and therefore organizational) capacity. As Warren Bennis and Burt Nanus noted in 1985, "managers do things right; leaders do the right thing." Leaders "conquer" their surroundings – the competitive environment – through vision and strategy, and it is the role of managers to then implement these strategies effectively.

Effective management is crucial to organizational success. It takes care of processes, planning,

See also: The value of teams 70–71 ▪ Gods of management 76–77 ▪ Effective leadership 78–79 ▪ Organizing teams and talent 80–85 ▪ Develop emotional intelligence 110–11 ▪ Mintzberg's management roles 112–13

budgeting, structure, and staffing; tasks that help an organization to keep doing what it does. Without management, no matter how well led, an organization would disintegrate into disorganized chaos. However, management is not leadership – it will not lead the firm into new directions.

Decisive leadership

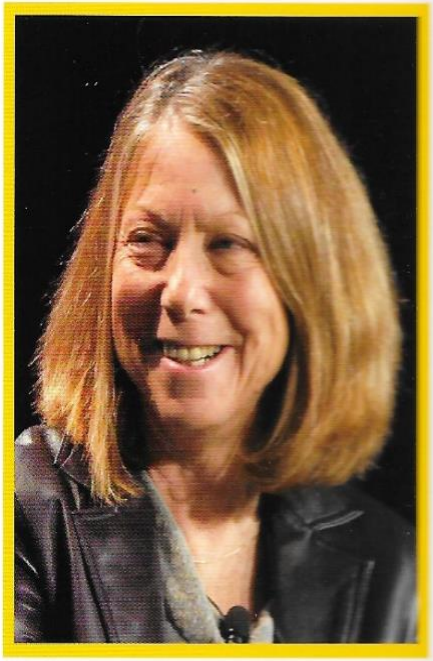
In 1990, John Kotter argued that leadership is about coping with change and developing a vision for the organization, often within turbulent times. Leaders then communicate their vision to the rest of the firm, and motivate staff – especially managers – to act in ways that will bring about the required change. Leadership is about setting the agenda and empowering people to produce useful change.

"Leading well" does not always mean making people happy; likability and success rarely go together. The direct, tough, and sometimes even rude leadership styles of some of the most highly regarded leaders – such as Jack Welch of General Electric, Steve Jobs of Apple, and Jill Abramson of *The New York Times* – have been well documented.

Leaders have to be brave in the face of uncertainty, standing firmly behind their vision for the business. They need to hold staff to account when things do not go to plan, and make difficult decisions about who to hire or fire in order to develop an organizational culture capable of achieving their strategic vision.

The next generation

Truly great leaders know that they will not be around forever, and one of their most important tasks is to hire, train, and nurture their successor. They lead well by making sure somebody is ready and waiting to take over from them. Nine years before his retirement, General Electric CEO Jack Welch said, "from now on, choosing my successor is the most important decision I'll make. It occupies a considerable amount of thought almost every day."



Jill Abramson was the first woman to become executive editor of *The New York Times*. She found that unpopularity came "with the territory", as *Times'* chairman Arthur Sulzberger had warned.

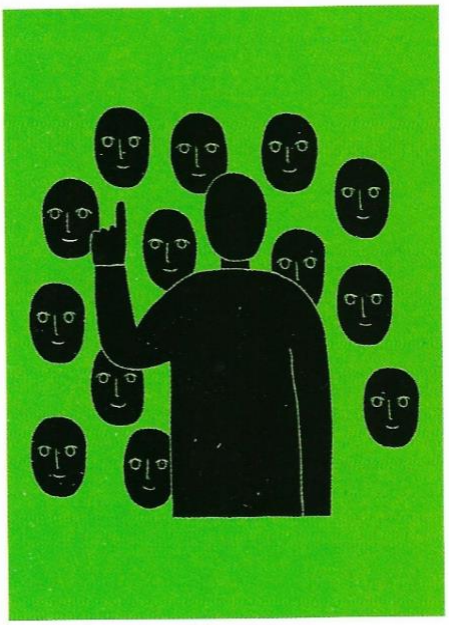
It is common practice in many firms to privilege leadership over management, but this is unwise. Great organizations value both: leaders who can spot opportunities, and managers who can make those opportunities a reality. ▪

> Leadership is lifting a person's vision to high sights, raising their performance to a higher standard, building a personality beyond its normal limitations.
>
> **Peter Drucker**
> **US management consultant**
> **(1909–2005)**

Blending leadership and management

Inspirational leadership skills are the hallmark of Portuguese football coach José Mourinho. His teams won two European Cups and 14 trophies in eight years, elevating him to sit alongside some of the greats of football management.

Successful sports teams, like great organizations, are a blend of good management and good leadership, and Mourinho achieves the rare feat of excelling in both. As a leader, he makes his mark immediately. When he first took over Chelsea Football Club in London, England, he called a team meeting and urged any naysayers to speak up, or stay silent from then on. He learned his management skills from Bobby Robson and Louis van Gaal, for whom he worked as an assistant coach and translator at Spanish club FC Barcelona. Under their guidance he also learned how to study opponents, form strategies, and build strong, winning teams.



A LEADER IS ONE WHO KNOWS THE WAY, GOES THE WAY, AND SHOWS THE WAY

EFFECTIVE LEADERSHIP

IN CONTEXT

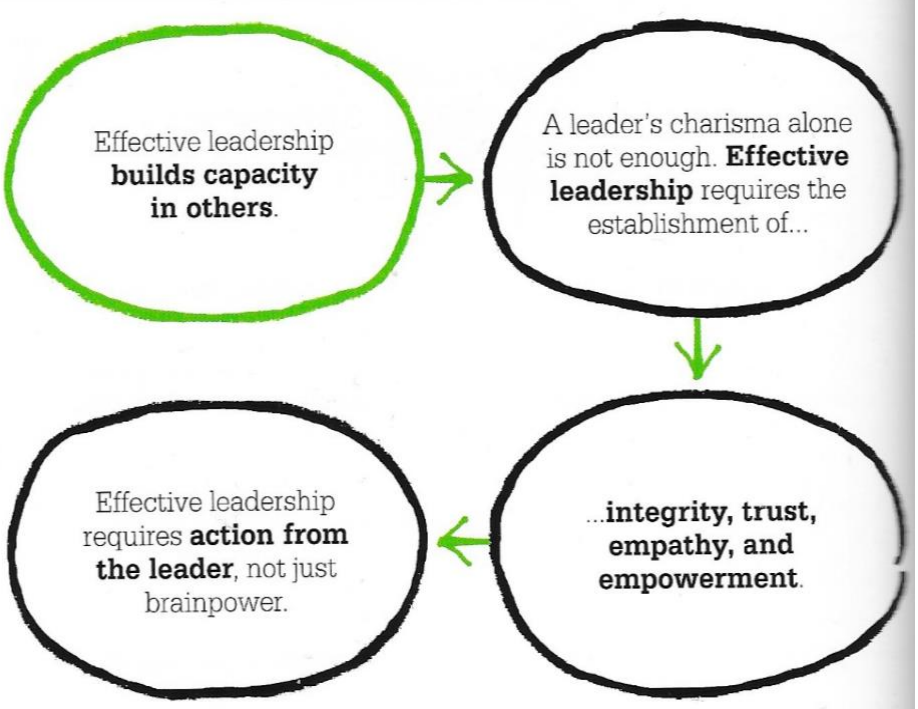
FOCUS
Leadership

KEY DATES
1520s Italian diplomat Niccolò Macchiavelli's *The Prince* discusses the perils of leadership in political life.

1916 French executive Henri Fayol's work *General and Industrial Management* defines a leader as someone who "should possess and infuse into those around him courage to accept responsibility".

1950s and 1960s The authoritative "Command and Control" school of management becomes popular. Charismatic leaders dominate organizations through force of personality.

1980s and 1990s Leadership thinkers, such as US professor Warren Bennis, encourage a leadership style based on integrity, trust, and the ability to build an organization's capacity for change.



For centuries scholars have attempted to determine the definitive styles, characteristics, and personality traits of great leaders. Yet, despite thousands of studies, effective leadership remains a subject of debate. However, one common theme is that effective leadership requires action, not just intellect.

Leaders cannot simply rely on charisma. Whilst charismatic leadership has its place – for example, Henry Ford was renowned for his charismatic leadership style – there is a danger that rhetoric can exceed reality. Rather than empowering their employees, charismatic leaders often micro-manage tasks and prevent their staff from gaining a sense of achievement from their work. Charismatic leaders are often heralded as champions of organizational success, but that charm can be a blessing and

Actively participating in business life, from the boardroom to the factory floor, is vital for effective leadership. Carlos Ghosn visited car assembly lines to build integrity and trust with staff.

a curse – the void created by the departure of a charismatic leader can be hard to fill. It may flatter the ego to be proclaimed a hero, but great leaders know that success involves building long-term organizational capacity that will outlast their own tenure.

Keys to effectiveness

To be effective, a leader must be confident and secure, and at the same time open and empathetic. Effective leadership involves the ability to create capacity in others through the process of interacting, informing, listening, developing, and trust-forming. Credibility of the leader is achieved through collaboration, not domination. Central to effective leadership is empowerment – the art of enabling other people to get things done.

One of the most effective contemporary business leaders is Carlos Ghosn, CEO of carmakers Renault and Nissan. Within a year of his appointment in 1999, Ghosn returned Nissan to profitability and was credited with saving the firm from collapse. This proved to be one of the most dramatic turnarounds in modern business history.

Among the leadership traits that contribute to Ghosn's effectiveness is his belief that leadership is learnt "by doing". On joining Nissan as CEO he walked around every factory, meeting and shaking hands with every employee. To this day he remains a common sight on factory floors. Integrity and trust, Ghosn believes, are built when leaders are seen to be willing to "get their hands dirty" and remain in touch with the shopfloor of the business.

Empowering staff

Leaders must communicate a strong vision but, above all, they must empower staff to take decisions themselves. In large, diverse organizations a leader cannot, and should not, make all the decisions – helping others to understand the necessity for change, and giving them the tools to manage that change is key to the leader's role. The success of Nissan is also attributed to Ghosn's ability to manage cross-cultural teams. Leaders, Ghosn suggests, require the ability to listen and to empathize, not just with employees from their own countries, but also with people from different countries and cultures.

Ghosn's insights illustrate that effective leadership requires putting vision into action. Achieving this requires more than just rhetoric: effective leaders must "talk the talk" and "walk the walk". ■

Carlos Ghosn

Born in 1954, Carlos Ghosn, a French-Lebanese Brazilian, started his career with Michelin, moved to Renault in 1996, and was appointed the CEO of Nissan in 1999 following Renault's purchase of a substantial stake in the ailing Japanese firm. At the time, Nissan's debts had reached $20 billion and only three of its 48 car models were generating a profit. Promising to resign if the firm did not reach profitability by the end of the year, he defied Japanese business etiquette, cut 21,000 jobs, and closed unprofitable domestic plants. Within three years Nissan became one of the most profitable automakers, with operating margins of higher than 9 per cent – more than twice the industry average.

Having presided over what has been described as one of the greatest turnarounds in business history, Ghosn was named "the hardest-working man in the global car business" by *Forbes* magazine in 2011.

> "The universe rewards action, not thought."
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> **Russell Bishop**
> **US executive coach**