

LeadWell

BUSINESS & LEADERSHIP

Business and leadership for the people who run organisations

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Diagnosis, guiding policy and coherent action

Directors' duties in plain English

Plus AI at work and Australian business by the numbers

Edited by Sukh Sandhu | leadwellmag.com

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EDITORIAL

Leading well, on purpose

By Sukh Sandhu, Editor-in-Chief

Leadership is mostly a series of decisions made with incomplete information, under time pressure, with people watching. LeadWell is a monthly magazine about making those decisions well.

Welcome to the first edition of LeadWell. The name is a promise and a standard. Leading is something almost everyone in an organisation does at some point: setting a direction, making a call, looking after a team, answering for the result. Leading well is harder. It means setting a course, reading the conditions, adjusting, and taking responsibility for where the organisation ends up, whether it employs five people or five thousand.

There is no shortage of leadership content. Much of it is confident, simple and unsupported. LeadWell will take a different line. Where we cite research, we name the study and say what it found and what it did not. Where we explain a law or a duty, we state what it requires and point you to the source. Where something is our view, we label it. And every feature ends with something you can do this month.

In this edition

Part 1, Leading people, opens with the first 100 days in a new leadership role: how to listen, learn and earn trust before setting direction. It continues with psychological safety: what the research actually shows about teams where people can speak up, and why it now sits alongside the legal duty to manage psychosocial hazards at work.

Part 2, Strategy and decisions, offers practical tools for deciding under uncertainty, a method for writing a strategy that fits on one page, and a guide for leaders on adopting AI at work with the right governance, skills and expectations.

Part 3, Business and governance, sets out the numbers behind Australian business, from business counts to survival rates, and explains the duties every company director carries, in plain English.

A request

This magazine will be most useful if it answers the questions you actually face. Tell us what is on your desk: the decision you keep deferring, the team problem you cannot solve, the governance question no one has explained clearly. We will take the best of them to the evidence and report back.

Thank you for reading the first LeadWell.

Warm regards,
Sukh Sandhu
Editor-in-Chief, LeadWell

PART 1

Leading people

Starting well in a new role, and building a team where people speak up.

LEADING PEOPLE

The First 100 Days: How New Leaders Earn Trust and Set Direction

By Sukh Sandhu

A new leadership role is one of the riskiest moves in a career, and the research suggests that a large share of senior transitions disappoint. The good news is that the causes are well understood and mostly avoidable. This article sets out what the evidence says, the frameworks that hold up, and a practical 100-day plan.

Why the first months matter so much

Every leadership appointment is a bet. The board, the chief executive or the owner who made the appointment is wagering that this person will lift the performance of a team or an organisation. The people who now report to the new leader are making a bet too: they are deciding, often within weeks, whether to give their full effort, wait and see, or quietly start looking elsewhere.

The stakes are not abstract. In a May 2018 article drawn from their book Leading Organizations: Ten Timeless Truths, McKinsey senior partners Scott Keller and Mary Meaney brought together research on executive transitions. They reported that studies show between 27 and 46 per cent of executive transitions are regarded as failures or disappointments two years in. Leaders ranked organisational politics as the main challenge, and 68 per cent of transitions were said to founder on issues of politics, culture and people. Sixty seven per cent of leaders said they wished they had moved faster to change the culture.

The same article cited CEB research on what a good or poor transition does to the people underneath the leader. When leaders struggle through a transition, the performance of their direct reports was estimated to be 15 per cent lower than under high performing leaders, and those direct reports were 20 per cent more likely to be disengaged or to leave. These are figures from consulting and advisory research rather than controlled experiments, so they should be read as indicative rather than precise. But the direction is consistent across sources: transitions are expensive when they go wrong.

Two further findings from that article matter for anyone stepping up. First, the difficulty is not confined to outsiders. Seventy nine per cent of external hires and 69 per cent of internal hires reported that implementing culture change was hard. Second, organisations rarely help much. Only 29 per cent of US leaders and 32 per cent of global leaders felt their organisations appropriately supported new leaders, and large majorities felt unprepared for their new roles.

> *The most common reason a capable leader fails in a new role is not lack of skill. It is misreading the people, the politics and the situation.*

What derails capable people

The Center for Creative Leadership has studied executive derailment since the early 1980s. Derailment, in this research, means a leader who was expected to go further but was fired, demoted or plateaued below expectations. In a 1995 article in the Academy of Management Executive, Ellen Van Velsor and Jean Brittain Leslie compared derailment patterns across time and across cultures. A companion 1996 report by the same researchers, A Look at Derailment Today: North America and Europe, listed the factors most often present in derailment cases. Averaged across the North American and European data, the leading factors were:

Derailment factor	Share of cases
Inability to develop or adapt	61%
Poor working relations	57%
Inability to build and lead a team	32%
Poor performance	23%
Authoritarian style	23%

Look closely at that list. Only one item, poor performance, is about technical results. The rest are about adapting to a new context and working with other people. That matters for transitions because a new role is precisely the moment when the behaviours that made someone successful may stop working. The executive coach Marshall Goldsmith captured this in the title of his 2007 book, What Got You Here Won't Get You There, a phrase Keller and Meaney quote in their transitions article.

In our view, the derailment research points to three traps that show up again and again in the first 100 days:

- **Applying the old playbook.** The new leader repeats what worked last time without checking whether the situation is the same.
- **Acting before understanding.** Early decisions are made on thin information, often to look decisive, and they turn out to be wrong or to offend people whose support will be needed.
- **Neglecting relationships sideways and upwards.** The leader focuses on the team and the work, and fails to build alliances with peers, the boss and other stakeholders.

Michael Watkins and The First 90 Days

The best known framework for leadership transitions is Michael Watkins' The First 90 Days, first published by Harvard Business School Press in 2003 and released in an updated and expanded edition in 2013. Watkins is a professor at IMD Business School, whose book page describes it as the bestselling, globally acknowledged bible of leadership and career transitions. Several of his ideas are worth understanding properly rather than as slogans.

The breakeven point

Watkins frames a transition around the breakeven point: the moment when a new leader has contributed as much value to the organisation as they have consumed. Every new leader starts as a net consumer of value. They draw on the time of colleagues, the

patience of the team and the investment of the organisation. The aim of a transition plan is to reach breakeven sooner, and to avoid the downward spiral in which early mistakes erode credibility and make every later step harder.

Match your strategy to the situation: the STARS model

The most useful single idea in the book, in our view, is that there is no universal transition plan. Watkins classifies business situations using the STARS model:

Situation	What it looks like	Leader's core task
Start-up	New business, product or team	Assemble people, money and capability
Turnaround	Unit in clear trouble	Act fast, cut losses, rebuild
Accelerated growth	Rapid expansion	Put systems and structure in place
Realignment	Drifting, problems not yet obvious	Build urgency for change
Sustaining success	Performing well	Protect what works, find the next step

A turnaround rewards quick, visible decisions because everyone already knows things are bad. A sustaining success situation punishes the same behaviour: the people there are proud of their results and will resent a newcomer who arrives with an agenda to fix things that are not broken. Realignment is often the hardest, because the leader must persuade people that a problem exists before they can solve it. Most real roles contain a portfolio of these situations, so a new leader might be running a turnaround in one product line while sustaining success in another.

Negotiating success with the boss

Watkins argues that the relationship with the new boss is the single most important relationship in a transition, and that new leaders should plan a series of conversations rather than one induction meeting. These cover the leader's reading of the situation, the boss's expectations, the preferred working style, the resources needed, and the leader's own development. The underlying point is simple: many transitions fail because the leader and the boss had different, unspoken views about what success looked like.

Securing early wins

Watkins also recommends securing early wins, but with a qualification that is often missed. Early wins should build credibility and momentum while also supporting the longer term goals. A quick win that is popular but heads in the wrong direction can do more harm than good, because it signals priorities that the leader will later have to reverse.

Learning before acting

Finally, Watkins treats learning as a discipline. He suggests that new leaders plan what they need to learn, from whom, and how, rather than absorbing information randomly. A structured learning agenda might cover the history of the unit, the numbers, the customers, the culture and the politics. Watkins also stresses the risk of becoming the victim of a single source of information, typically the first person who befriends the new leader.

Trust: the real currency of the first 100 days

Frameworks help, but the deeper task is earning trust. People decide early whether a new leader is credible, competent and fair, and those first impressions are hard to reverse. Several practical principles follow from the research above.

Listen first, and be seen to listen. In our view, a deliberate listening tour in the first weeks is the highest return activity available to a new leader. Meet each direct report one to one. Meet frontline staff, key customers and peers. Ask the same few questions each time so the answers can be compared: What is working well that we should protect? What is getting in the way? If you were in my role, what would you change first? What should I not touch?

Close the loop. Listening without visible follow through damages trust faster than not listening at all. After the listening phase, tell people what you heard, what you will act on, and what you will not act on and why.

Keep small promises. Credibility is built in small transactions. Turning up on time, returning calls and doing what you said you would do matter more in the first month than any strategy presentation.

Respect the past. People who built the current organisation will be listening for any hint that the newcomer thinks their work was poor. You can be clear that change is needed without dismissing the people who got the organisation to where it is.

Be careful with early people decisions. The McKinsey article noted that 69 per cent of new CEOs reshuffle their management teams within the first two years. Team changes are often necessary, but they are among the least reversible decisions a new leader makes. Watkins' advice is to assess the team against the needs of the situation, and to make changes deliberately rather than either rushing or postponing them indefinitely.

A practical 100-day plan

The table below is a template, not a prescription. It assumes a senior manager or executive role. A turnaround might compress the timeline sharply; a sustaining success role might stretch the learning phase.

Phase	Focus	Key actions	Output
Before day 1	Prepare	Read reports, financials, past strategy papers; map stakeholders	Learning plan, list of questions
Days 1 to 30	Listen and learn	One to ones with team, peers, boss; meet customers and frontline	Diagnosis of the situation (STARS)
Days 31 to 60	Shape direction	Agree priorities with boss; assess team; choose early wins	Agreed priorities, team assessment
Days 61 to 90	Act and align	Deliver early wins; start structural or people changes	Visible progress, first changes made
Days 91 to 100	Consolidate	Review with boss and team; publish the plan for the next six	Direction set, next phase plan

Phase	Focus	Key actions	Output
		months	

Before day one

Preparation is often skipped because people are finishing their previous role. Even a few hours of structured reading pays off. Gather the last two years of financial and operating reports, any strategy or board papers, recent customer and staff survey results and the organisation chart. Write down your initial hypotheses about the situation, then treat them as questions to test, not conclusions.

Map your stakeholders. Who has formal authority over your area? Who has informal influence? Who will be affected by any change you make? Who was a candidate for your role and did not get it? That last question is uncomfortable but important: an unsuccessful internal candidate can become a strong ally or a quiet obstacle, and how you treat them early matters.

Days 1 to 30: listen and learn

The aim of the first month is diagnosis. By the end of it you should be able to describe, in a page, what kind of situation you are in, what the main problems and opportunities are, and which people and groups you will most need on side.

Avoid announcing big changes in this period unless the situation is a genuine crisis. Do make small, visible improvements that people have asked for and that are clearly in your gift: a broken process that annoys everyone, a meeting nobody values, a decision that has been stuck for months. These signal that you listen and act.

Days 31 to 60: shape direction

Take your diagnosis to your boss and agree on priorities. This is the conversation Watkins calls negotiating success. Be explicit about what you will deliver, by when, and with what resources, and about what you will not do. Write the agreement down and share it.

This is also the time to assess your team in earnest. For each direct report, consider their competence, their judgement, their energy, their focus, their relationships and how far you can trust them. Ask whether each role is right for the situation, not only whether each person is good.

Choose two or three early wins. Good early wins are visible, achievable within weeks, connected to your longer term priorities and owned by the team rather than by you alone.

Days 61 to 90: act and align

Deliver the early wins and make sure the team gets credit for them. Begin any structural or people changes you have decided on, with clear communication about the reasons. Start aligning systems: the measures you track, the meetings you hold and the decisions you delegate should all reflect the priorities you have agreed.

Days 91 to 100: consolidate

Hold a formal review with your boss and with your team. What has been achieved? What did you get wrong? What will the next six months focus on? Then publish a short plan.

Many leaders find it useful to ask for structured feedback at this point, either informally from trusted colleagues or through a confidential process run by human resources or an external adviser.

Mistakes to avoid

Drawing on the derailment research and the transitions literature, these are the errors that most often undo new leaders.

1. **Coming in with the answer.** Announcing a plan in the first week tells people you are not interested in what they know. Even if your initial diagnosis is right, people will support it more if they have helped shape it.
2. **Misdiagnosing the situation.** Treating a sustaining success unit as a turnaround, or a realignment as business as usual, is one of the fastest ways to lose credibility.
3. **Criticising your predecessor.** It rarely helps, and it offends the people who worked for them.
4. **Talking only to the people who seek you out.** The first people to befriend a new leader often have their own agendas. Seek out the quiet voices and the frontline.
5. **Neglecting the boss.** Assuming you know what your boss wants, and finding out at the six month review that you did not.
6. **Ignoring peers.** Most important outcomes depend on colleagues you do not control. Build those alliances before you need them.
7. **Too many priorities.** A list of twelve priorities is a list of none. Pick three.
8. **Avoiding people decisions, or rushing them.** Both are common. Assess deliberately, then act.
9. **Overworking.** Transitions are exhausting. Watkins devotes attention to managing yourself for a reason: tired leaders make poor judgements and are short with people.
10. **Treating the 100 days as a performance.** People can tell the difference between a leader who is listening and one who is going through the motions of a listening tour.

Special cases

Promoted from within

Internal promotion brings advantages, including existing relationships and knowledge of the organisation, but also specific risks. Former peers now report to you. Some may have wanted the job. You may be tempted to keep doing your old role because it is comfortable. The McKinsey figures suggest internal hires find culture change nearly as hard as external ones. In our view the most important step is an explicit conversation with each former peer about how the relationship will change, and a deliberate handover of your previous responsibilities.

Leading in a small or family business

In a small business, a new general manager or a family member stepping into leadership faces many of the same dynamics in concentrated form. The owner or founder is often still present, and the line between their role and the new leader's may be blurred. The negotiating success conversation becomes even more important: who decides what, and how disagreements will be resolved, should be agreed early and written down.

Taking over in a crisis

In a genuine turnaround, the timeline compresses. Watkins' STARS model is explicit that turnarounds call for faster action. Even here, a few days of intensive listening is time well spent, because the people closest to the problem often know what has gone wrong and have been waiting for someone to ask.

Checklist: your first 100 days

- I have written down my initial hypotheses about the situation and treated them as questions.
- I have mapped stakeholders, including those with informal influence.
- I have met every direct report one to one and asked the same core questions.
- I have met customers and frontline staff, not only managers.
- I can describe the situation in STARS terms, including any mix of situations.
- I have agreed priorities, measures and resources with my boss, in writing.
- I have assessed each member of my team against the needs of the situation.
- I have chosen no more than three early wins linked to longer term goals.
- I have told people what I heard and what I will and will not do about it.
- I have a plan for the next six months and a way to get feedback on how I am going.

What to do this month

If you are about to start a new leadership role, or have just started one:

1. Block time in your diary now for a structured listening tour, and draft the four or five questions you will ask everyone.
2. Book a meeting with your boss specifically to discuss expectations and how success will be judged.
3. List the stakeholders who could help or hinder you most, and arrange to meet the top five.
4. Identify one small, visible problem that frustrates people and that you can fix within a fortnight.
5. Read Watkins' book, or at least the chapters on matching strategy to the situation and negotiating success.

If you are appointing or supervising a new leader, the research suggests organisations do too little to help. Agree expectations early, introduce them to the people who matter, give honest feedback at the 30, 60 and 90 day marks, and treat the transition as a shared responsibility rather than a test the new leader must pass alone.

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LEADING PEOPLE

Psychological Safety at Work: What the Research Says and What Leaders Can Do

By Sukh Sandhu

Psychological safety has become one of the most quoted ideas in management, and one of the most misunderstood. The research behind it is solid, but it is narrower and more demanding than the slogans suggest. In Australia it also sits alongside a legal duty to manage psychosocial risks, which every employer and director should understand.

Where the idea comes from

The term psychological safety has a long history in organisational research, but the modern concept is most closely associated with Amy Edmondson, a professor at Harvard Business School. Her interest began, by her own account, with a puzzle from a study of hospital teams.

In a paper published in 1996 in the Journal of Applied Behavioral Science, titled Learning from Mistakes is Easier Said Than Done, Edmondson studied medication errors across eight patient care units in two hospitals. She expected that better led teams, with stronger relationships and better managers, would make fewer errors. The data showed the opposite: the units with stronger leadership and better working relationships had higher recorded error rates. Edmondson's interpretation, which she has explained in later writing, was that the better teams were not making more mistakes. They were more willing to report and discuss them. In the less well led units, people feared the consequences of admitting error, so errors went unrecorded.

That interpretation became the seed of a larger research program. In 1999, Edmondson published Psychological Safety and Learning Behavior in Work Teams in Administrative Science Quarterly. She defined team psychological safety as a shared belief held by members of a team that the team is safe for interpersonal risk taking. The study examined 51 work teams in a manufacturing company. It found that team psychological safety was associated with learning behaviour, such as seeking feedback, sharing information, asking for help and talking about errors, and that learning behaviour in turn helped explain team performance.

Two features of that definition are worth stressing. First, psychological safety is a property of a group, not an individual personality trait. Second, it concerns interpersonal risk: the risk of looking ignorant, incompetent, negative or disruptive by asking a question, admitting a mistake, raising a concern or offering an idea.

How strong is the evidence?

Since 1999 the research has grown considerably. In 2014 Edmondson and Zhike Lei published a review in the Annual Review of Organizational Psychology and Organizational Behavior, tracing how the concept had developed and identifying links to learning, innovation and performance across many settings.

A broader test came from a meta-analysis published in Personnel Psychology in 2017 by M. Lance Frazier and colleagues. Drawing on 136 independent samples covering more than 22,000 individuals and nearly 5,000 groups, the authors examined what predicts psychological safety and what it predicts in turn. They found consistent relationships between psychological safety and outcomes such as information sharing, learning behaviour, engagement, and task performance, as well as with antecedents such as supportive leadership and good relationships among peers.

As with most research in this field, much of the evidence is correlational and based on surveys. That means it shows strong and repeated associations rather than proof that psychological safety directly causes better performance in every setting. Still, the pattern is consistent enough, across industries and countries, to be taken seriously.

Google's Project Aristotle: what it actually found

The idea reached a mass audience through Google. In 2012 Google's people analytics team began a research project, later called Project Aristotle, to work out what made some teams more effective than others. The findings were published on Google's re:Work site and described in a widely read New York Times Magazine article by Charles Duhigg in February 2016.

According to Google's own account, the researchers studied 180 teams, including 115 engineering project teams and 65 sales teams, covering both high and low performers. They found that who was on a team mattered less than how the team worked together. They identified five dynamics, listed in order of importance:

Dynamic	What it means
Psychological safety	Team members feel safe to take risks and be vulnerable in front of each other
Dependability	Members get things done on time and to a high standard
Structure and clarity	Roles, plans and goals are clear
Meaning	Work is personally important to team members
Impact	Members believe their work matters

Google's guide reports that individuals on teams with a stronger team culture of this kind were less likely to leave Google, more likely to harness the diverse ideas of their teammates, brought in more revenue, and were rated as effective twice as often by executives.

It is equally important to note what the project did not find. Google reported that several factors were not significantly connected with team effectiveness in its data, including whether team members were co-located, consensus based decision making, extroversion

of team members, individual performance, workload size, seniority, team size and tenure. Google itself cautioned that these factors may still matter in other organisations.

Three caveats apply. Project Aristotle was an internal study at one large technology company, not a peer reviewed academic paper. Its methods have been described publicly only in summary. And psychological safety was the first of five dynamics, not the whole story: a team that feels safe but is not dependable, or has no clarity about goals, will not perform well.

> *Psychological safety is not the goal. It is the condition that lets a team learn, speak up and do its best work towards demanding goals.*

What psychological safety is not

Because the term is so popular, it is often stretched to mean things its originator never intended. Edmondson has repeatedly made several clarifications in her writing, including in her 2018 book The Fearless Organization.

Psychological safety is	Psychological safety is not
Feeling able to speak up, ask questions and admit errors	Being nice or avoiding disagreement
A group climate shaped by leaders and peers	A personality trait or individual comfort
Compatible with high standards and accountability	Lowering performance expectations
About candour and learning	A guarantee that every idea will be accepted
A condition for productive conflict	Freedom from discomfort or criticism

The most important of these, in our view, is the relationship with standards. Edmondson has described a simple two by two model. Where psychological safety is low and standards are low, people are apathetic. Where safety is high but standards are low, people are comfortable but not stretched. Where standards are high but safety is low, people are anxious, and problems are hidden. The learning zone is where both are high: people are held to demanding goals and feel able to say when something is going wrong.

The Australian legal context: psychosocial hazards

Psychological safety, as a research concept, is not a legal term. In Australia, however, it overlaps with a clear legal duty: the duty to manage risks to psychological health at work.

The model WHS laws

Under the model Work Health and Safety Act, which most Australian jurisdictions have adopted in some form, health is defined to include psychological health. The primary duty of a person conducting a business or undertaking (PCBU) is to ensure, so far as is reasonably practicable, the health and safety of workers. That has long covered psychological as well as physical harm.

In 2022 the model WHS Regulations, maintained by the national policy body Safe Work Australia, were amended to make the duty explicit. The amended model Regulations define a psychosocial hazard as a hazard that arises from or relates to the design or management of work, the working environment, plant, or workplace interactions or

behaviours, and that may cause psychological harm. They require PCBUs to manage psychosocial risks in line with the general risk management framework: identify hazards, eliminate risks so far as is reasonably practicable, and if elimination is not possible, minimise them.

The amended Regulations list matters a PCBU must consider when deciding on control measures. These include the duration, frequency and severity of exposure to the hazards; how hazards may interact or combine; the design of work, including job demands and tasks; systems of work; the design and layout and environmental conditions of the workplace; workplace interactions or behaviours; and the information, training, instruction and supervision provided to workers.

Safe Work Australia also published a model Code of Practice, Managing psychosocial hazards at work, in 2022. The model Code lists common psychosocial hazards, including job demands, low job control, poor support, lack of role clarity, poor organisational change management, inadequate reward and recognition, poor organisational justice, traumatic events or material, remote or isolated work, poor physical environment, and harmful behaviours such as violence and aggression, bullying, harassment including sexual harassment, and conflict or poor workplace relationships. Codes of practice are admissible in court proceedings, and courts may treat them as evidence of what is known about a hazard and how to control it.

The model Code also reminds officers, such as company directors, that they have a duty under the WHS Act to exercise due diligence to ensure the PCBU complies with its duties, including taking reasonable steps to keep up to date with knowledge of psychosocial hazards and risks.

State and territory adoption

Each jurisdiction makes its own regulations. New South Wales was first, with its psychosocial amendments commencing on 1 October 2022. Tasmania followed on 12 December 2022 and Western Australia on 24 December 2022, then the Commonwealth and Queensland on 1 April 2023 (Queensland's code of practice also took effect that day), the Northern Territory on 1 July 2023, the Australian Capital Territory on 27 November 2023 and South Australia on 25 December 2023. Jurisdictions have approved their own versions of the code of practice, with local edits, and some differ from the model in detail. Employers should check the regulations and code that apply in each jurisdiction where they operate.

Victoria does not operate under the model WHS framework. Its Occupational Health and Safety (Psychological Health) Regulations 2025 commenced on 1 December 2025. WorkSafe Victoria has said the regulations require employers to identify psychosocial hazards, such as bullying, sexual harassment, aggression or violence, and exposure to traumatic events or content; to take reasonable steps to eliminate or control the associated risks; and to review their risk controls. WorkSafe has also published a compliance code on psychological health to give practical guidance.

Harassment is also covered by a separate federal duty. Since 12 December 2022, the Sex Discrimination Act 1984 has imposed a positive duty on employers and PCBUs to take reasonable and proportionate measures to eliminate, as far as possible, sexual

harassment and related unlawful conduct, and the Australian Human Rights Commission has had powers to enforce that duty since 12 December 2023.

Why this matters

The scale of the problem is significant. Safe Work Australia's Key Work Health and Safety Statistics Australia 2026, released on 12 October 2026, reported that in 2024 to 25 mental health conditions accounted for 12 per cent of serious workers' compensation claims, representing a 169 per cent increase over the past decade. Mental health claims also typically involve much longer time off work than other serious claims.

How the two ideas connect

It is important to keep the concepts distinct. The legal duty is to manage psychosocial risks. Psychological safety in Edmondson's sense is a team climate for speaking up. A workplace can have a high sense of psychological safety and still expose workers to excessive job demands or traumatic material. Equally, a workplace can have a well documented psychosocial risk register and a culture in which nobody dares raise a concern.

In our view, the two support each other in practice. The model WHS Act requires PCBUs to consult workers on health and safety matters, including when identifying hazards and deciding on controls. Consultation only works if people feel able to say what is really happening. A team with low psychological safety is less likely to report bullying, excessive workload, or near misses, which means hazards stay hidden. Building psychological safety is therefore not a legal requirement in itself, but it is one of the most practical ways to make the legal duty to identify and manage psychosocial risks work.

How leaders build psychological safety

In The Fearless Organization, Edmondson set out a leader's toolkit with three broad elements: setting the stage, inviting participation, and responding productively. The practices below follow that structure, with our own practical additions.

1. Set the stage

- **Frame the work as a learning problem.** Be explicit that the work involves uncertainty or interdependence, so mistakes and surprises are expected, and that the team needs everyone's input to succeed.
- **Make the purpose clear.** People take interpersonal risks more readily when they understand why their contribution matters.
- **State expectations about speaking up.** Do not assume people know you want to hear bad news. Say it, and repeat it.

2. Invite participation

- **Show situational humility.** Leaders who acknowledge that they do not have all the answers make it easier for others to contribute.
- **Ask genuine questions.** Open questions such as "What are we missing?" or "What concerns do you have?" invite more than "Any questions?"

- **Create structures for input.** Use rounds in meetings, anonymous pre-meeting surveys, after action reviews and pre-mortems so that speaking up does not depend on individual courage.
- **Seek out the quiet voices.** In many teams a small number of people do most of the talking. Make room for others.

3. Respond productively

- **Thank people for raising issues,** especially unwelcome ones. The first response to bad news teaches the whole team whether to bring the next piece.
- **Separate blameworthy acts from honest error.** Edmondson draws a distinction between failures that result from deliberate violation or carelessness and those that arise from complexity or genuine experimentation. Accountability applies to all, but the response should differ.
- **Act on what you hear.** If people speak up and nothing changes, they stop speaking up.
- **Follow up on harmful behaviour.** Psychological safety is quickly destroyed when bullying or harassment goes unaddressed. Responding firmly to harmful behaviour is part of building safety, not in tension with it.

Measuring psychological safety

Edmondson's 1999 paper used a short survey scale with items asking, for example, whether team members can bring up problems and tough issues, whether it is safe to take a risk on the team, and whether mistakes are held against people. Many organisations now use variations of these items in engagement or culture surveys.

Measurement has limits. Surveys tell you what people are willing to report, which is itself shaped by psychological safety. Anonymous surveys help, but small teams can find anonymity hard to trust. In our view, survey scores are best combined with behavioural indicators.

Indicator	What to look for
Error and near miss reports	Steady or rising reporting, not a sudden drop to zero
Meeting participation	Who speaks, and whether disagreement is heard
Exit interview themes	Mentions of fear, favouritism or unaddressed behaviour
Grievances and complaints	Trends, and how quickly they surface
Upward feedback	Whether people will tell leaders what is not working

Common mistakes

1. **Treating psychological safety as a program.** It is built through daily leadership behaviour, not a workshop.
2. **Confusing safety with comfort.** Avoiding hard conversations to keep people happy undermines both performance and safety.

3. **Saying one thing, doing another.** A leader who invites candour and then reacts badly to it does more damage than one who never asked.
4. **Ignoring structural hazards.** Encouraging people to speak up about excessive workload, then doing nothing about it, will not build trust.
5. **Leaving it to human resources.** Psychological safety is shaped by every manager. Psychosocial risk management is a duty of the PCBU and, through due diligence, of its officers.

Checklist for leaders

- I have told my team, explicitly, that I want to hear about problems and mistakes early.
- I ask open questions in meetings and give people time to answer.
- I thank people who raise concerns, even when the news is unwelcome.
- I can name the last time someone on my team disagreed with me and what I did with that.
- We review mistakes and near misses to learn, not to find someone to blame.
- Harmful behaviour is addressed promptly and consistently.
- Our organisation has identified psychosocial hazards, assessed the risks, put controls in place and set a review date.
- Workers and health and safety representatives have been consulted on psychosocial hazards.
- Directors and senior leaders receive regular information on psychosocial risks and controls.

What to do this month

1. At your next team meeting, say clearly that you want to hear about problems and mistakes early, and explain why.
2. End each meeting this month with one open question, such as "What are we not talking about that we should be?"
3. Review how you responded the last three times someone brought you bad news. Would that response encourage them to do it again?
4. Ask your WHS or human resources lead for the organisation's psychosocial risk assessment. If one does not exist, commission one using the code of practice for your jurisdiction.
5. If you are a director, put psychosocial risk on the next board or risk committee agenda and ask what information the board receives.

If you or someone you work with is experiencing distress, support is available. Talk to a GP, your Employee Assistance Program if your workplace has one, or contact Lifeline on 13 11 14 or Beyond Blue on 1300 22 4636. This article is general information and is not legal advice; seek advice about your specific obligations.

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PART 2

Strategy and decisions

Making better calls under uncertainty, writing strategy that fits on a page, and leading the shift to AI.

STRATEGY AND DECISIONS

Better Decisions Under Uncertainty: Tools That Actually Work

By Sukh Sandhu

Leaders rarely get to decide with complete information, and the quality of a decision is not the same thing as the quality of its outcome. A small set of practical tools, each with a solid research basis, can make judgement under uncertainty more reliable. This article explains what they are, where they come from and how to use them in an ordinary week.

Good decisions, bad outcomes

Start with a distinction that sounds obvious and is routinely forgotten. A good decision can lead to a bad outcome, and a bad decision can lead to a good one. A business that bets the company on a single customer contract may be lucky and win; that does not make the bet wise. A business that carefully tests a new product, prices it sensibly and still sees it fail may have made a sound decision that simply did not work out.

The professional poker player turned decision writer Annie Duke calls the habit of judging decisions purely by their results "resulting". Her books Thinking in Bets (2018) and How to Decide (2020) argue that leaders should separate the quality of the process from the luck of the draw. This matters because organisations that reward only outcomes teach people to avoid sensible risks and to hide the role of chance in their successes.

If outcomes are a noisy guide, the practical question becomes: what can a leader do, before the result is known, to improve the odds? The research offers several answers.

Tool 1: the pre-mortem

Where it comes from

The pre-mortem was popularised by the psychologist Gary Klein in a short Harvard Business Review article, Performing a Project Premortem, published in September 2007. The idea is simple. Before a project or decision is finalised, the team imagines that it is some time in the future and the project has failed. Each person then writes down, independently, all the reasons they can think of for that failure. The reasons are shared and discussed, and the plan is strengthened in response.

Klein grounded the method in earlier research on what psychologists call prospective hindsight. In a 1989 paper in the Journal of Behavioral Decision Making, Deborah Mitchell, J. Edward Russo and Nancy Pennington found that imagining an event has already happened changes how people explain it. Klein's article reports that prospective hindsight increased the ability to correctly identify reasons for future outcomes by 30 per cent. That

figure should be read with care: the original study measured the number and kind of explanations people generated rather than whether those explanations later proved accurate. The safer claim is that framing failure as certain helps people produce more, and more specific, reasons why a plan could go wrong.

Why it works

The pre-mortem addresses a social problem as much as a cognitive one. In most planning meetings, once a decision has momentum, raising doubts feels disloyal. By asking everyone to assume failure and explain it, the pre-mortem turns dissent into the task. It legitimises the concerns that people would otherwise keep to themselves.

How to run one

1. Brief the team on the plan in its near final form.
2. Say: "Imagine it is a year from now. We went ahead and it has been a clear failure. Take five minutes and write down every reason you can think of for why it failed."
3. Ask people to write alone, in silence, before anyone speaks.
4. Go around the room, taking one reason from each person at a time, until all reasons are listed.
5. Group the reasons, pick the most serious and plausible, and decide what changes to the plan or what early warning signs will address each.
6. Record the main risks and the agreed responses in the decision record.

A well run pre-mortem takes 30 to 60 minutes. It is particularly useful for capital projects, acquisitions, product launches, restructures and major hires.

Tool 2: one-way doors and two-way doors

What Amazon actually said

Much decision advice treats every choice as if it deserves the same care. Jeff Bezos, in his letter to Amazon shareholders covering 2015 (published in April 2016), drew a distinction that has since become widely quoted. Some decisions, he wrote, are consequential and irreversible or nearly irreversible, which he called one-way doors; these must be made methodically, carefully, slowly, with great deliberation and consultation. He called these Type 1 decisions. Most decisions, however, are changeable and reversible: two-way doors. Bezos wrote that Type 2 decisions can and should be made quickly by high judgement individuals or small groups.

The danger he identified was that as organisations grow, they tend to apply the heavyweight Type 1 process to most decisions, including many Type 2 ones. The result, in his words in that letter, is slowness, unthoughtful risk aversion, failure to experiment sufficiently, and consequently diminished invention.

In the following year's letter, covering 2016 and published in April 2017, Bezos added two related ideas. He suggested that most decisions should probably be made with somewhere around 70 per cent of the information you wish you had, and he recommended the phrase "disagree and commit" as a way for people to voice disagreement but still back a decision so that work could move ahead.

How to use it

The practical value of this framework is triage. Before deciding how to decide, ask two questions:

- If we get this wrong, how easily and cheaply can we reverse it?
- How large are the consequences if we get it wrong?

Reversibility	Consequences	Approach
Easy to reverse	Small	Decide fast, delegate, learn by doing
Easy to reverse	Large	Decide fairly fast, monitor closely
Hard to reverse	Small	Decide with modest care
Hard to reverse	Large	Full process: pre-mortem, outside view, checklist

Many leadership teams find that a large share of what reaches their agenda belongs in the top two rows and could be delegated. In our view, the framework also has a second use: it encourages leaders to look for ways to make a one-way door into a two-way door, for instance by running a pilot, leasing rather than buying, or staging an investment.

A caution is warranted. Amazon's letters are a company's account of its own management philosophy, not independent research. The framework is useful because it is simple and matches common sense, not because it has been tested experimentally.

Tool 3: base rates and the outside view

The research

In a 1993 paper in Management Science titled Timid Choices and Bold Forecasts, Daniel Kahneman and Dan Lovallo distinguished two ways of forecasting. The inside view focuses on the specifics of the case at hand: our plan, our team, our assumptions. The outside view ignores the details at first and asks how similar projects have turned out in the past. Kahneman and Lovallo argued that decision makers tend to treat each problem as unique and to anchor on plans and scenarios, which produces forecasts that are too optimistic.

Lovallo and Kahneman returned to the theme in a July 2003 Harvard Business Review article, Delusions of Success, which argued that executives routinely overestimate benefits and underestimate costs, and that this is better explained by optimism and anchoring than by deliberate misrepresentation. Kahneman described a personal example in his 2011 book Thinking, Fast and Slow: a team he belonged to, writing a school curriculum, estimated it would finish in around two years, when the track record of comparable teams suggested a much longer timeline and a real chance of failure. The project took years longer than the team expected.

The planner and academic Bent Flyvbjerg developed the outside view into a formal method called reference class forecasting, used in infrastructure planning. In a 2006 paper in the Project Management Journal, he set out three steps: identify a relevant reference class of past projects, establish the distribution of outcomes for that class, and position the current project within that distribution.

How to use it in a business

You do not need a database of thousands of projects to benefit. For any significant forecast, ask:

1. What is the reference class? For example, "IT system implementations in companies our size", "new store openings in regional towns", or "acquisitions of businesses in an adjacent industry".
2. What usually happens in that class? How often do such projects come in on time and on budget? What share fail outright? Industry associations, published research, advisers and your own past projects are all sources.
3. How is our case different, and in which direction? Adjust from the base rate, but be honest about whether the reasons for optimism are real.

The base rate becomes the anchor. The specifics of the plan become adjustments, not the starting point. This single habit is, in our view, one of the most valuable debiasing tools available to small and mid sized businesses, because their leaders are often closest to their plans and most invested in them.

Tool 4: the decision journal

What it is

A decision journal is a written record, made at the time of an important decision, of what was decided, why, what was known, what alternatives were considered, what outcome was expected and how confident the decision maker felt. The record is reviewed later, once the outcome is known.

There is no single authoritative study that proves decision journals improve judgement. Their value rests on a well established finding in psychology: hindsight bias. Once people know how something turned out, they tend to believe they knew it all along, and they misremember what they expected. Without a contemporaneous record, it is very hard to learn from decisions, because memory quietly rewrites the reasoning. Annie Duke and other writers on decision making recommend written decision records for this reason.

A simple template

Field	What to write
Decision	What we decided, in one sentence
Context	What was happening; time pressure; key facts
Options	The alternatives considered, including doing nothing
Reasoning	Why we chose this option
Expected outcome	What we expect, by when, and how confident we are (as a percentage)
Review date	When we will look back

Keep it short. A decision journal that takes an hour per entry will not be kept. Ten minutes for significant decisions is a realistic target. Review entries quarterly. Look for patterns: are you consistently overconfident on timelines? Do certain kinds of decisions go wrong more often?

Tool 5: avoiding groupthink

What the research says

The term groupthink was popularised by the psychologist Irving Janis in his 1972 book Victims of Groupthink, which analysed foreign policy fiascos such as the Bay of Pigs invasion. Janis described a mode of thinking in cohesive groups where the desire for agreement overrides realistic appraisal of alternatives. Later researchers have questioned parts of Janis's model, and the evidence for his full set of symptoms is mixed. But the core concern, that groups can suppress dissent and converge too early, is widely supported.

Cass Sunstein and Reid Hastie, in their 2015 book Wiser: Getting Beyond Groupthink to Make Groups Smarter, summarised research showing that groups often amplify the errors of their members, focus on information everyone already shares, and polarise towards more extreme positions after discussion.

One instructive finding concerns the devil's advocate. In a 2001 study published in the European Journal of Social Psychology, Charlan Nemeth, Keith Brown and John Rogers compared groups exposed to an assigned devil's advocate with groups exposed to someone who genuinely held the dissenting view. Authentic dissent stimulated more original thinking than role played dissent. The practical lesson is that appointing a token sceptic is less effective than making it safe for real disagreement to surface.

Practical defences

- **Independent views first.** Ask people to write down their view, estimate or vote before discussion begins. This prevents the first or most senior speaker anchoring the group.
- **The leader speaks last.** Senior people who state their view early tend to end the debate.
- **Seek out real dissent.** Invite people who have reason to disagree, including those outside the team.
- **Separate idea generation from evaluation.** Brainstorm options before judging any of them.
- **Ask what would change our minds.** Agree in advance what evidence would cause the group to reconsider.
- **Use the pre-mortem.** It is, in effect, a structured way to surface dissent.

Tool 6: a decision checklist

In a June 2011 Harvard Business Review article, Before You Make That Big Decision, Daniel Kahneman, Dan Lovallo and Olivier Sibony argued that it is easier to reduce bias by improving the decision process than by trying to change how individuals think. They proposed a set of twelve questions that a decision maker could ask when reviewing a recommendation from a team, grouped into questions about the team, about the recommendation, and about the proposal itself. Their questions covered matters such as whether the team might have self interested motives, whether credible alternatives were considered, whether the team had fallen in love with the proposal and whether the base case was too optimistic.

The checklist below draws on that approach and on the tools in this article. It is our synthesis, not a reproduction of the HBR list.

Decision checklist for significant decisions

1. Is this a one-way door or a two-way door? If it is reversible, can we decide faster and delegate it?
2. What exactly are we deciding, and what are the realistic options, including doing nothing?
3. Who has an interest in a particular outcome, and how might that colour the recommendation?
4. What is the reference class, and what is the base rate of success for similar decisions?
5. Are the forecasts anchored on the base rate or on our plan?
6. Have we run a pre-mortem? What were the top three failure reasons, and what are we doing about them?
7. Did people record independent views before discussion? Was dissent heard?
8. What information do we not have, and would getting it change the decision? Is it worth the cost and delay to get it?
9. What would cause us to reverse or adjust course, and how will we know early?
10. Have we written a short decision record with our expected outcome and confidence?

Putting it together: a worked scenario

The following scenario is illustrative and not based on a real business. A mid sized Australian distribution business is considering opening a second warehouse interstate. The managing director is enthusiastic, the operations team has prepared a plan, and the board must decide.

Triage. A leased warehouse with a two year term and a break clause is closer to a two-way door than a purchased site. Choosing a lease converts part of the decision into something reversible.

Outside view. The finance manager asks the company's industry association and its accountants about comparable expansions. The information suggests new sites typically take longer than planned to reach breakeven. The plan's 12 month breakeven is revised to a range, with 18 months as the central case.

Pre-mortem. The team imagines the warehouse has failed. Reasons include difficulty hiring a capable site manager, a key customer delaying its expected volume, and IT integration problems. The plan is changed: recruitment starts three months earlier, the customer is asked for a written volume commitment, and IT integration is tested before go live.

Groupthink defences. Board members record their initial views before the discussion. One director who is sceptical about the customer's commitment is given time to make the case in full.

Decision record. The board approves the lease, records the expected breakeven range and its confidence, and sets three early warning indicators to review at six months.

None of these steps guarantees success. Together they make it more likely that the decision is sound, and that if it goes wrong, the business will notice early and learn from it.

Common mistakes

- Using heavyweight processes for every decision, which slows the organisation and exhausts people.
- Treating a pre-mortem as a formality, run after the decision is already locked in.
- Ignoring base rates because "our situation is different".
- Assigning a token devil's advocate and assuming dissent has been covered.
- Keeping decision records that are never reviewed.
- Judging past decisions purely by how they turned out.

What to do this month

1. Look at the decisions on your leadership team's agenda for the next month. Classify each as a one-way or two-way door, and delegate at least one two-way door decision.
2. Choose one significant pending decision and run a 45 minute pre-mortem on it.
3. For your next major forecast, write down the reference class and find at least one source for its base rate.
4. Start a simple decision journal using the template above. Record your next three significant decisions.
5. At your next meeting where a decision is needed, ask everyone to write their view before anyone speaks, and speak last yourself.

The goal is not to eliminate uncertainty. It is to make decisions whose reasoning you would still defend after you learn how they turned out.

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STRATEGY AND DECISIONS

Strategy on One Page: Diagnosis, Guiding Policy and Coherent Action

By Sukh Sandhu

Many businesses have a strategic plan, and far fewer have a strategy. The difference is whether the document names the real challenge and commits to a focused response, or simply lists goals and good intentions. This article explains Richard Rumelt's widely used definition of good strategy, shows how to fit it on a single page, and works through an illustrative example for an Australian mid sized business.

Why so many strategies disappoint

Ask the leadership team of a typical business to describe its strategy and you will often hear a vision statement, a set of financial targets, and a list of initiatives. "Grow revenue by 15 per cent a year." "Be the customer's first choice." "Invest in our people." These may be worthy aims. They are not, on their own, a strategy.

Richard Rumelt, an emeritus professor at the UCLA Anderson School of Management, made this argument at length in his 2011 book Good Strategy Bad Strategy: The Difference and Why It Matters. His central claim is that strategy is a response to a challenge. It explains how an organisation will deal with a difficult situation by concentrating its effort where it can make the most difference. A document that does not identify the challenge, or that avoids choices, is not a strategy no matter how polished it is.

Rumelt developed these ideas further in his 2022 book The Crux: How Leaders Become Strategists, which focuses on identifying the most important and addressable part of a challenge.

The kernel of good strategy

Rumelt describes the core of any good strategy as a kernel with three elements.

Element	Question it answers	What good looks like
Diagnosis	What is going on here?	Names the critical challenge simply and specifically
Guiding policy	What is our overall approach?	A method for dealing with the challenge, not a goal
Coherent actions	What will we actually do?	Coordinated steps and resource commitments that carry out the policy

Diagnosis

The diagnosis explains the nature of the challenge. A good diagnosis simplifies a complex reality by identifying which aspects of the situation are critical. It is a judgement, not a list of every problem the business faces. A strong diagnosis often reframes the situation in a way that reveals where the organisation has leverage.

For a small business, the diagnosis might be that its costs are fine but it has drifted into serving too many customer types, none of them well. For a professional services firm, it might be that it competes on price in a market where clients increasingly buy on specialist expertise. A good diagnosis is usually uncomfortable, because it implies that something the business has been doing is no longer working.

Guiding policy

The guiding policy is the overall approach chosen to deal with the obstacles identified in the diagnosis. Rumelt is emphatic that guiding policies are not goals, visions or end states. They are methods. A guiding policy channels action in certain directions and rules out others. It works like a signpost or a set of guardrails.

"Become the specialist provider for aged care facilities in our region, and stop chasing general commercial work" is a guiding policy. "Grow market share" is not; it describes a hoped for result without saying how.

Coherent actions

Coherent actions are the specific steps, policies and resource commitments that put the guiding policy into effect. The key word is coherent: the actions should reinforce one another. Hiring specialist staff, retraining the sales team, changing the service offer and redirecting marketing spend to a chosen segment are coherent if they all serve the same guiding policy. A list of unrelated initiatives, each sponsored by a different executive, is not.

The hallmarks of bad strategy

Rumelt identified four hallmarks of bad strategy, which he described both in the book and in a 2011 article for McKinsey Quarterly titled The perils of bad strategy.

1. **Fluff.** Superficial restatements of the obvious dressed up in buzzwords. One example Rumelt gives is a bank that described its fundamental strategy as "customer-centric intermediation", a phrase that sounds impressive and says little.
2. **Failure to face the challenge.** If the document does not define the problem, it cannot be evaluated or improved. Many strategic plans never state what is actually standing in the way.
3. **Mistaking goals for strategy.** Statements of desire, such as financial targets or ambitions, are presented as if they were plans for achieving them.
4. **Bad strategic objectives.** Objectives that fail to address critical issues or are impracticable. A common form is the long list of priorities, which Rumelt likens to a "dog's dinner": too many and too unrelated to concentrate resources.

Rumelt's diagnosis of why bad strategy is so common is instructive. Strategy requires choice, and choice means telling some people that their priorities will not be funded. It is easier to produce a document that includes everyone's ideas. It is also easier to set ambitious targets than to do the analysis needed to understand a challenge. In our view, many small and mid sized businesses fall into bad strategy not through carelessness but through the understandable wish to keep everyone on board.

> *A strategy that does not make anyone unhappy has probably not made any choices.*

Why one page?

There is no rule that a strategy must fit on one page, and large organisations will need supporting documents. But there are good reasons to force the kernel onto a single page.

- **It exposes fluff.** There is no room for padding, so vague language stands out.
- **It forces choice.** A one page format makes it obvious when there are too many priorities.
- **It travels.** Managers and staff can understand and remember a single page. A 60 page plan is rarely read after the offsite.
- **It supports review.** A short document can be brought to every monthly meeting and tested against what is happening.

The one page strategy is not a substitute for the thinking that underlies it. It is the result of that thinking, compressed until only what matters remains.

A one page strategy template

The template below builds on Rumelt's kernel and adds a few elements that help with execution and review. It is our template, not Rumelt's, and businesses should adapt it.

Section	Content	Length
1. Context	Where we are now, in three to five facts	Short paragraph
2. Diagnosis	The critical challenge, stated plainly	Two or three sentences
3. Guiding policy	Our approach, and what we will stop doing	Two or three sentences
4. Coherent actions	Three to five actions, each with an owner and timing	One line each
5. Measures	Three to five indicators that show if it is working	One line each
6. Assumptions and risks	What must be true; what could derail us	Three to five bullets
7. Review rhythm	When and how we will check progress	One line

Writing tips for each section

Context. Use facts, not adjectives. Revenue, margin, customer mix, market trends and capacity are useful. "Challenging market conditions" is not.

Diagnosis. Test it by asking whether it explains the business's main problems and whether a competitor or adviser would recognise it as accurate. If the diagnosis could apply to any business in any industry, it is not specific enough.

Guiding policy. Include at least one explicit "we will not". If the policy rules nothing out, it is probably a goal in disguise.

Coherent actions. Check that each action serves the guiding policy, and that together they reinforce one another. Each needs a named owner and a date.

Measures. Choose measures that tell you whether the guiding policy is working, not only whether the business is profitable. Leading indicators, such as pipeline in the target segment, are often more useful month to month than lagging ones.

Assumptions and risks. Writing down assumptions makes them testable. If an assumption proves false, the strategy should be revisited.

Worked example: an illustrative Australian business

The business below is fictional. It is a composite designed to show how the template works, not a description of any real company, and the figures are illustrative.

Ridgeline Electrical is a commercial electrical contractor based in a large regional centre in New South Wales. It has about 60 staff, including apprentices, and has been operating for 25 years. The founder has recently handed day to day management to a general manager.

The situation

Ridgeline takes on almost any commercial job within a few hours' drive: retail fit outs, small industrial projects, maintenance contracts, school upgrades and some residential work for builders. Revenue has grown slowly, but margins have fallen over three years. Most work is won through competitive tender, and the business wins a modest share of what it bids for. Meanwhile, its maintenance contracts with aged care operators, hospitals and schools have been steady, profitable and growing, and customers often praise its reliability on compliance testing and after hours call outs.

Ridgeline's one page strategy

1. Context

- Revenue has grown slowly over three years; gross margin has fallen.
- Tendered project work makes up most of revenue and earns the lowest margin.
- Maintenance and compliance contracts with health, aged care and education clients are a minority of revenue but earn materially higher margins and have high renewal rates.
- Skilled electricians are hard to recruit in the region; the business loses staff to mining and large contractors.

2. Diagnosis We compete on price for project work against larger contractors who have lower overheads, and we are losing margin as a result. Our real advantage, reliable compliance and maintenance work for regulated facilities, is underdeveloped because it receives little management attention or sales effort.

3. Guiding policy Become the leading provider of electrical maintenance and compliance services to health, aged care and education facilities in our region. Bid for project work only where it is for these clients or where it meets a minimum margin. We will stop bidding for general retail fit outs and builder residential work.

4. Coherent actions

- Appoint a facilities services manager from within to lead the maintenance business and its client relationships (General manager, within three months).
- Develop standard service packages for compliance testing, emergency lighting, thermal imaging and after hours response for regulated facilities (Facilities services manager, within six months).
- Introduce a bid or no bid rule requiring a minimum margin and strategic fit for all tenders (Estimating manager, immediately).
- Offer electricians a clear career path into maintenance and compliance roles, with additional training and more predictable hours, to improve retention (Operations manager, within six months).
- Redirect marketing effort to facility managers in the target sectors, including attendance at relevant regional industry events (General manager, ongoing).

5. Measures

- Share of revenue from maintenance and compliance contracts (target: rising each quarter).
- Gross margin by work type, reported monthly.
- Contract renewal rate in target sectors.
- Number of tenders submitted and won, and average margin on won work.
- Staff turnover among licensed electricians.

6. Assumptions and risks

- Demand from regulated facilities in the region will remain steady or grow.
- Existing clients will buy broader service packages from us.
- Reducing project bids will not leave crews underused during the transition; we may need to phase the change.
- A larger competitor could target the same segment.
- The founder and long serving staff may resist moving away from project work they are proud of.

7. Review rhythm Monthly strategy review at the leadership meeting; full refresh annually.

What makes this a strategy rather than a plan

The Ridgeline page makes choices. It names a specific challenge (losing on price in project work while neglecting a profitable strength). It commits to a method (specialise in regulated facilities) and rules out work the business has done for years. Its actions reinforce one another: the new manager, the service packages, the bid rule, the career path and the marketing all point the same way. And it is honest about risk, including the internal resistance that any real choice provokes.

Contrast this with what Ridgeline's plan might otherwise have said: "Grow revenue by 10 per cent per year, improve margins, be the employer of choice and deliver excellent customer service." Every one of those is desirable. None tells anyone what to do differently on Monday.

Where the one page fits with the board and the budget

For a business with a board, the one page strategy gives directors something concrete to test. Instead of approving a long plan they have little time to interrogate, directors can ask three direct questions. Is the diagnosis right? Does the guiding policy follow from it? Are the actions and the budget consistent with the policy? In our view, the third question is where most gaps appear. A strategy that says the business will specialise, paired with a budget that still funds every existing activity at last year's level, has not really been adopted.

The same logic applies to owner managed businesses without a formal board. The owner, the general manager and any external adviser or accountant can use the page as the agenda for a quarterly conversation. The budget, the hiring plan and the marketing calendar should each be traceable back to one of the coherent actions. If something in those documents cannot be traced, it is either a gap in the strategy or an activity that the strategy has quietly decided to stop.

Reviewing strategy monthly

A strategy that is written once a year and filed is unlikely to shape behaviour. Robert Kaplan and David Norton, in a January 2008 Harvard Business Review article, Mastering the Management System, argued that organisations should separate meetings that review operations from meetings that review strategy. Operational reviews deal with day to day performance and problems. Strategy reviews, which they suggested should be held about monthly, assess whether the strategy is being carried out and whether it is working. They also recommended less frequent sessions to test and adapt the strategy itself, typically annually.

In our view, the most practical approach for small and mid sized businesses is to protect a dedicated strategy segment, of perhaps 60 to 90 minutes, in one leadership meeting each month, with the one page strategy on the table.

A monthly strategy review agenda

Item	Question	Time
Measures	What do our strategic indicators show this month?	15 minutes
Actions	Is each coherent action on track? What is blocked?	20 minutes
Assumptions	Has anything happened that challenges an assumption?	15 minutes
Decisions	What do we need to decide, stop or change?	20 minutes
Communication	What do our people need to hear about the strategy?	10 minutes

Rules for a useful review

- **Keep it separate from operations.** If the strategy segment is always squeezed by this month's urgent problems, it is not happening.
- **Look at the measures that matter.** Focus on the indicators linked to the guiding policy, not the whole management report.
- **Test the diagnosis, not just the actions.** If the measures are not moving, ask whether the actions are poorly executed or the diagnosis was wrong.
- **Record decisions.** Note what was decided and who will act.
- **Revisit the page.** Update the one page strategy when something material changes, and date each version.

A quarterly and annual rhythm

Once a quarter, extend the review to ask whether the guiding policy still holds. Once a year, revisit the diagnosis from scratch, ideally with input from people outside the leadership team, such as frontline staff, key customers or an independent adviser. Treat the annual refresh as an opportunity to stop things, not only to add them.

Common mistakes

1. **Starting with goals.** Targets have their place, but a strategy session that begins with numbers rarely reaches a diagnosis.
2. **Skipping the diagnosis.** Teams often jump straight to actions because analysing the challenge is uncomfortable.
3. **Too many priorities.** If there are more than five coherent actions, some are probably not strategic.
4. **No "we will not".** A guiding policy that rules out nothing does not guide.
5. **Writing it and filing it.** A strategy that is not reviewed regularly will be overtaken by operational pressure.
6. **Confusing a budget with a strategy.** A budget allocates money for the year; it does not explain how the business will deal with its central challenge.

Checklist: is your strategy good strategy?

- We can state our critical challenge in two or three sentences.
- People outside the leadership team would recognise that diagnosis as accurate.
- Our guiding policy describes a method, not a goal.
- Our guiding policy rules out at least one thing we currently do or could do.
- We have no more than five coherent actions, each with an owner and date.
- The actions reinforce one another and the guiding policy.
- Our measures tell us whether the guiding policy is working.
- We have written down our main assumptions and risks.
- We review the strategy at least monthly, separately from operations.
- Our people can explain the strategy in their own words.

What to do this month

1. Take your current strategic plan and test it against Rumelt's four hallmarks of bad strategy. Highlight any fluff, missing diagnosis, goals presented as strategy and long lists of objectives.
2. Write a draft diagnosis in no more than three sentences. Share it with two people outside the leadership team and ask whether it is accurate.
3. Draft a guiding policy that includes at least one thing you will stop doing.
4. Fit your strategy onto the one page template above, even in rough form.
5. Book a monthly strategy review in the diary for the next six months, separate from the operational agenda.

Strategy is not a document. It is a set of choices, written down clearly enough that people can act on them and that leaders can check whether they are working.

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STRATEGY AND DECISIONS

Leading the AI Shift at Work: The Decisions That Belong to Leaders

By Sukh Sandhu

Artificial intelligence has moved from experiment to everyday tool in many Australian workplaces, often faster than the policies meant to govern it. This article sets out what the Australian Government has actually said, which laws already apply, what the productivity evidence does and does not show, and a 90-day plan for leaders who want to adopt AI deliberately rather than by drift.

The decision in front of you

Most organisations do not face a single choice about whether to "adopt AI". They face dozens of smaller ones, many already made informally by staff who have signed up to free tools, switched on features inside existing software or started using AI to draft emails and summarise documents. The leadership task is to turn that scattered activity into a set of conscious decisions:

- Which uses of AI do we want, and which do we not?
- Who approves a new use, and on what evidence?
- What information may and may not be put into AI tools?
- How will we know whether it is working, and whether anyone is being harmed?
- What does it mean for our people, their jobs and their skills?

None of these questions is technical. They are questions of strategy, risk appetite, accountability and culture, which is why they belong with executives and boards rather than with the IT team alone.

What the Australian Government has said

Australian AI policy has changed quickly, and some commentary still refers to documents that have been superseded. At November 2026, the position is as follows.

Document	Date	Status	What it means for organisations
Voluntary AI Safety Standard	5 September 2024	Updated and simplified by the Guidance for AI Adoption	Ten voluntary guardrails; still useful as background
Guidance for AI Adoption	21 October 2025	Current government guidance; voluntary	Six essential practices, in Foundations and Implementation versions
National AI Plan	2 December 2025	Current government policy	No standalone AI Act; existing laws apply;

Document	Date	Status	What it means for organisations
			AI Safety Institute established

Sources: Department of Industry, Science and Resources; National AI Centre.

From ten guardrails to six practices

The Voluntary AI Safety Standard, published in September 2024, set out ten guardrails for organisations deploying AI. On 21 October 2025 the National AI Centre published the Guidance for AI Adoption, which the department describes as updated and simplified guidance that evolves the earlier standard. It condenses the guardrails into six essential practices and extends their reach to organisations that develop AI as well as those that deploy it.

The six essential practices are:

1. Decide who is accountable.
2. Understand impacts and plan accordingly.
3. Measure and manage risks.
4. Share essential information.
5. Test and monitor.
6. Maintain human control.

The guidance comes in two versions. Foundations is for organisations getting started. Implementation guidance is for teams that build or customise AI, use it in more complex ways or manage higher-risk use cases. Supporting tools include an AI policy guide and template, an AI register template and a screening tool, now hosted on the National AI Centre's site at ai.gov.au. The guidance is voluntary, but it is the clearest statement available of what the Australian Government regards as responsible practice, and regulators, insurers and courts may look to it as a benchmark.

The implementation guidance makes a point every leader should absorb: the same tool can carry very different risks depending on how it is used. An internal chatbot answering policy questions is not the same as AI used in hiring or customer decisions. Each use deserves its own assessment.

The National AI Plan

The government launched the National AI Plan on 2 December 2025. It has three goals: capture the opportunities, spread the benefits, and keep Australians safe. Commentary from law firms at the time of release noted several decisions of direct relevance to business:

- The government did not proceed with the mandatory guardrails for high-risk AI it had consulted on in 2024. There is no standalone AI Act.
- Existing, technology-neutral laws continue to apply: privacy, consumer protection, workplace, discrimination, copyright, online safety and sector-specific rules.

- An Australian AI Safety Institute, announced on 25 November 2025 with just under $30 million in funding, sits within the Department of Industry, Science and Resources to monitor AI risks and advise government.
- The plan expects AI adoption at work to be consultative, with workers and unions involved early, and it includes AI literacy and reskilling measures.

No AI Act does not mean no AI law. It means the laws you already comply with apply to AI too, and the burden of showing you have managed the risks sits with you.

The law that already applies

Privacy

For most organisations, privacy is the most immediate legal constraint on AI use. The Office of the Australian Information Commissioner (OAIC) published guidance on privacy and the use of commercially available AI products on 21 October 2024 (updated January 2025). Its key messages are direct:

- Privacy obligations apply to any personal information put into an AI system, and to AI output that contains personal information.
- If AI is used to generate or infer personal information, that is a collection of personal information and must meet the Australian Privacy Principles (APP 3).
- Using customer data for a new AI purpose, such as fine-tuning a model, may need consent or a clear basis under APP 6 if it was not a purpose of collection.
- As a matter of best practice, the OAIC recommends that organisations do not enter personal information, and particularly sensitive information, into publicly available generative AI tools.
- Organisations should do due diligence before adopting an AI product and should update privacy policies and notices to explain their use of AI.

A new obligation commences on 10 December 2026. Under amendments to APP 1 made by the Privacy and Other Legislation Amendment Act 2024, an APP entity that uses a computer program to make, or substantially and directly support, decisions that could significantly affect an individual's rights or interests, using that person's personal information, must say so in its privacy policy. The policy must describe the kinds of personal information used and the kinds of decisions involved. The OAIC published guidance, a fact sheet and a flowchart on 30 September 2026. The obligation applies to decisions made after commencement, even if the information was collected earlier.

Two further points. First, the same 2024 Act created a statutory tort for serious invasions of privacy, which commenced in June 2025. Second, many businesses with annual turnover of $3 million or less are exempt from the Australian Privacy Principles, but the exemption has significant exceptions, and small businesses that hold customer data should not assume they are outside the regime without checking.

Consumer, workplace and directors' duties

- Australian Consumer Law: claims made about AI-enabled products, and content generated by AI for marketing, must not be misleading or deceptive.

- Discrimination law: AI used in recruitment, rostering or customer decisions can produce discriminatory outcomes even without intent.
- Work health and safety: the introduction of AI can change work design, workload and monitoring, all of which bear on psychosocial risk.
- Directors' duties: the National AI Centre's own materials remind directors that their duty of care and diligence under section 180 of the Corporations Act 2001 extends to ensuring adequate governance exists for the risks AI creates.

Workforce and skills

The fear that AI will replace jobs dominates public discussion. The Australian evidence so far points to a more nuanced picture. Jobs and Skills Australia's Generative AI Capacity Study, published as Our Gen AI Transition on 14 August 2025, concluded that generative AI is more likely to augment jobs than replace them, that adoption is early and uneven across industries, that many workers are using tools independently, and that impacts will vary across occupations, industries, regions and groups of people.

The Australian Public Service's own trial is instructive. The Digital Transformation Agency's evaluation of a six-month whole-of-government trial of Microsoft 365 Copilot in 2024 found:

- Use was moderate, and only a third of participants used the tool daily.
- It was mainly used to summarise information and rewrite content.
- Participants estimated time savings of up to an hour on tasks such as summarising, first drafts and searching for information.
- Most managers (64%) perceived improvements in efficiency and quality in their teams.
- 40% of participants reported being able to reallocate time to higher-value work.
- There were concerns about the effect on entry-level jobs and on women, and about bias in outputs, vendor lock-in and information management.

The evaluation relied largely on self-reported perceptions and did not benchmark the accuracy of outputs or assess cost against benefit across government. Even so, its lessons transfer well: adoption needs training tailored to real tasks, clear rules about what is permitted, and attention to who gains and who bears the cost.

What leaders should do about people

- **Consult early.** Most modern awards and enterprise agreements contain consultation terms for major workplace change. AI that changes roles, hours or job content may trigger them. Beyond legal obligation, early consultation surfaces practical risks and builds trust.
- **Protect the entry-level pipeline.** If AI absorbs the routine tasks junior staff once learned on, design new ways for them to build judgment.
- **Train for judgment, not just prompts.** Staff need to know when AI output is likely to be wrong, how to check it and when not to use the tool at all.
- **Be honest about intent.** If the aim is to reduce headcount, say so and manage it fairly. If it is not, say that too, and back it with actions.

Governance: who decides, and how

A workable AI governance model for a small or medium organisation does not need a new bureaucracy. It needs clear answers to four questions.

1. Who is accountable?

Name a senior executive who is accountable for AI use across the organisation. In larger organisations this may be a dedicated role; in smaller ones it may be the chief operating officer or chief financial officer. The board should know who it is.

2. Who approves a new use case?

Set up a simple approval path scaled to risk. Low-risk uses should be easy to approve, or the policy will be ignored. Higher-risk uses should require a documented assessment and sign-off at the right level.

Risk tier	Examples	Approval	Controls
Low	Drafting internal text, summarising public documents	Line manager, within approved tools	Approved tool list; no personal or confidential data
Medium	Customer-facing drafts, internal analysis with business data	AI owner plus data owner	Human review before release; logging
High	Decisions about people (hiring, credit, eligibility, pricing), safety-critical uses	Executive committee; board informed	Impact assessment, testing, monitoring, privacy policy update, ability to contest
Prohibited	Uses that breach law or your values	Not approved	Stated clearly in policy

This tiering is our own illustration, consistent with the risk-based approach in the Guidance for AI Adoption.

3. How is risk assessed?

For medium and high-risk uses, a short assessment should cover purpose and expected benefit; the data used and whether it includes personal or sensitive information; who could be affected and how; accuracy and how it will be tested; human oversight; supplier terms (where data goes, whether it is used for training, where it is stored); and how the use will be monitored and switched off if needed.

4. What is the record?

Keep an AI register listing each approved use, its owner, its risk tier, the tool and supplier, and the date of the last review. The National AI Centre provides a template. A register is also the foundation for the privacy policy disclosures that begin in December 2026.

What the productivity evidence actually shows

Vendors and consultants offer large productivity estimates. The rigorous evidence is more modest and more interesting. Four widely cited studies illustrate the range.

Study	Setting	Main finding	Key limits
Brynjolfsson, Li and	5,179 customer	About 14% more	One firm, one task

Study	Setting	Main finding	Key limits
Raymond, Quarterly Journal of Economics, 2025	support agents at one firm	issues resolved per hour; 34% for novice and low-skilled workers; little effect for the most experienced	type
Noy and Zhang, Science, 2023	453 professionals on writing tasks	Time fell by about 40%; quality rose by about 18%	Short, standalone online tasks
Dell'Acqua and colleagues, Harvard Business School working paper, 2023	758 Boston Consulting Group consultants	On tasks within AI's capabilities, 12.2% more tasks completed and 25.1% faster; on a task outside them, AI users were 19 percentage points less likely to be correct	One firm; tasks designed for the experiment
METR, 2025	16 experienced open-source developers, 246 real tasks	Developers took 19% longer with AI, despite expecting to be 24% faster	Small sample; early 2025 tools; METR has since said the results are dated

Sources listed at the end of this article.

What do these results tell a leader?

1. **Gains are real but task-specific.** Well-defined tasks such as drafting, summarising and handling routine queries show measurable improvements in controlled studies.
2. **Less experienced staff often gain most.** In three of the studies, AI narrowed the gap between weaker and stronger performers. That has implications for training and for how you value experience.
3. **AI can make people worse at tasks it handles poorly.** The consulting study's "jagged frontier" finding is the most important caution: when a task falls outside what the tool does well, people who rely on it can perform worse than those who do not.
4. **Perception is not measurement.** The developer study found a large gap between how much faster people felt and how fast they actually were. Self-reported time savings, which dominate many workplace surveys, should be treated with care.
5. **Task gains do not automatically become business gains.** Saving an hour of drafting only creates value if the hour is used well, and if the time spent checking output does not consume the saving.

> *In our view, the honest summary of the evidence is: meaningful gains on the right tasks, real risks on the wrong ones, and very little rigorous evidence yet on whole-of-business returns. Measure your own results.*

A 90-day adoption plan

The plan below is designed for an organisation of 20 to 500 people that wants to move from informal use to deliberate adoption. Larger organisations will need more depth at each stage, but the sequence holds.

Days 1 to 30: Understand and contain

- Appoint an accountable executive for AI and tell the board who it is.

- Survey staff, anonymously if needed, about which AI tools they already use and for what. Expect more than you think.
- Issue an interim rule: no personal, sensitive or confidential information into publicly available AI tools, consistent with OAIC best practice guidance.
- List the AI features already switched on inside your existing software and check the supplier terms for data use, storage location and model training.
- Read the Guidance for AI Adoption: Foundations and decide which practices you will adopt.
- Identify any current or planned use of automated decisions that significantly affect individuals, ahead of the 10 December 2026 privacy policy obligation.

Days 31 to 60: Decide and design

- Approve an AI policy, using the National AI Centre template as a starting point. Keep it short enough that people will read it.
- Choose a small set of approved tools, with business-grade terms that protect your data.
- Set up the risk tiers, approval path and AI register.
- Select two or three pilot use cases with clear, measurable outcomes. Favour well-defined tasks where the evidence of benefit is strongest.
- Measure the baseline before the pilot starts: time taken, error rates, customer satisfaction or whatever outcome matters.
- Consult staff and, where relevant, unions or employee representatives about the pilots and their effect on roles.
- Update your privacy policy if you use automated decision-making within scope of the new APP 1 requirements.

Days 61 to 90: Pilot, measure and report

- Run the pilots with trained participants and named human reviewers.
- Measure actual outcomes against the baseline, not only how people feel about the tool.
- Record incidents, errors and near misses in the register.
- Report to the executive and board: what worked, what did not, what it cost, and what you recommend next.
- Decide which pilots to scale, which to change and which to stop. Stopping a pilot that does not work is a sign of good governance, not failure.
- Schedule a review of the policy and register every six months, because the tools and the rules will keep changing.

Questions for the board

- Who is accountable for AI use in this organisation, and when did they last report to us?
- Do we have a register of AI uses, and which are rated high risk?
- What personal information is processed by AI, and are we ready for the automated decision-making disclosures from 10 December 2026?
- What evidence, measured rather than reported, do we have that our AI investments are delivering value?
- How are we consulting our people, and what are we doing to protect skills development for junior staff?

- What would we do if an AI system produced a harmful or discriminatory outcome tomorrow?

The leadership point

AI adoption is often framed as a race. For most organisations it is better treated as a discipline: decide deliberately, start with the tasks where the evidence is strongest, measure honestly, keep humans in control of decisions that matter, and bring your people with you. The government's guidance is voluntary, but the laws behind it are not, and the reputational cost of getting AI wrong falls on the organisation and its leaders, not on the tool.

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PART 3

Business and governance

The numbers behind Australian business, and the duties every director carries.

BUSINESS AND GOVERNANCE

Australian Business by the Numbers: What the Latest Counts Tell Owners

By Sukh Sandhu

Australia had more than 2.8 million actively trading businesses at the end of June 2026, and the year to June saw the largest number of new entries in the current four-year series. Beneath the headline sit harder truths about who survives, which industries churn, and why the employing business remains the exception rather than the rule.

The headline: 2.8 million and growing

Every August the Australian Bureau of Statistics (ABS) publishes Counts of Australian Businesses, including Entries and Exits. The latest release, issued on 18 August 2026, covers the four financial years from July 2022 to June 2026. It counts businesses that are registered on the Australian Business Register (ABR) and are actively trading, which is why the total is much smaller than the number of entities holding an Australian Business Number (ABN). An ABN that sits dormant is not a business in this series.

At 30 June 2026 the ABS counted 2,814,778 actively trading businesses. That was up 85,130, or 3.1%, on a year earlier. During 2025-26 there were 460,461 entries (an entry rate of 16.9%) and 375,331 exits (an exit rate of 13.8%).

Table 1 shows how the four years compare.

Year	Entries	Exits	Net change	Businesses at 30 June
2022-23	406,365	356,216	50,149	2,589,873
2023-24	436,018	362,893	73,125	2,662,998
2024-25	437,150	370,500	66,650	2,729,648
2025-26	460,461	375,331	85,130	2,814,778

Source: ABS, Counts of Australian Businesses, including Entries and Exits, July 2022 to June 2026, Data cube 1, Table 13 (totals row for each year).

Two things stand out. First, the business population has grown in every year of the series. Second, the churn is enormous. In 2025-26 about one business in six was new and about one in seven left. For every three businesses that entered, more than two exited. An economy with 2.8 million businesses is not a fixed set of firms; it is a stream.

What counts as "small"? Three definitions you need to know

Before reading any figure about small business, check whose definition is being used. Australia has at least three that matter to an owner, and they do not line up.

Body	Definition	Used for
ABS	Fewer than 20 employees, including non-employing businesses	Statistics
ATO	Aggregated turnover below a threshold, most commonly less than $10 million	Tax concessions
Fair Work Act	Fewer than 15 employees, counted by headcount	Unfair dismissal and redundancy rules

Sources: ABS Counts of Australian Businesses (employment size ranges); ATO small business concessions guidance; Fair Work Act 2009, section 23, and Fair Work Ombudsman guidance.

The ABS definition

The ABS groups businesses by employment size: non-employing, 1 to 4, 5 to 19, 20 to 199, and 200 or more employees. Small business, in statistical terms, is everything under 20 employees. Medium business is 20 to 199. Large business is 200 or more.

The ATO definition

For tax, a small business entity is one that carries on a business and has aggregated turnover of less than $10 million. Aggregated turnover includes the turnover of connected entities and affiliates. Different concessions use different thresholds, which is a common source of mistakes:

- Less than $10 million: the general small business entity test for many concessions.
- Less than $5 million: the small business income tax offset for eligible individuals.
- Less than $2 million: one of the gateways to the small business capital gains tax concessions (a net asset value test offers an alternative path).
- Less than $50 million: some concessions, including certain fringe benefits tax concessions and some deductions, are available at this higher limit.

The ATO tells businesses to check eligibility for each concession every year, because turnover and connected entities change.

The Fair Work definition

Under section 23 of the Fair Work Act 2009, a small business employer is one with fewer than 15 employees at the relevant time. It is a headcount, not a full-time equivalent. Casual employees count only if they are employed on a regular and systematic basis, and employees of associated entities are counted together. This definition decides whether the Small Business Fair Dismissal Code applies and whether redundancy pay obligations under the National Employment Standards are triggered. The Fair Work Ombudsman published a review of the small business employer definition in 2025; owners should check the current statutory position before relying on the threshold.

> *A business can be "small" for the ABS, "small" for tax, and still not be a small business employer under the Fair Work Act. Know which test applies before you make a decision that depends on it.*

There is a fourth that catches people out. Under the Privacy Act 1988, many businesses with annual turnover of $3 million or less are exempt from the Australian Privacy Principles, but the exemption has significant exceptions, including for health service providers and businesses that trade in personal information. The Office of the Australian Information Commissioner (OAIC) publishes a checklist.

Most businesses employ nobody

The single most important fact in the ABS counts is how few businesses employ anyone. At 30 June 2026, 1,818,575 businesses, or 64.6% of the total, were non-employing. These are sole traders, partnerships, companies and trusts operating without employees on the payroll.

Employment size	Businesses at 30 June 2026	Share of total	Change in 2025-26
Non-employing	1,818,575	64.6%	4.8%
1 to 4 employees	689,600	24.5%	0.1%
5 to 19 employees	232,912	8.3%	0.3%
20 to 199 employees	68,325	2.4%	0.7%
200 or more employees	5,366	0.2%	0.8%
Total	2,814,778	100%	3.1%

Source: ABS, Counts of Australian Businesses, including Entries and Exits, July 2022 to June 2026, Data cube 1, Table 13 (2025-26). Shares calculated from the ABS counts.

Taken together, businesses with fewer than 20 employees numbered 2,741,087, or 97.4% of all actively trading businesses. Only 73,691 businesses employed 20 or more people.

Almost all of the growth in 2025-26 was in non-employing businesses, which rose by 83,105. Employing businesses rose by just 2,025, or 0.2%. The ABS described this as the first net increase in employing businesses since 2021-22. Within the series, the number of employing businesses fell in 2022-23 (by 14,116), in 2023-24 (by 5,019) and in 2024-25 (by 4,983).

Businesses move between size bands

The ABS tables also record the net movement of surviving businesses between size categories. In 2025-26 that movement added 28,127 to the non-employing count and took 33,781 from the 1 to 4 employee band. In other words, more continuing businesses stopped employing than started employing during the year. The larger bands gained from movement (5 to 19 employees by 4,247 and 20 to 199 by 1,290), which reflects firms growing out of the micro band.

For an owner, this is a reminder that the first employee is the hardest step, and that the step can be reversed. Many micro employers drop back to owner-only operation when demand, cash flow or the cost of employing changes.

Who survives? The survival tables

The ABS survival tables are the most useful and least quoted part of the release. They follow two groups.

All businesses operating in June 2022

Of the 2,539,724 businesses that were trading in June 2022, 61.9% were still trading in June 2026. Survival rose sharply with size.

Size in June 2022	Survived 1 year	Survived 2 years	Survived 3 years	Survived 4 years
Non-employing	82.3%	70.0%	61.8%	55.3%
1 to 4	90.0%	81.5%	74.5%	68.6%
5 to 19	94.5%	88.6%	83.1%	77.9%
20 to 199	96.8%	93.1%	89.2%	85.1%
200 or more	97.1%	94.0%	91.6%	89.3%
All	86.0%	75.5%	68.1%	61.9%

Source: ABS, Counts of Australian Businesses, including Entries and Exits, July 2022 to June 2026, Data cube 1, Table 15.

New businesses that entered in 2022-23

The more sobering table follows the 406,365 businesses that entered in 2022-23. By June 2026, fewer than half (49.2%) were still trading.

Size at entry	Survived to June 2024	Survived to June 2025	Survived to June 2026
Non-employing	73.1%	54.0%	44.6%
1 to 4	83.2%	69.2%	61.1%
5 to 19	84.9%	72.7%	64.7%
20 to 199	88.4%	78.4%	70.6%
All entrants	75.9%	58.1%	49.2%

Source: ABS, Counts of Australian Businesses, including Entries and Exits, July 2022 to June 2026, Data cube 1, Table 16. The 200 or more band (69 entrants) is omitted for size.

Three cautions apply when reading these numbers.

1. An exit is not the same as a failure. The ABS records a business as exiting when it stops actively trading, which can happen because an owner retires, sells, restructures into a new entity, or simply stops a side business. Some exits are planned and profitable.
2. Survival is measured for the entity, not the owner. A sole trader who incorporates may show as an exit and an entry.
3. These are four years of data in a specific economic period. They describe what happened to this cohort, not a law of nature.

Even with those cautions, the pattern is clear and consistent: new non-employing businesses are the most fragile group in the economy, and survival improves at every step up in size.

Industry: where businesses are, and where churn is highest

Construction is Australia's largest industry by business count, followed by professional, scientific and technical services and by rental, hiring and real estate services.

Industry	Businesses at 30 June 2026	Change in 2025-26	Entry rate	Exit rate
Construction	478,651	3.4%	17.9%	14.6%
Professional, scientific and technical	366,289	3.6%	17.2%	13.5%
Rental, hiring and real estate	319,717	3.7%	13.1%	9.4%
Transport, postal and warehousing	261,109	4.9%	26.5%	21.7%
Health care and social assistance	227,702	6.7%	17.4%	10.7%
Agriculture, forestry and fishing	170,185	-0.5%	7.4%	7.9%
Retail trade	156,143	0.1%	15.7%	15.7%
Accommodation and food services	114,369	1.3%	17.1%	15.7%
All industries	2,814,778	3.1%	16.9%	13.8%

Source: ABS, Counts of Australian Businesses, including Entries and Exits, July 2022 to June 2026, Data cube 1, Table 1 (2025-26). Selected industries shown.

Health care and social assistance had the fastest growth (6.7%), followed by transport, postal and warehousing (4.9%) and financial and insurance services (4.3%). Agriculture, forestry and fishing was the only industry to shrink, and it had the lowest entry and exit rates of any division.

Transport, postal and warehousing is the outlier for churn. Its entry rate of 26.5% and exit rate of 21.7% were the highest of any industry, and its new businesses had the weakest survival: of the 55,118 transport entrants in 2022-23, only 37.4% were still trading in June 2026 (Table 3). The ABS does not attribute causes in this release, so we will not either, but owners in high-churn industries should assume that competitors will come and go quickly and that customer loyalty must be earned constantly.

Survival of new entrants by industry

Industry	Entrants 2022-23	Still trading June 2026
Agriculture, forestry and fishing	13,845	60.2%
Health care and social assistance	29,722	59.2%
Rental, hiring and real estate	32,553	58.1%
Professional, scientific and technical	51,382	51.3%
Accommodation and food services	18,340	50.4%
Construction	73,113	48.0%
Retail trade	23,766	46.2%
Administrative and support services	24,806	42.4%

Industry	Entrants 2022-23	Still trading June 2026
Transport, postal and warehousing	55,118	37.4%

Source: ABS, Counts of Australian Businesses, including Entries and Exits, July 2022 to June 2026, Data cube 1, Table 3. Selected industries shown.

Structure and geography

Legal structure

Companies are now the most common structure. At 30 June 2026 there were 1,271,197 companies (up 5.2%), 848,300 sole proprietors (up 3.1%), 498,865 trusts (up 1.0%) and 196,015 partnerships (down 4.2%). Sole proprietors had both the highest entry rate (23.0%) and the highest exit rate (19.9%) of any structure. Partnerships were the only structure to shrink (Data cube 1, Table 10).

The steady drift toward companies matters for the governance conversation elsewhere in this edition. Every new company brings at least one director, and every director takes on the duties in the Corporations Act 2001, whatever the size of the business.

States and territories

All states and territories grew in 2025-26.

State or territory	Businesses at 30 June 2026	Change in 2025-26	Entry rate	Exit rate
New South Wales	942,658	2.8%	16.9%	13.9%
Victoria	773,986	2.6%	17.0%	14.4%
Queensland	543,277	3.7%	16.9%	13.4%
Western Australia	278,520	4.6%	17.5%	13.1%
South Australia	174,310	3.3%	15.7%	12.3%
Tasmania	45,094	1.9%	13.3%	11.6%
Australian Capital Territory	37,785	2.1%	17.9%	15.0%
Northern Territory	17,440	3.8%	18.5%	14.1%

Source: ABS, Counts of Australian Businesses, including Entries and Exits, July 2022 to June 2026, Data cube 1, Table 4. Multi-location businesses are counted in one location only.

New South Wales had the largest net increase (26,057 businesses) and Western Australia the fastest growth (4.6%).

What the Ombudsman's data adds

The ABS counts tell us how many businesses exist. The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) adds a picture of what they contribute and how they feel. Lynda McAlary-Smith became Ombudsman on 11 March 2026, succeeding Bruce

Billson at the end of his five-year term. She was previously Victorian Small Business Commissioner.

Economic contribution

In a July 2025 paper using ABS Australian Industry data, ASBFEO calculated that businesses with fewer than 20 employees generated about $596 billion of industry value added in 2023-24, which was 32% of the total for the private sector industries the ABS publishes (financial and insurance services are excluded from that data). Medium businesses contributed 23% and large businesses 45%.

The small business share varies widely by industry.

Industry	Small business share of value added, 2023-24
Agriculture, forestry and fishing	75%
Rental, hiring and real estate services	73%
Other services	54%
Construction	51%
Professional, scientific and technical services	44%
Retail trade	34%
Mining	14%
Electricity, gas, water and waste services	10%

Source: ASBFEO, Contribution to Australian Gross Domestic Product, July 2025, Table 2, based on ABS Australian Industry 2023-24.

In dollar terms, the biggest small business contributions came from construction ($89.6 billion), professional, scientific and technical services ($86.6 billion) and rental, hiring and real estate services ($80.2 billion).

Sentiment and operating conditions

ASBFEO's Small Business Pulse combines objective indicators with measures of sentiment. The February 2026 edition reported that the index rose 0.1% in the three months to February 2026, its fourth consecutive quarterly increase, and was 1.2% higher than a year earlier. The Ombudsman's office described operating conditions as demanding, with margin pressure, high business costs and regulatory complexity shaping cautious decisions. It also reported strong interest among owners in expanding offerings, reaching customers online and using technology and artificial intelligence, alongside demand for practical, hands-on help with employing staff, contracts, compliance and risk.

One practical item from October 2026: the Ombudsman welcomed the announcement that the ATO will continue accepting credit card payments until 30 June 2027, describing it as a practical outcome that recognises the cash flow realities facing small businesses. Owners who use cards to manage tax payments have more time to plan an alternative.

What the numbers mean for owners

Statistics describe populations, not individuals. A 49% three-year survival rate does not mean any particular new business has a coin-toss chance. But the patterns point to several practical lessons.

1. The first three years are the danger zone

More than half of the businesses that started in 2022-23 had stopped trading within three years. If you are in that window, treat survival as the first strategic goal. That means cash reserves, a realistic break-even date, and early warning measures you review monthly.

2. Size is protective, but growth is hard

Survival improves at every step up in size. Yet the net movement data shows more continuing businesses dropping out of employing than moving into it. Before hiring the first employee, model the full cost (wages, superannuation, leave, workers compensation insurance and your own time in supervision) against the revenue that employee will make possible.

3. Know your industry's churn

If you operate in transport, administrative services or retail, the data says competitors will enter and leave faster than average. That argues for flexible cost structures, diversified customers and contracts that do not lock you into long fixed commitments. In lower-churn industries such as agriculture or rental and real estate, reputation and relationships compound over time.

4. Choose your structure deliberately

The move toward companies is clear. A company can limit personal liability and simplify succession, but it brings directors' duties, reporting obligations and personal exposure for some unpaid tax through the director penalty regime. Get advice on the structure that fits your risk, tax and family circumstances.

5. Check every definition before you rely on it

The $10 million ATO threshold, the 15-employee Fair Work threshold and the $3 million Privacy Act threshold work independently. Growing past one of them can change your obligations overnight.

Owner's checklist: what to do this month

- Write down your business's ABS size band, ATO aggregated turnover (including connected entities), Fair Work headcount (including regular casuals and associated entities) and Privacy Act turnover. Note which thresholds you are close to.
- Compare your industry's entry, exit and survival rates in the tables above with your own plan. Ask what would have to be true for your business to be in the surviving group.
- Prepare a 13-week cash flow forecast. Review it weekly if you are in your first three years of trading.
- Review which tax concessions you claimed last year and confirm you still meet each threshold.
- If you are considering your first hire, cost the role in full and set a review date six months after the start.
- If you operate through a company, confirm every director has a director identification number and understands the duties that come with the role.

- Bookmark the ABS release and the ASBFEO data portal; the ABS updates the counts each year, and the August 2026 release was the latest at November 2026.

In our view

The numbers make a strong case that Australian small business is dynamic rather than fragile. More businesses start each year than close, and the population keeps growing. But the dynamism is concentrated in owner-only operations, and the move from one person to a team remains the hardest step in Australian enterprise. Policy and advisory support aimed at that step, from the first employee to the fifth, would arguably do more for durable small business growth than measures aimed at starting businesses, which Australians are already doing in record numbers.

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BUSINESS AND GOVERNANCE

Directors' Duties in Plain English: What the Law Expects of Every Board Member

By Sukh Sandhu

Becoming a company director takes a form and a consent. Meeting the duties that come with the role takes a great deal more. This guide explains the core duties in the Corporations Act 2001, the insolvent trading rules and safe harbour, the safety and tax duties that sit alongside them, and what two landmark cases teach every director, from the family company to the listed board.

This article is general information, not legal advice. Directors should get advice from a qualified lawyer about their own circumstances.

Why this matters to more people than you think

At 30 June 2026 the Australian Bureau of Statistics counted 1,271,197 actively trading companies in Australia, up 5.2% in a year. Every one of them has at least one director. Most are small private companies run by their owners, and many of those owners do not think of themselves as "directors" in the boardroom sense. The law does not draw that distinction. The statutory duties apply to a sole director of a two-person plumbing company as they do to a non-executive director of a top 50 listed company, although what the duty requires in practice depends on the company's circumstances and the director's role.

The law also reaches beyond people formally appointed. Under section 9 of the Corporations Act, a "director" includes a person who acts in the position of a director even though not validly appointed (often called a de facto director), and a person whose instructions or wishes the directors are accustomed to act on (a shadow director). Several duties also apply to "officers", a wider group that includes senior executives who make or participate in decisions affecting the whole or a substantial part of the business.

The core duties at a glance

Section	Duty	Who	Type of liability
s180	Care and diligence	Directors and officers	Civil penalty
s181	Good faith, best interests and proper purpose	Directors and officers	Civil penalty
s182	Not to improperly use position	Directors, officers and employees	Civil penalty
s183	Not to improperly use information	Directors, officers, employees and former	Civil penalty

Section	Duty	Who	Type of liability
		ones	
s184	Criminal versions of ss181 to 183	Directors, officers and employees	Criminal offence
s588G	Prevent insolvent trading	Directors	Civil penalty, criminal if dishonest

Source: Corporations Act 2001 (Cth).

These statutory duties sit alongside the general law (common law and equitable) duties that directors owe to the company, including fiduciary duties to avoid conflicts and not to profit from the position without consent. The statutory duties do not replace the general law; they operate in addition to it.

Care and diligence: section 180

The duty

Section 180(1) requires a director or officer to exercise their powers and discharge their duties with the degree of care and diligence that a reasonable person would exercise if they were a director or officer of a corporation in the company's circumstances, and occupied the office and had the same responsibilities within the company as the director or officer.

The test is objective: the question is what a reasonable person in the role would have done, not what the director honestly believed, and inexperience is not a defence. It is also contextual. The company's size, business, financial position and risks shape what reasonable care looks like, and a director with special responsibilities, such as a chief financial officer, is judged against that role.

The business judgment rule

Section 180(2) offers protection for business decisions. A director or officer who makes a business judgment is taken to meet the duty of care, and the equivalent duties at common law and in equity, if they:

- make the judgment in good faith for a proper purpose;
- do not have a material personal interest in the subject matter;
- inform themselves about the subject matter to the extent they reasonably believe to be appropriate; and
- rationally believe that the judgment is in the best interests of the company.

The belief is "rational" unless no reasonable person in their position would hold it.

The rule protects decisions, not inattention. It covers a decision to take or not take action on a matter relevant to the business. It does not protect a failure to read the board papers, a failure to ask questions or a failure to make any decision at all. It applies only to section 180 and its general law equivalents; it does not protect a director against claims under sections 181 to 184 or the insolvent trading provisions.

Relying on others

Directors cannot do everything themselves and the law does not expect them to. Section 189 provides that a director's reliance on information or advice from employees, professional advisers or experts, or other directors, is taken to be reasonable if it was made in good faith and after an independent assessment of the information, having regard to the director's own knowledge of the company and the complexity of its structure and operations. Section 190 allows delegation, but a director remains responsible for the delegate's actions unless they believed on reasonable grounds, in good faith and after proper inquiry, that the delegate was reliable and competent.

The phrase that matters in both sections is "independent assessment". Reliance is not abdication.

Good faith and proper purpose: section 181

Section 181 requires directors and officers to exercise their powers and discharge their duties in good faith in the best interests of the corporation, and for a proper purpose. It is possible to breach section 181 while believing you are acting in the company's interests, if the power is used for a purpose other than the one for which it was given. A classic example is issuing shares mainly to defeat a takeover or to shift control of the company, rather than to raise needed capital.

For a solvent company, the interests of shareholders as a whole are central. As a company approaches insolvency, the courts have recognised that directors must take the interests of creditors into account.

Improper use of position or information: sections 182 and 183

Section 182 prohibits directors, officers and employees from improperly using their position to gain an advantage for themselves or someone else, or to cause detriment to the company. Section 183 prohibits a person who obtains information because they are or have been a director, officer or employee from improperly using it for the same ends. The section 183 duty continues after the person leaves the company.

"Improperly" is judged by the standards of a reasonable person with knowledge of the duties, powers and authority of the position and the circumstances. Common examples include diverting a business opportunity to a private company, taking a customer list to a new venture, or using confidential pricing information to benefit a competitor.

When a breach becomes a crime: section 184

Section 184 makes it a criminal offence for a director or officer to fail to exercise powers in good faith in the company's best interests, or for a proper purpose, if they are reckless or intentionally dishonest. It also criminalises the dishonest use of position or information under the equivalents of sections 182 and 183. The maximum penalty for an individual is 4,500 penalty units, imprisonment for 15 years, or both.

Penalties and consequences

Breaches of the civil penalty provisions can lead to:

- **Pecuniary penalties.** For an individual, the maximum is the greater of 5,000 penalty units or three times the benefit obtained or detriment avoided (section 1317G). The dollar value of a Commonwealth penalty unit is set under the Crimes Act 1914 and changes over time.
- **Compensation orders.** A court can order a director to compensate the company for damage resulting from the contravention (section 1317H).
- **Disqualification.** A court can disqualify a person from managing corporations for a period it considers appropriate (section 206C).

There is also a limit on protection. Section 199A prevents a company from indemnifying a director against certain liabilities, including liabilities owed to the company itself and pecuniary penalty or compensation orders. Directors and officers insurance is valuable, but it is not a complete shield, and premiums for certain liabilities cannot lawfully be paid by the company.

Conflicts of interest

A director who has a material personal interest in a matter relating to the company's affairs must generally give the other directors notice of it (section 191), unless an exception applies. In a public company, a director with a material personal interest must not generally be present or vote while the matter is considered (section 195). Proprietary companies with a sole director have simpler requirements, but the principle remains: declare conflicts early and in writing.

Insolvent trading: section 588G

The duty

Section 588G imposes a duty on directors to prevent the company from incurring a debt when the company is insolvent, or would become insolvent by incurring it, and there are reasonable grounds for suspecting insolvency. A company is insolvent when it cannot pay all its debts as and when they become due.

The test turns on "reasonable grounds to suspect", which is a low threshold. A director does not need to know the company is insolvent. It is enough that a director of ordinary competence, in the circumstances, would have suspected it.

Warning signs

The Australian Securities and Investments Commission's Regulatory Guide 217, Duty to prevent insolvent trading: Guide for directors, discusses warning signs. Commonly cited indicators include:

- continuing losses and poor cash flow;
- overdue tax and superannuation liabilities;
- creditors paid outside usual terms, or demanding cash on delivery;
- dishonoured cheques or payments;

- difficulty obtaining further finance, or reaching the limit of existing facilities;
- legal action or demands from suppliers; and
- poor or incomplete financial records.

Consequences and defences

A director who breaches section 588G may face civil penalties, compensation claims by the liquidator or creditors for the debts incurred (section 588M), and, if the failure is dishonest, criminal liability. Section 588H provides defences, including that the director had reasonable grounds to expect, and did expect, that the company was solvent; reasonably relied on a competent and reliable person for information about solvency; did not take part in management because of illness or some other good reason; or took all reasonable steps to prevent the debt being incurred.

Safe harbour: section 588GA

The safe harbour, introduced in 2017, protects directors who try to turn a company around rather than appoint an administrator immediately. Under section 588GA, the insolvent trading duty does not apply to a debt if, at a particular time after the director starts to suspect insolvency, the director starts developing one or more courses of action reasonably likely to lead to a better outcome for the company than the immediate appointment of an administrator or liquidator, and the debt is incurred directly or indirectly in connection with that course of action.

The section lists matters relevant to whether a course of action is reasonably likely to lead to a better outcome, including whether the director:

- is properly informed about the company's financial position;
- is taking appropriate steps to prevent misconduct by officers or employees that could affect the company's ability to pay its debts;
- is ensuring the company keeps appropriate financial records;
- is obtaining advice from an appropriately qualified entity; and
- is developing or implementing a plan to restructure the company.

The safe harbour has preconditions that catch many small companies. It is generally not available if the company has failed to pay employee entitlements, including superannuation, when due, or has failed to meet its tax reporting obligations. In practice, a company that has fallen behind on lodgements or superannuation may have lost access to the safe harbour at the very point it needs it.

Since 1 January 2021, eligible small companies, broadly those with total liabilities of less than $1 million, have also been able to use the small business restructuring process in Part 5.3B of the Act, which allows directors to stay in control while a restructuring practitioner helps develop a plan for creditors.

> *The safe harbour is a structured turnaround, not a waiting room. It requires a plan, qualified advice and up-to-date employee and tax obligations.*

Duties beyond the Corporations Act

Work health and safety

Under the model Work Health and Safety Act, adopted by the Commonwealth and most states and territories, an "officer" of a person conducting a business or undertaking must exercise due diligence to ensure the business complies with its safety duties (section 27). Due diligence includes taking reasonable steps to:

1. acquire and keep up to date knowledge of work health and safety matters;
2. understand the nature of the operations and the hazards and risks associated with them;
3. ensure the business has, and uses, appropriate resources and processes to eliminate or minimise risks;
4. ensure the business has appropriate processes for receiving and considering information about incidents, hazards and risks, and responding in a timely way;
5. ensure the business has, and implements, processes for complying with its duties; and
6. verify that those resources and processes are provided and used.

Officers can be prosecuted personally for failing to meet this duty, whether or not the business itself has been convicted. Victoria has its own Occupational Health and Safety Act 2004 with different wording, and several jurisdictions have industrial manslaughter offences. Directors should check the law in each jurisdiction where the business operates.

Tax: the director penalty regime

Under Division 269 of Schedule 1 to the Taxation Administration Act 1953, directors can become personally liable for a company's unpaid pay as you go withholding, superannuation guarantee charge and, since 2020, GST and certain related taxes. The ATO recovers these amounts through director penalty notices. If the liabilities are reported on time, a director can generally avoid personal liability by causing the company to pay, appoint an administrator or small business restructuring practitioner, or begin winding up within 21 days of the notice. If the liabilities remain unreported three months after the due date, the penalty is "locked down" and those options no longer remit it. New directors can become liable for amounts that fell due before they were appointed if they do not act within 30 days. Lodging on time, even when you cannot pay, is one of the simplest protections a director has.

Director identification number

Every director must have a director identification number, obtained through the Australian Business Registry Services. New directors must have one before they are appointed. It is a small step, but failing to hold one is an offence.

What the cases teach

ASIC v Healey (Centro), 2011

Centro Properties Group and Centro Retail Group were large listed property groups. Their 2007 annual reports failed to disclose some $1.5 billion of short-term liabilities in the case of Centro Properties Group, by classifying them as non-current, and guarantees of short-

term liabilities of an associated company of about US$1.75 billion given after the balance date. Centro Retail Group's reports failed to disclose some $500 million of short-term liabilities classified as non-current.

In ASIC v Healey, decided on 27 June 2011, Justice Middleton found that the directors, including the non-executive directors, had breached their duty of care and diligence by approving the financial statements. The directors argued that they relied on management and expert advisers, and that the auditors had not raised the problem. The court accepted that directors may delegate and rely on others, but held that approving financial statements is a responsibility the law places on each director personally. His Honour wrote that a director, "whilst not an auditor, should still have a questioning mind."

Key lessons:

- Every director must be able to read and understand financial statements, including basic concepts such as current and non-current liabilities.
- Directors must apply their own knowledge of the company to what they are reading, and ask questions when something does not fit.
- The volume or complexity of board papers is not an excuse. The court noted that a board can control the information it receives.

ASIC v Cassimatis (Storm Financial), 2016 and 2020

Storm Financial was a financial advice business that recommended a leveraged investment strategy to many clients who, the court found, were retired or near retirement with few assets and limited income. Its collapse in 2009 caused heavy losses. Emmanuel and Julie Cassimatis were its only directors and its only shareholders.

In ASIC v Cassimatis (No 8), decided on 26 August 2016, Justice Edelman found that the directors had breached section 180(1). They argued that a company that was solvent and wholly owned by them could not be harmed by conduct they approved. The court rejected that argument. The duty of care can be breached where directors cause or allow the company to contravene the law in a way that exposes it to foreseeable risks of harm, including penalties, damage to reputation and claims. The Full Federal Court dismissed the directors' appeal on 27 March 2020.

Key lessons:

- Being the only shareholders of a solvent company does not shield directors from the duty of care.
- Allowing the company to engage in conduct that foreseeably risks breaching the law, and harming the company through penalties and claims, can itself breach section 180. ASIC ran the case on the "stepping stone" approach, in which the company's contravention is the stepping stone to the directors' liability, although Justice Edelman doubted that an actual contravention by the company must always be proved.
- The quality of the business model and its compliance with law are matters for the board, not only for management.

A director's checklist

Before you accept

- Do I understand the business, its industry and its main risks?
- Have I seen recent financial statements and do I understand them?
- Is the company currently solvent? Are tax lodgements and superannuation up to date?
- Is there directors and officers insurance, and what does it cover?
- Will I have a deed of access, indemnity and insurance?
- Do I have a director identification number?
- Do I have the time to do the job properly?

At every board meeting

- Have I read and understood the papers, and asked about anything that does not make sense?
- Do I have the information I need, or do I need to ask for more?
- Have I declared any conflicts of interest?
- Is the decision recorded accurately in the minutes, including any dissent?
- Is the company still able to pay its debts as and when they fall due?

If trouble appears

- Get independent advice from a qualified restructuring adviser or insolvency practitioner early.
- Bring tax lodgements and superannuation up to date to preserve access to safe harbour.
- Document the turnaround plan and the reasons for believing it offers a better outcome.
- Do not incur new debts without considering whether the company can pay them.
- Respond to any director penalty notice within 21 days.

What to do this month

1. Ask the company's accountant or chief financial officer to walk you through the latest financial statements, line by line if necessary.
2. Check that business activity statements, instalment activity statements and superannuation guarantee obligations are lodged and paid on time.
3. Confirm the company has a conflicts register and that your own interests are recorded in it.
4. Ask management for a one-page summary of the company's safety, privacy and cyber risks, and the controls in place for each.
5. Diarise a review of solvency at every board meeting, not just at year end.

In our view

The cases show a consistent theme. Courts rarely punish directors for business judgments that turn out badly. They do hold directors responsible for not paying attention: for signing what they have not understood, for relying on others without independent thought, and for allowing the company to drift into conduct or insolvency that a

questioning mind would have seen. The most reliable protection is the simplest: read, understand, ask, record, and act early.

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