

MANAGEMENT ISSUES FOR THE GROWING BUSINESS

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Emerging Business Series

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TABLE OF CONTENTS

INTRODUCTION

MANAGING THE EXTERNAL ENVIRONMENT

MANAGING THE INTERNAL ENVIRONMENT

- Human Resource Issues
- Structural Issues
- Policy and Procedural Issues
- Other Issues

CONCLUSION

APPENDIXES

- A. Checklist for an Effective Organization
- B. Information Resources

INTRODUCTION

Effective management is the key to the establishment and growth of the business. The key to successful management is to examine the marketplace environment and create employment and profit opportunities that provide the potential growth and financial viability of the business. Despite the importance of management, this area is often misunderstood and poorly implemented, primarily because people focus on the output rather than the process of management.

Toward the end of the 1980s, business managers became absorbed in improving product quality, sometimes ignoring their role vis-a-vis personnel. The focus was on reducing costs and increasing output, while ignoring the long-term benefits of motivating personnel. This shortsighted view tended to increase profits in the short term, but created a dysfunctional long-term business environment.

Simultaneously with the increase in concern about quality, entrepreneurship attracted the attention of business. A sudden wave of successful entrepreneurs seemed to render earlier management concepts obsolete. The popular press focused on the new cult heroes Steve Jobs and Steve Wozniack (creators and developers of the Apple Computer) while ignoring the marketing and organizing talents of Mike Markula, the executive responsible for Apple's business plan.* The story of two guys selling their Volkswagen bus to build the first Apple computer was more romantic than that of the organizational genius that enabled Apple to develop, market and ship its products while rapidly becoming a major corporation.

In large businesses, planning is essential for developing a firm's potential. However, many small businesses do not recognize the need for long-range plans, because the small number of people involved in operating the business implies equal responsibility in the planning and decision-making processes. Nevertheless, the need for planning is as important in a small business as it is in a large one.

This publication focuses on the importance of good management practices. Specifically, it addresses the responsibilities of managing the external and internal environments. It can provide a basis for confronting the challenges of the 1990s.

* References to large corporations do not imply SBA's endorsement of their products or services.

MANAGING THE EXTERNAL ENVIRONMENT

Two decades ago, Alvin Toffler suggested that the vision of the citizen in the tight grip of an

omnipotent bureaucracy would be replaced by an organizational structure of "ad-hocracy."* The traditional business organization implied a social contract between employees and employers. By adhering to a fixed set of obligations and sharply defined roles and responsibilities, employees received a predefined set of rewards.

The organizational structure that Toffler predicted in 1970 became the norm 20 years later, and with it came changed concepts of authority. As organizations became more transitory, the authority of the organization and firm was replaced by the authority of the individual manager. This entrepreneurial management model is now being replicated throughout society. As a result, the individual business owner must internalize ever increasing organizational functions.

Another change in today's business environment is dealing with government agencies. Their effect on the conduct of business most recently appears to have increased. As industries fail to achieve high levels of ethical behavior or individual businesses exhibit specific lapses, the government rushes in to fill the breach with its regulations.

To identify the impact of government agencies on your business and the measures you can take to challenge that impact, consider the following questions.

! Which agencies influence how you conduct business?

Local _____

State _____

Federal _____

! Who are the key contacts in each agency?

! What regulations currently affect your business?

! Are the current public policy proposals expanding the impact of the agency?

! Do you know how to challenge agency findings?

! Are you ready to work with the agency over the long-term?

! Do you know how to use attorneys effectively?

* A. Toffler, *Future Shock* (New York: Bantam Books, 1970), 124-125

MANAGING THE INTERNAL ENVIRONMENT

Human Resource Issues

Ensuring Open Communications

Effective communications play an integral role in managing and operating any successful business. With open communications changes and their effects on the organization are quickly shared. Your firm then has the time and skills needed to respond to changes and take advantage of evolving opportunities.

The following checklist addressing how you would respond to an employee's suggestion provides an assessment of the communication process in your business. Place a check next to the statements that are commonly heard in your business.

Statement

- | | |
|--------------------------------------|-------|
| Face facts, it's unrealistic. | _____ |
| Who else has done it? | _____ |
| It's not your problem. | _____ |
| Fill out form XX/xx revised. | _____ |
| It won't work. | _____ |
| Bring it to the committee. | _____ |
| We don't have the time. | _____ |
| We tried it before and it failed. | _____ |
| You think what? You're joking! | _____ |
| Everybody knows that that's foolish. | _____ |
| We can't afford to think about it. | _____ |

Don't you have better things to do? _____

Are you some kind of a radical? _____

We're too small/big for that. _____

Impossible; our main product line would be obsolete. _____

The boss would never consider it. _____

It's contrary to company policy. _____

Carefully consider any statements that you have checked. This may indicate that management is inflexible and unresponsive to employee suggestions. Management that is unable to respond immediately to changes in the market signals an inflexible unstable firm. In the rapidly changing business environment such management can mean eventual failure for your business. If you haven't developed such a checklist do so. It will help you determine if and where adjustments are needed in your management staff.

Balancing Schedules Stress and Personnel

Without organization and good management the compressed time schedules associated with modern business can cause stress and make extraordinary demands on people. An effective management structure can reduce stress and channel the productive capacity of employees into business growth and profits.

Setting Duties Tasks and Responsibilities

An organization is characterized by the nature and determination of employees' duties tasks and responsibilities. While many organizations use different methods for determining these it is essential that they be clearly defined.

The core of any organization is its people and their functions. Duties tasks and responsibilities often evolve in an ad hoc manner. A typical firm starts with a few people often one performing all duties. As the firm grows others are hired to fill specific roles often on a functional basis. Roles that were handled by consultants and specialists outside the firm now are handled internally. As new needs emerge new roles are developed.

Just as an emerging business develops an accounting system it should also develop a human resource system. For instance the following employee information should be available and checked for accuracy at least once each year.

! Name

! Address

- ! Nationality (immigration status)
- ! Marital status and dependents
- ! Hire date
- ! Company job history:
 - Title and code
 - Performance
- ! Location
- ! Salary rate and history
- ! Education including degrees
 - Specialty training
 - Transcripts as appropriate
- ! Pre-employment work experience:
 - Key responsibilities and levels
- ! Professional licenses or certificates
- ! Professional publication and speaking engagements
- ! Teaching experience
- ! Language abilities:
 - Reading
 - Writing
 - Speaking
- ! Leadership evidence:
 - Company
 - Civic
 - Other
- ! Relocation preferences and limitations
- ! Travel experience and preferences
- ! Career goals

Review your personnel files periodically to ensure that the information is correct and current.

Implement a system that will make updating personnel files a fairly simple routine yet confidential process.

Business Team

The apex of an effective organization lies in developing the business team. Such a team involves delegating authority and increasing productivity. Assess the effectiveness of your business team with the following checklist:

- The leader of the team is respected by the members. _____
- The abilities of all team members are respected. _____
- A team spirit is evident through activities. _____
- ! Individual members compensate for weaknesses in each other. _____
- ! Jokes are not disparaging. _____
- ! A genuine feeling of being part of the best is exuded. _____
- ! The work area is self-delineated and reflects a spirit. _____
- Mistakes result in corrective action not retribution. _____
- Each member understands the importance of his or her contribution. _____
- The team can explore new areas of activity. _____
- Security of employment is evident. _____

Controlling Conflict

Another key to successful management lies in controlling conflict. Conflict cannot be eliminated from either the business or the interpersonal activities of the enterprise. A measure of the organization's success is the degree to which conflict can be exposed and the energies associated with it channeled to develop the firm. Although establishing policies and procedures represents the tangible aspect of organization and management the mechanisms to tolerate and embody challenges to the established operation serve as the real essence of a firm that will survive and prosper.

Structural Issues

Organization

The effectiveness of a particular organizational form depends on a variety of internal and external events for example:

- ! Competitors (number or activity)
- ! Technology (internal or external)
- ! Regulatory environment
- ! Customer characteristics
- ! Supplier characteristics
- ! Economic environment
- ! Key employees
- ! Growth
- ! Strategy (including new products and markets)

Even though you may discover that certain events are affecting your business be careful not to change the organizational structure of your firm without discussing it with your management team. Employees generally can accomplish goals despite organizational structures imposed by management. Because restructuring involves spending a lot of time learning new rules implementing a new organizational structure is costly.

Structure

The essence of a successful organization can be more simply summarized than implemented. The following checklist can help you determine measures to ensure your management structure is adequate. Check the entries that apply to your firm and also find out what measures your company needs to take to improve its management structure.

- Key market and customers are understood. _____
- Technology is mastered. _____
- Key objectives are articulated and shared. _____
- Major functions are identified and staffed. _____
- A hierarchy of relationships is established. _____
- A business team is in place and functioning. _____
- Measurable results are well above industry standards. _____

Employees are the best source of new hires. _____

Policy and Procedural Issues

Authority

The central element of organizational management is authority. Through authority your firm develops the structure necessary to achieve its objectives.

A. L. Stinchcombe summarized the role of authority succinctly when he stated any administrative system that decides on the use of resources is also a system of authority directing the activities of people.*

* A.L. Stinchcombe, *Economic Sociology* (New York: Academic Press, 1983, 137

The authority that once was conferred by either owning a small business or having a position in the bureaucracy of a larger firm has been replaced by technical competence (including that of forming and running the business). Forces external to your business may emphasize the elements of granted versus earned authority. Once the owner-manager controlled the entire business but suppliers customers unions and the government have severely limited the ability of the business owner-manager to take independent action. A primary component of authority is the exercise of control within the organization. A thorough system of controls ensures the firm's operation and provides a mechanism for imposing authority. Internal controls include the provision that authority be delegated and circumscribed; examples of these provisions follow. Place a check by the provisions that apply to your firm. Consider implementing controls over areas that you have not checked.

Approval for disbursements of cash and regular accounting. _____

Reconciliation of bank statements. _____

Periodic count and reconciliation of inventory records. _____

Approval of pricing policies and exemptions. _____

Approval of credit policies and exemptions. _____

Review of expense and commission accounts. _____

Approval of purchasing and receiving policies. _____

Review of payments to vendors and employees. _____

Approval of signature authorities for payments. _____

Review of policies. _____

Delegation is a key to the effective exercise of authority in your business. By delegating limited authority to accomplish specific tasks the talents of employees in the organization can be used to upgrade the skills and experience of the manager. The following checklist enables you to determine if you are taking advantage of opportunities to delegate authority.

Is your time consumed by daily chores? _____

Do you have time for the following:

! Training and development of subordinates? _____

! Planning? _____

! Coordinating and controlling work of subordinates? _____

! Visiting customers and subordinates regularly? _____

! Remaining involved in new product development? _____

! Visiting branch locations regularly? _____

! Attending business meetings outside your business? _____

! Participating in civic affairs? _____

Is no one on your staff as good as you are? _____

To effectively delegate responsibility and authority in your organization you must:

! Accept the power of delegation.

! Know the capabilities of subordinates.

! Ensure that specific training is available.

! Select specific responsibilities to be delegated.

-- Clearly define the extent and limits of delegation.

-- Match each with necessary authority.

! Provide periodic monitoring and interest.

-- Restrain the impulse to insist on how to do something.

-- Remember there are many ways to accomplish a specific objective.

- ! Assess results and provide appropriate feedback.
- ! Praise and criticize.

The skills and abilities of each level of authority can be increased by effectively delegating authority throughout any organization.

Management by Objectives

Many firms have embraced management by objectives (MBO) as a way to effectively integrate people into the organization. An MBO system provides a structure to ensure coordination of the organization and to effectively delegate authority and responsibilities. Establishing an MBO system is a continuing process and includes the following steps:

- ! Subordinates submit proposals for objectives and means of measuring progress.
- ! A supervisor assesses proposed objectives in light of evolving business needs his or her personal perspective and the ability of the company to ensure rewards for attaining goals.
- ! Supervisor and subordinate discuss the objectives and the standards of measurement with appropriate timetables and potential corrective actions.
- ! Supervisor and subordinate appraise results.
- ! Supervisor and subordinate negotiate results (including changes necessitated during the year) establish rewards and begin the cycle again.

A successful MBO system is tricky to implement and maintain because it requires a high degree of honesty in the organization. Such a system can fail in many ways such as when:

- ! Managers don't have clear objectives for their units.
- ! Managers set objectives that are too high (maybe unconsciously).
- ! Subordinates neglect objectives (maybe unconsciously).
- ! Responsibilities are ill-defined and remain so.
- ! Authority is inconsistent with responsibilities.
- ! Simple measurable activities are emphasized over substantive decisions and other important activities.
- ! Success is measured by the ability to please.

- ! Managers emphasize how something is achieved rather than what is achieved.
- ! Policies do not guide action.
- ! Openness is not possible -- game playing is the norm.
- ! Secondary goals are not specified causing subordinates to guess what superiors want.
- ! Neither sufficient support nor resources are provided as part of the MBO contract.
- ! New ways of doing things are not allowed.
- ! Ability to give and withdraw rewards is constrained.
- ! Management style creates and encourages chaos.
- ! The line between flexibility and rigidity is lost.
- ! Objectives need adjustment because reality has changed.
- ! Excessive chronic flexibility indicates weakness in the objective-setting process.
- ! A corporate plan fails to shape the mission of the firm.

At best the MBO system ensures coordination among the various aspects of the organization through the self-management evaluation process. At worst it forces employees into a situation in which they are perceived as being either poor performers (failing to meet personally set objectives) or poor managers (failing to set objectives high enough or to provide critical self-assessment). The success of an MBO system depends on the manager's ability to ensure that objectives are fair and consistent with the firm's needs and to reward successful performance.

Operating Reports

Operating reports form the organizational basis of your business. Such reports mirror the organization its structure and function. They define key relationships between employees and can either minimize or increase organizational stress.

For many businesses the following reports form the basis for analyzing the specific areas of a business (the frequency of each report depends on the nature size and organization of your business). Check the reports your firm currently generates. Consider creating reporting systems where they are lacking.

Case reports (daily weekly monthly) _____

New orders and backlog (weekly monthly) _____

Shipments/sales (weekly monthly)	_____
Employment (monthly)	_____
Inventory out of stock (weekly monthly)	_____
Product quality (weekly monthly)	_____
Accounts receivable aging accounts (monthly)	_____
Weekly overdue accounts	_____
Returns and allowances (monthly)	_____
Production (weekly monthly)	_____

Reporting must be kept current to allow for timely identification and correction of problems before serious damage to the organization occurs.

Too much reporting as well as inappropriate reporting can be as destructive as too little reporting. For instance the CEO of a major industrial firm who receives daily production and inventory reports by model can lose his or her ability to maintain an overall perspective. Thus operating managers must attempt to identify and solve local problems and take advantage of local opportunities within their own authority. Inappropriate reporting compromises management's ability to leverage individual skills and abilities.

Operating reports not only provide essential data that enable management to accomplish its objectives they also focus staff's attention on the organization's goals. If reporting is not taken seriously employees may deal with customers suppliers and each other in a similarly trivial manner.

To avoid inappropriate reporting review reporting policies annually to ensure that reports are appropriate and contain the information needed to make sound management decisions.

Other Issues

Risk Management

Every organization is vulnerable to low probability events that could have a potentially disastrous effect. A small or new business is no exception although it is easy to ignore the probability of such events under the pressures of developing and maintaining a business. Identifying and quickly dealing with such unlikely events is primarily the responsibility of management. Also only management has the ability to assess the full potential impact of these events on the overall organization. Some of the potentially disastrous events that may affect your business are listed below. Periodically review the list to ensure your current insurance policies adequately cover you.

- ! Theft of property:
 - Stealing
 - Embezzlement
- ! Lying
- ! Breach of laws:
 - Local
 - State
 - Federal
- ! Computer crime
- ! Fire and explosion:
 - Accidental
 - Arson
- ! Kickback bribery illegal contributions
- ! Fraud gambling
- ! Tornado flood lightning freezing
- ! Environmental dangers:
 - Hazardous spills
 - Air/water/ground pollution
 - Strike sit-down
- ! Discrimination
- ! Sabotage

Determine how vulnerable your business is to these and other such risks by assessing their probability and impact. Consider actions that you can take to lower the probability of their occurring, i.e. ways to control your risk. Review the checklist each year to ensure the future of your firm is not imperiled through neglect.

Consultants

Consultants can provide a valuable perspective in developing an organization. A variety of circumstances can trigger the need for a consultant including

- ! Need for funding

- ! Development of a business plan (strategy)
- ! Operational shortfalls:
 - Late delivery
 - High costs
 - High employee turnover
 - Climbing inventory
- ! Loss of market share
- ! A lack of direction or sense of malaise

However consultants cannot solve problems. True solutions must come from within your organization and must be implemented daily.

CONCLUSION

Successful management is founded on the mastery of a myriad of details. While management schools teach the importance of focusing attention on major issues affecting the business practical managers realize the major issues are the variety of small aspects that form the business. In an increasingly structured society inattention to even one minor detail can result in significant disruption of the business or even its failure. Appendix A includes a checklist to help you review your management structure.

APPENDIX A: CHECKLIST FOR AN EFFECTIVE ORGANIZATION

The following checklist will help you identify and determine the effectiveness of the management and organizational structure of the firm. If you answer yes to most of the following questions you are effectively managing your firm. A no answer indicates that you need to focus on this management issue.

- | | y/n |
|--|-------|
| Are responsibilities clear and matched by authority? | _____ |
| Is your business structure clear yet flexible? | _____ |
| Are communications focused on finding solutions rather than placing blame? | _____ |
| Do people have the information and resources necessary to do an excellent job? | _____ |
| Do you and your employees care about the business? | _____ |

- Does staff come in early and stay late on their own initiative? _____
- Are mechanisms for conflict resolution working? _____
- Is disorder minimized and channeled? _____
- Can people joke with and about each other and you? _____
- Does a corporate plan spell out the firm's vision? _____
- Do employees pitch in unasked during a crisis? _____
- Do customers and suppliers prefer to do business with you? _____
-

APPENDIX B: INFORMATION RESOURCES

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- *SCORE: Counselors to America's Small Business*, a national organization sponsored by SBA of over 11,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people. Free online counseling and training at www.score.org.
- *Small Business Development Centers (SBDCs)*, sponsored by the SBA in partnership with state governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- *Women's Business Centers (WBCs)*, sponsored by the SBA in partnership with local non-government organizations across the nation. Centers are geared specifically to provide training for women in finance, management, marketing, procurement and the Internet.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722) or visit our website, www.sba.gov.

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the bookstore heading. Find a “Catalog of Government Publications” at <http://catalog.gpo.gov/F>

Many federal agencies offer Websites and publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Federal Citizen Information Center (FCIC)

<Http://www.pueblo.gsa.gov>

1-800-333-4636

The CIO offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)

Publications Request

Washington, DC 20207

http://www.cpsc.gov/cpsc/pub/pubs/pub_idx.html

The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)

12th Street and Independence Avenue, SW

Washington, DC 20250

<http://www.usda.gov>

The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)

Office of Business Liaison

14th Street and Constitution Avenue, NW

Washington, DC 20230

<http://www.osec.doc.gov/obl/>

DOC's Business Liaison Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS)

Substance Abuse and Mental Health Services Administration

1 Choke Cherry Road

Rockville, MD 20857

<http://www.workplace.samhsa.gov>

Helpline: 1-800-workplace. Provides information on Employee Assistance Programs Drug,

Alcohol and other Substance Abuse.

U.S. Department of Labor (DOL)

Employment Standards Administration

200 Constitution Avenue, NW

Washington, DC 20210

The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury

Internal Revenue Service (IRS)

1500 Pennsylvania Avenue NW

Washington DC 20230

<http://www.irs.gov/business/index.html>

The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)

Small Business Ombudsman

1200 Pennsylvania Avenue NW

Washington, DC 20480

<http://epa.gov/sbo>

Hotline: 1-800-368-5888

The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)

5600 Fishers Lane

Rockville MD 20857-0001

<http://www.fda.gov>

Hotline: 1-888-463-6332

The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**
Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.
- **Books**
Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check Books In Print, a directory of

books currently available from publishers.

- **Magazine and newspaper articles**

Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

- **Internet Search Engines**

In addition to books and magazines, many libraries offer free workshops, free access to computers and the Internet, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.