

U.S. Small Business Administration



Your Small Business Resource

Management Issues for the Growing Business

Emerging Business Series

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*Helping Small Business **Start, Grow and Succeed***

Management Issues for the Growing Business

Emerging Business Series EB - 03

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NOTE TO READER: This publication was written in the early 1990's. Some aspects of the research and data are outdated. However, it is still offered in SBA's online library because much of the content is relevant and applicable in today's business climate. A new publication on this topic is planned for the future.

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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.

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 "adhocracy." 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?
- 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?

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.

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, with often one person performing most 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
- Marital status and dependents
- Hire date
- Company job history
- Salary rate and history
- Education including degrees
- Professional licenses or certificates
- Professional publication and speaking engagements
- Leadership evidence
- Career goals

Review your personnel files periodically to ensure that the information is correct and current. Implement a system that will make updating human resource files a fairly simple routine.

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(s) with the following checklist:

- Team is respected by the members. _____
- The abilities of all team members are respected. _____
- A team spirit is evident through activities. _____
- 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 represent the tangible aspect of organization and management, the mechanisms developed to tolerate and embody challenges to the established operation will serve as the real essence of a firm.

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 and implementing a new organizational structure is costly.

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.

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? _____
- Participating in civic affairs? _____

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.
- Provide periodic monitoring and interest.
- Assess results and provide appropriate feedback.
- Praise and criticize (constructively).

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:

1. Subordinates submit proposals for objectives and means of measuring progress.
2. 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.
3. Supervisor and subordinate discuss the objectives and the standards of measurement with appropriate timetables and potential corrective actions.
4. Supervisor and subordinate appraise results.
5. 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.

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.

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.

- Theft of property
- Breach of laws
- Computer crimes
- Fraud
- Weather related damage

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; loss of market share; and, 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.

	Yes/No
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

The SBA offers an expansive network of business resources to assist small business customers. Use these resources to help build a successful business.

Small Business Training Network (SBTN)

The SBA operates a virtual campus featuring numerous free online courses. The courses cover a variety of topics, including how to start a business, finance, business planning, marketing, management, technology, government contracting and many other topics. Approximately 1,500 small business customers each day register for SBA's free online courses.

Small Business Development Centers (SBDC)

The Office of Small Business Development Centers (SBDC) provides management assistance to current and prospective small business owners. SBDCs offer one-stop assistance to individuals and small businesses by providing a wide variety of information and guidance in central and easily accessible branch locations. The program is a cooperative effort of the private sector, the educational community and federal, state and local governments and is an integral component of Entrepreneurial Development's network of training and counseling services.

SCORE

SCORE (Counselors to America's Small Business) is a resource partner of the SBA dedicated to entrepreneur education and the formation, growth and success of small businesses nationwide. There are more than 10,500 SCORE volunteers in 374 chapters operating in over 800 locations who assist small businesses with business counseling and training. SCORE also operates an active online training and counseling program.

Women's Business Centers (WBC)

Women's Business Centers represent a national network of nearly 100 educational centers designed to assist women. WBCs help entrepreneurs, especially women who are economically or socially disadvantaged, to start and grow successful small businesses.

SBA District Offices

In addition to its resource partners, the SBA operates full service district offices in every state of the country. Locate the district office closest to you.

URL Directory of Hyperlinks

Small Business Training Network	http://www.sba.gov/services/training/onlinecourses/index.html
Small Business Development Centers	http://www.sba.gov/aboutsba/sbaprograms/sbdc/index.html
SCORE	http://www.score.org/index.html
Women Business Centers	http://www.sba.gov/services/counseling/wbc/index.html
SBA District Offices	http://www.sba.gov/localresources/index.html

Have a Question?

E-Mail SBA - answerdesk@sba.gov

Ask a [SCORE counselor](#) online

Find a [SBA district office](#) near you

Find a [SBDC office](#) near you

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