

# Perspectives on Management

By Ian Hodge

## **Managing for Success – Part 1.**

It is not always easy to balance theory and practice, yet that is the challenge of business. At the end of the day, we may theorize as much as we like, about prices, markets, the quality of our goods, or our selling skills. But if our business is to survive, we must take our theorizing and fuse it with practical realities. In this essay I'm going to explore management as a necessary practice in every business, but especially small business. If a business has grown beyond a certain size it has already learnt that management in some form is essential. What smaller businesses need to realise is that management is the key to growth and without it the business is usually retarded.

We could think of a business as a child. A child is born, grows through certain stages, eventually reaching adulthood, and then spends the rest of its life expanding its knowledge and abilities. Maturity is a journey, not a destination, an ongoing activity unless we want to stop the maturity process.

Too many businesses are kept in childhood. They never grow up. They remain small, stunted in growth, like a child that suffers from malnutrition. The reasons for this are not hard to find. Either the business fails to grow because it is starved of

funds, or else it fails to grow because it is starved of management. These two reasons are related quite often.

Often small businesses succeed in spite of themselves. There are multiple reasons why people go into business in the first place, but not everyone starts a business because they have the management skills to do so. For many people a business is a way to get an income and to get more direct control of their work activities. The results are not always as expected.

Every business functions with five key areas. These areas are inescapable. They exist whether we acknowledge them or not. Successful businesses, however, recognise these areas and work on them to improve their function within the business. These key areas can be represented like this:

Ownership		
Executive Office		
Marketing and Sales	Production	Finance and Administration

A business functions by developing activities under each of these areas, then assigning these activities as *responsibilities* to employees. In the start up, one-person business, it is easy to see who gets all these responsibilities: the business owner. And here is where the trouble often begins.

It takes an extraordinary person to be able to take on all the responsibilities in the business. In fact, it rarely happens successfully. And there is a reason for this. There is more work in each of these areas than one person can expect to handle. The fact that it can rarely be done, however, does not deter many from trying. The results are usually burnout of the business owner or, more likely, the burnout of his wife, with deteriorating life-style and a business that hangs like a millstone around the owner's neck. How he wishes he had never started this enterprise, and often longs to return to the good old days of a regular wage and less stress.

How did the business owner get himself into this mess? He arrived there by not understanding that each of these five key areas needs to be addressed *before* any business should be started. Then the problems would have been foreseen and some action plan developed to either prevent certain things from happening or at least manage the issues as they arise.

If we take the first of these key areas and ask what are the functions of the business owner, we create a list that includes amongst them, the necessity to provide the working capital for the business. Well, says the business owner, how much capital do I need to provide? The person to answer this question is the executive officer, whoever he might be. In the one-person business, this happens to be the business owner, who now must provide himself with a credible business plan. But plans cost money, so the business plan needs to have a list of revenue and expenses that go with it. "If we do this, it will cost us so many dollars," says the business plan.

And now the business owner can respond and either agrees to provide the capital or else demand that the business plan be altered.

The trouble in the one person business, however, is that the business owner will not demand that the executive officer provide him with a business plan that allows him to determine if he has the necessary means to finance this business. No, says the one-person business, I can step around these conventions of planning and just launch the business. All will be well. And if the business owner is a Christian, he often backs this up with the ultimate insurance policy: God will ensure my success in spite of my lack of planning.

Well, not all businesses started by Christians are successful, so either God is a failure, or else we must consider that God want us to operate in a different manner. God, of course, is under no obligation to bless us, though He promises to do so as an act of grace. Christian business owners must confront the same market conditions as non-Christians. And at the end of the day, a business needs to be managed, irrespective of the religious belief of the owners. This is the food that stimulates growth in the business and if we fail to feed the business with good management we can expect it to have stunted growth or it may even die young.

The problem of the business owner is compounded even more when he asks the executive officer (himself) to provide a business plan and he discovers that the executive officer cannot read a profit and loss statement, does not comprehend a

balance sheet, and cannot even tell the difference between a debit and a credit. (And this is made even more difficult if we ask the executive officer does a debit add or subtract an amount, a trick question for those who don't understand accounting.)

The business owner is in over his head already, without considering the other areas of the business. It may well be that the business owner has selling skills, or he may be a brilliant engineer and can weld steel better than most, but it is a rare occurrence to find a business owner who can do these activities. And even if he can do them all, he needs to ask this question: Who is doing the selling while the financial officer is entering data into the computer and producing management reports? The answer, of course, is that no one is doing the selling job, just as no one is cutting the steel, operating the printing press, or providing whatever service it is that this business offers. Neither is anyone *managing* the marketing and sales area, *managing* the production area, or *managing* the finance and administration area. In other words, this one-person business is short on management. On top of all this, if the same person doing all this work is the executive officer, then no one is fulfilling this function because the executive officer is absent from his desk while he is the salesman, the delivery man, the order taker, the receptionist, or some other task in the business.

And therein lies the difference between a small and a large business, a successful business and a not-so-successful one. It is not that the larger and successful business has a perfect system of management, as so many have discovered

in recent corporate failures. But the business with proper management practices gives the business a much better success rate.

For example, the one-person business operator longs for the day when he can make a million dollars. But he does not realise that in order to make that million dollars, it might cost him \$3,000 a day in expenses for each day he works (approximately 240 days a year on a 5-day working week). And if he does not keep track of the money owing to him and keep this in check, for every day he has to finance the business from his own pocket, he has to find that \$3,000 to pay the bills. If he collects his money in 45 days, but pays all his suppliers in 35 days, then he needs to find an additional \$30,000 just to keep the business afloat. Almost no business owner thinks about this when he starts up his business. The ones that do are usually management-hardened executives from larger companies who have decided to go it alone. (Buying into a franchise is sometimes, but not always, another way to start up a business with management practices in place.)

The one-person business owner, however, finds a willing partner to aid him: his wife. In many instances, she can't do the work of the business, is not a sales person, doesn't understand marketing (how many people really do?), so she will be given the accounts to do.

"We'll get a computer, honey, and you can do the accounting." While most wives make marvellous debt collectors, they are not always so good at producing the

management information necessary for her husband's success. And as she is often combining this with home duties such as feeding the children, changing diapers, cleaning the house, running children to the doctor, dentist, and the myriad other things of which many husbands are not fully aware, it does not take long for desperation and burnout to set in. "I want out of this business" is a familiar refrain from many wives. It is understandable — and to be expected.

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