

Are You On Target -

As a business grows from conception to maturity there are many challenges

Expert knowledge means success

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Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

As a business grows from conception to maturity, the managerial growing pains along the way pose many challenges to its owners, directors and managers.

Businesses that stay small have these characteristics:

- Operating skills required more than management skills;
- Number of employees is usually very small;
- Growth is not a major objective of the owners;
- The business acumen of the owner/founders is often very limited;
- Focus is almost completely internal with little awareness of what is happening in the wider market place;
- The business is almost entirely dependent on the owner or business manager.

Crisis point - leadership and systems

In the start up or entrepreneurial phase, the characteristics of the business are:

- The founders are still there and are still running the business;
- The founders are achievers in technical terms and may have even become market builders but they are not strong managers;
- The focus is on producing products or services and selling them with minimal emphasis on management, systems and planning;
- Organisation and communication within the firm is informal;
- The people in the business work long hours for modest reward;
- The management react mostly to what customers say and want rather than to employees;
- The business is growing at above inflation levels but only just.

At this stage of development of the business, the problems are:

- Uncertainty as to who is in charge;
- Signs of conflict emerge between founders or partners;
- New employees are not so motivated as those who were there at start up;
- Cash control and accounting administration leave something to be desired;
- Working capital is under strain;
- Little financial planning takes place;
- Little or no time for business planning;
- Management become tempted to diversify into unrelated businesses.

Crisis point - management team and systems

In the entrepreneurial expansion phase there are these characteristics present:

- Phase 1 has been successfully circumnavigated and the crisis problems have been solved;
- A leader is chosen;
- Duties of management and senior personnel is more specialised;
- Reasonable (but still as yet not enough) attention is given to the functions of marketing, personnel, accounting, budgeting and finance and data processing;
- The business might now be operating at multiple locations;
- The business may have become impersonal;
- Lower level supervisors are treated as functional specialists;
- The leader of the business is usually a strong "salesman" or an inventor/designer;
- Dependency on few services or clients
- The business is serving single or a few markets or fragments of markets.

The problem areas are:

- Delegation is increasingly difficult for the leader;
- The leader has become inaccessible or nearly inaccessible;
- Managers feel better qualified than the leader to make decisions in their technical areas yet are not permitted to do so;
- Managers are technically oriented and are not accustomed to making their own decisions;
- Poor decisions are made in data processing, expansion of facilities, hiring of key employees, cash management and financing;
- Problem solving is time consuming;
- The team breaks up with key employees becoming disenchanted and leaving;
- Financial reporting and control systems are inadequate for the sales volume of the business;
- Management time and cash is insufficient;
- Planning is by reaction to events;
- Temptation to diversify into unrelated businesses.

Crisis point - senior management - middle management systems and planning

In the professional management phase the characteristics are:

- The previous phase problems have been solved;
- An aligned management team is now in place;
- There is a strong reactionary emphasis to external events such as:
 - Identifying client needs and wants;
 - Knowing about the competition;
 - Knowing what is going on in the UK and world economy;
- Profit centres have been established;
- Managers are now managing;
- There is enough time and energy and data available to enable the business to plan for the future;
- The necessary financial performance reporting and control systems are now in place;

- The business has a strong financial base with a clearly defined market;
- Growth rate is steady but moderate.

The Professionally-Managed Business

Having become a business which is professionally managed there are these benefits:

- The survival of the business is not dependent on one or a few people;
- Management succession is assured;
- More capable staff can be recruited and retained;
- The existence of a strong management team allows the business to plan and pursue additional markets and react to opportunities and problems in a controlled way;
- The business is able to react to adverse economic conditions in its area or country or in its own industry or market;
- The owners of the business can spend more time pursuing special interests and flexibility and stability makes the business more enjoyable for owners and employees to work in.

But there are problems even in this phase:

- The reaction to change has become difficult because a reaction time has increased;
- Senior management may feel it is losing control as it has less day-to-day contact with all the operations of the business;
- Size and strength exposes the business to increased vulnerability to external factors such as Government, unions and the competition;
- Internally, there may be vulnerability to factors such as politics, an outdated corporate culture or bureaucracy;
- Whilst new business opportunities are still identified, reaction to them is clumsy and takes time;
- The threat of bigger and more sophisticated competitors looms;
- There is little communication from the top;
- There is a need for longer range planning but resistance to doing it is high;
- There is a temptation to over-heat by trying to achieve a faster growth rate than the company can manage.

The qualities of a mature and financially stable as well as a professionally managed business are obvious. Businesses only get to this stage by having managed to cope with the problems of evolution mentioned above. Now the qualities seen in businesses that have successfully arrived here are:

- Business niche - there is a clear definition of client or customer base and a strong industry knowledge is being served;
- The Chief Executive - is or has become an effective leader with a proven track record;
- Management - key management positions are organisationally and functionally structured exactly right for the business. The right people occupy key positions. The lines of communication are clear and management know who to account to. They receive an accurate evaluation of their performance and have opportunities for development. They feel involved and respected and give commitment;
- Customers (or clients) - the definition of a superior customer or client service is self-apparent and superior service is consistently applied and delivered;
- Financial controls - budgeting is employed throughout the business, expenses are consistently controlled and expense accountability is clear;
- Business information - information about the performance of the business is accurate, understandable and it is delivered on time in a consistent format. Managers know what they need to do and understand in interpreting the information to do and understand in interpreting the information.

Further Information

The evolution of a business and the key to why some businesses succeed while others fail, is not a matter of accident. If you look at some of the pointers in these notes you'll probably recognise problems which you have either already encountered or are still facing. These are real problems that happen to most businesses.

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