

## Management pitfalls

The growth in any business, although it is a sign of health, is a painful process with many problems along the way. At the end of it all the successful company is one that can overcome its difficulties and survive in today's environment, plus make a good profit. Many businesses do not survive and many businesses survive, but do not make a profit. It is not just a matter of throwing in extra cash - when you put the extra cash with good management you may have the key that enables the company to flourish.

One of the best ways for a business owner to learn management skills is by studying the mistakes of others. Management experts have identified those errors most often made by managers, so it is important for a potential new manager to look carefully at what has been identified and hopefully learn lessons from it. These are the traps that every businessperson should be wary of because, by being aware, hopefully the business will benefit greatly by not having to go down the path of having to relearn things when others have already experienced them and that their mistakes will point out what to avoid.

There are eight main pitfalls that have been identified and these will now be explained in a little depth:

### 1. Downgrading the need for experience

In larger businesses the major functions of the business are generally handled by a particular person experienced in that function and who assumes responsibility for completing that function. Small businesses usually rely on the one person only, usually the owner/manager, to supervise or perform most or all of these tasks. If the person lacks the necessary skill and versatility, then the business is doomed. Business owners must be able to wear many different hats. Lack of experience in accounting, purchasing, pricing, advertising, budgeting, or other aspects of management can all too easily lead to business failure.

Problems arising from inexperience are not limited to new business owners. Founders of businesses may, after several years, find that they have been pushed out of their own level of experience because of the increasing complexities brought about by the growth of the business. To stay in business they therefore need to learn new skills. The obvious solution for lack of experience is to obtain ample training prior to launching a new enterprise. For operators who are already in business, the only remedy is to acquire some experience and to acquire that fast. First, the top people should review their own backgrounds and current problems to discover their weak points and the missing parts of their experience. Secondly, concentrate on closing those gaps by taking on board staff or partners with the experience and knowledge, or hiring outside consultants to undertake whatever is necessary in that project.

- **Bringing on other talent:** Hiring a second-in-command or assistant who has the necessary experience where the owner is weak is an ideal solution to that problem. This person will require a top salary of course, but the right individual will be well worth the cost lightening the manager's workload and providing management continuity should illness or other misfortune strike the top person. Bringing in a partner, rather than just hiring someone to be an employee, affords the same advantages except that it has the extra dividend of providing additional funds that will come into the business from the partner's personal investment.



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Merging with a compatible business can sometimes achieve the same result as bringing in a partner. Such a move should not be undertaken quickly, because the merger can bring extra problems instead of curing old ones.'

- **Using outside experts:** Another option is to bring in outside experts. The business owner needs to realise that the use of qualified outside assistance does not really indicate failure or incapacity, nor does it necessarily mean that the company is in trouble. Instead, it shows that the enterprise is being managed properly by a mature person who is aware of his or her deficiencies and wisely fills in the holes with expert help. A fear of the costs involved may dissuade an owner from doing this and this may be an attitude that is completely incorrect. It is surprising how affordable the cost is, especially if the owner is clear on the problems that they have and can make very clear these factors to the experts so that the problem can be resolved quicker than if everything was in a confused state.
- **Develop management skills**

It is recommended that you as a business owner should still initiate a program of self-development. In the process you will be able to get a better understanding of business in general and management responsibilities in particular. You will also be able to recognise hazardous practices that may have crept into the business and correct those promptly. A self-education program need not be costly or time consuming because nowadays you can get self-education help either by correspondence or through computer software that can bring a business owner up to scratch very quickly.

## 2. Sloppy record keeping

Misleading financial records causes more havoc than any other management mistake. A poor accounting system leads to serious problems in every aspect of business, from sales to insurance, from taxes to stock control. If the need for an effective bookkeeping system is frequently overlooked, without proper accounting, costly errors will occur. Unless your operation is extremely small or unusually simple, you cannot possibly keep everything in your head. You must rely on a system that provides up-to-date information upon which you are able to base your daily decisions. Your goals should include:

- Accurate and thorough statements of sales, costs, profits, stocks, debtors, creditors, assets.
- Comparisons of current data with previous years operating results and your projected goals.
- Suitable financial statements for use by management or by submission to lending institutions when necessary.
- Tax returns and accounts produced on time.
- A system of internal control to uncover such things as employee thefts, wastage and record keeping errors.



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### 3. Reckless money management

Losing sight of the importance of maintaining a healthy financial position is a grave management error. When a shortage of funds affects a company, the owner has little time for anything but the struggle to appease creditors. Many business people allow capital to dip to dangerously low levels. They forget that cash, and cash alone, not stock, shiny equipment, or debtors, pays the bills. Cash crises due to under-capitalisation are common in any new enterprise, but they can also arise in long established firms if too much capital is tied up in fixed assets and stocks. If you wish to sort out your money quandary, your first move should be to talk to your accountant or banker. Study the financial statements and records of the business and see if there are ways to conserve cash and control costs.

### 4. Failure to plan

Ask any business advisor what they consider to be the most predominant failing amongst struggling business owners and they will undoubtedly choose lack of planning. Business troubleshooters cite this drawback as the most important factor in failure. Planning is critically important to the small firm because it lacks the staff and finances to compete on all fronts simultaneously and a rapidly changing market place demands forward-looking strategies. Many business owners believe they plan because they acknowledge the future. They vaguely aspire to do better next year or contemplate activities they might perform when "business improves". However, thinking ahead is not planning. Planning is a definite process that involves the establishing of objectives and the determination of methods for reaching those objectives. Without these elements the business owner is merely indulging in wishful thinking, not in planning.

The most difficult part of planning involves getting started. Here are a few questions that one would normally ask when stimulating planning ideas:

- What business am I in?
- What is my place in the industry?
- What is my competitive advantage or niche?
- Who are my customers?
- Are these customers the type that I want?
- What is my competition's biggest handicap and how can I exploit it?
- What are my specific goals for improvement?
- What percentage of the market do I want?
- What will my industry be like in five or ten years?
- How can I finance growth?

Once your strategy is mapped out, it has to be implemented. Plans have no life force of their own. Human attention is required if desired results are to be accomplished, and it is useful to involve staff in planning development and implementation. Do not plan too far ahead. Consider the need to adapt to changing conditions. Do not have long-range plans that are cast in concrete. One of the chief advantages of a smaller business is its flexibility. It is able to compete in many areas against larger companies just because it is able to be flexible and able to make changes in direction virtually overnight.



## 5. Misuse of time

Typically, the small business person has too much to do and too little time in which to do it. Most owners work 50 or 60 hours per week and sometimes over 70 hours per week. Much of this activity may well be wasted if executives are spending more than half their time on trivial matters. Valuable minutes and hours are often frittered away on insignificant chores while vital jobs are left unattended. The best approach for tackling both routine duties and ongoing projects is the preparation of daily, weekly and monthly schedules. Deadlines can be adjusted as interruptions or emergencies occur. It cannot be emphasised enough that one needs to plan the use of time.

## 6. Inattention to marketing

The first concern of every business is to get and keep customers. The best products and services, equipment and facilities and personnel are worth nothing unless they stimulate sales. Some misguided technicians dislike selling and resent the time marketing takes away from production or research. Other independent business people are overly optimistic about sales, expecting their merchandise or skills to sell themselves. Unfortunately, few products are that electrifying. Rarely is the old myth true about a better mousetrap bringing the world to one's door. Unless revolutionary inventions or services or ideas are brought to the attention of the public, they will have little chance of being sold. To build customer awareness and demand an organised and vigorous marketing campaign is essential. A complete marketing strategy includes not only personal selling, but also a saleable line of products or services, appropriate pricing, effective advertising and promotion and a good business location. Moral of the story - Get marketing.

## 7. Ignoring the human resources

Small firms enjoy a favourable reputation for good employer/employee relationships. In reality, many more face serious personnel problems. Even proprietors with only one employee complain about misunderstood directions, half-hearted work, frequent absences and long lunch or coffee breaks. Salaries paid to poor producers are precious dollars lost and discontented workers not only waste time and materials, they often chase customers away. The root of most of the problems is poor personnel administration. The business manager worries about production, sales and finance, but neglects the matter of personnel needs until a crisis develops. The fact is that the employees of any business are the most valuable and precious assets. In order to build a loyal and efficient staff the manager of any business must devote considerable time and effort to hiring, training and managing staff.

## 8. Failure to assume the proper role

The fate of any enterprise depends upon the kind of manager/leader in charge. The same money, materials, machinery and people can produce dazzling success for one business person and dismal failure for another. The difference will lie in the quality of the individual management methods. The skills required to be a good manager vary and change as the business grows. The managerial knowledge needed to direct a business in its infancy, that is when it is primarily a one person operation, is different from what a growing concern needs five, ten, or twenty years later. As a company reaches new stages in its development, its chief policy maker's role must adapt in concert with growth and development. The owner needs to plan for and carefully make the transition from operator to manager and then on to CEO/leader, assuming the responsibility that each role demands. If the owner clings to comfortable and familiar jobs, organisation growth and personal development will be obstructed.



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## Further information

The following fact sheets provide further information on these issues:

- Business planning
- Business management tips
- Good management
- Leadership - introduction