

Four Reasons Why Small Businesses Succeed (or Fail)

by Robert A. Normand

SUMMARY: Owners must realize they are required to change their management style from entrepreneur to manager as their business grows. The four key factors that must be addressed and which are present in successful businesses are reviewed and discussed. Detailed characteristics are presented for executive motivation, a working business plan, organizational structure and required operational support systems.

The American system of business management is admired and emulated around the world. The American system is characteristic of two positive traits in the American psyche: (1) enthusiasm for making things better for the future and (2) openness and willingness to change in order to achieve that end.

No society in the world is more prolific at creating new businesses than the United States capitalistic system. Often, however, as small businesses owners and managers, we are so busy starting new ventures and fighting daily fires that we don't take the time to learn basic, successful management principles. These principles have been tested and proven by our larger companies over years of trial and error. They are readily available as a resource to the small business owner.

Many entrepreneurs are technical experts in the product or service they offer. The entrepreneur, however, often starts a business without any formal training or experience in the best management practices and principles. By "management" here we mean *the business of successfully managing the non-technical side of the business*, the "back room" activities. It is the "business of running the business". As a result of inadequate or inattentive management, many small businesses fail in the early years. They fail not because of a weakness in their product or service concept, but because the business was not properly organized or managed.

Once a small business has emerged from the start-up phase, or grown to a certain level, management techniques **must change** or the business will inevitably run into trouble. Although situations vary widely, for many small businesses management crises start in the range of \$1-3 million in annual sales or 5-15 employees. When management issue becomes critical, the owner or manager of a small business must evolve or change from a manager of *things* to a **manager of people** and from a *technical expert* to a **strategic thinker**.

Change is never easy, particularly for talented entrepreneurs who have ingrained habits developed over time. But **failure to grow as a manager is** a major, perhaps **the major reason why a business will falter**, stagnate or even collapse under its own weight.

But what have successful business owners developed have is missing in troubled businesses?

First of all, owners of successful businesses have **developed** personal characteristics that they were not necessarily born with and that reflect in their business organization:

- Invariably they have a **positive attitude** towards their business and life in general.

"Twenty years from now you will be more disappointed by the things you didn't do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover." Mark Twain

- They are **committed** to their effort.

"The only place you'll find success before work is in the dictionary."
May B. Smith

- They are **patient**.

"Entrepreneurs are simply those who understand that there is little difference between obstacle and opportunity and are able to turn both to their advantage."

Victor Kiam

- They are ***persistent***.

"Many of life's failures are people who did not realize how close they were to success when they gave up." Thomas Edison

Secondly, the owners of successful businesses have developed a ***business blueprint*** called a **Strategic Business Plan** that clearly describes their business concept, their mission and their philosophy of business. In this document, they have set personal and corporate goals and set out specific time lines and strategies to achieve them.

Thirdly, successful business owners think of their employees as "associates", a favorite descriptor used by Sam Walton and a more meaningful idea of a management/employee relationship. Successful owners view their associates as their most valuable asset and resource. Associates are gathered into an **Organizational Structure** that functions as a well-oiled machine. This structure, including all its policies and procedures, encourages associates to perform to their utmost capabilities and gives them the freedom to achieve, rewarding those who excel in proportion to their contributions and disciplining those who deviate from acceptable behavior. Positions, tasks, duties and responsibilities are defined and communicated routinely and performance is measured regularly. Training, job enrichment programs and incentive compensation plans are designed to encourage each associate to excel.

Fourth and last, the owners of successful businesses have developed **Operational Support Systems**. These may be financial or non-financial, manual or automated. The objective of these systems is to support and make efficient all the activities of the organization. Well structured, they also relieve management of many day to day routine activities, giving owners more time to be strategic thinkers. The information provided by these tracking systems provide critical information on sales, cash flow and other financial performance data so that senior management can take timely action as change occurs. Red flags appear early, before problems become unmanageable.

IN SUMMARY, THE FOUR KEYS TO SUCCESSFUL SMALL BUSINESS MANAGEMENT ARE: **(1)** Owners have developed habits and traits that are ***Positive, Committed, Patient and Persistent***. **(2)** A ***living Strategic Business Plan*** is in place. **(3)** An ***Organizational Structure*** has been developed that encourages people to be their best and allows them to do so. **(4)** ***Operational Support Systems*** are used that track performance and relieve senior management of daily detail yet supply them with critical data to manage the business.

Let's go a little deeper into what is meant by a **Strategic Business Plan**.

Successful businesses operate within a planned framework. A **Strategic Business Plan** is written for a minimum of three years or two years beyond the current budget year. The plan describes the company's mission, analyzes corporate and marketing strengths, evaluates weaknesses and how they will be overcome. It identifies target markets and pricing strategies and describes strategic alliances that exist or will be pursued. The plan describes positions on any other issues seen as critical to the long term health or viability of the business.

"Failing to Plan is Planning to Fail"

Effie Jones

Now let's look a little deeper at what we mean by **Organizational Structure**.

The basic building blocks of organizational structure for a business are:

- An **Organizational Chart, Job Descriptions, Task and Duty Lists, a Job Performance Evaluation System, an Employee Handbook, a Policies & Procedures Manual** and an **Incentive Compensation System**.

When *all* of these organizational components are in place and being utilized routinely, the organization will have structure and purpose. Employees will feel they know where the company is going and what their role is in helping it get there. They will know the boundaries of what is expected as acceptable behavior and they will be aware that outstanding performance will be rewarded.

Now let's look a little deeper at what we mean by **Operating Support Systems**.

Usually the most involved system for a small business is the **Accounting System**. This may be a relatively simple system such as QuickBooks® or Peachtree®. These systems are pre-designed and user-friendly and are particularly good for non-manufacturing businesses that simply buy and resell items. Also, they manage customers, vendors, accounts receivable and accounts payable very well. Finally, they have the capability of generating excellent managerial and financial reports, virtually in a minute or two.

No matter what the type of business, some type of accounting software package is needed that can capture daily transactions in a real-time environment and be easily operated by in-house personnel. In today's fast paced business world, relying on an accountant to provide periodic statements of company performance several weeks or even months after the fact **is not an acceptable strategy**.

Other systems small businesses should have in place (typically these are automated Excel®-based systems):

- **Cash Management, Annual/Monthly Budget with Variance Report, Labor Burden Tracking System, Job or Product Pricing System, Incentive Plan Distribution System, Break-Even Calculator and a Weekly Sales Reporter.**

Even if you have none of these developed, **the task is not as daunting as it may seem** at first. Plug-in systems are available from a number of sources at modest cost and include backup training and support (one such source can be found at www.isbminc.com).

A business that has these four critical components in place stands a much higher probability of success than businesses that are not so equipped.

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Author: Robert A. Normand (www.bobnormand.com) is Executive Director of the Institute for Smart Business Management (www.isbminc.com) and author of "*Entrepreneurial*, The Six Step Recovery Program for Small Business" (www.entrepreneur.com).

Mr. Normand has served as principal management consultant for more than 100 businesses ranging from \$500,000 to \$50,000,000 in annual sales and has owned and operated several small businesses of his own in diverse industries. Mr. Normand's small business philosophy is premised on the belief that small business management skills can be developed by busy entrepreneurs using readily available information, tools and procedures not found in business schools or formal degree programs. He can be reached by telephone at 941-330-0889 or by e-mail to bob@bobnormand.com.

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