The Essential Guide to Managing Small Business Growth

Peter Wilson and Sue Bates

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Foreword

It is estimated that there are currently 3.7 million active businesses in the UK. Of these firms, a massive 99.8 per cent are classified as either small (fewer than 50 employees) or medium-sized (50–249 employees); in fact, approximately 2.6 million of these businesses comprise only a self-employed owner-manager. Together, these companies employ more than half (55 per cent) of UK plc's non-government workforce and account for 45 per cent of its turnover – contributing significantly to the UK's GDP and to employment.

It is clear that, despite the lion's share of media publicity and credit going to big business where the UK economy is concerned, small and medium-sized companies are at least as important as their FTSE peers.

However, one-third of businesses fail within three years of start-up. That is a stark statistic, but not one by which aspiring and current entrepreneurs should feel enslaved. Business is a tough game, piled high with challenges, obstacles, problems and, of course, rewards. Owner-managers and founding directors face major dilemmas throughout both the start-up and growth phases of their businesses, such as how to write an effective business plan that allows initial finance to be raised; constructing a business and marketing strategy to drive business growth; how to find, hire and retain the best talent on the market; and how to manage a business's finances effectively and aid its survival and growth beyond the initial two years of trading.

Many entrepreneurs may not have the entire requisite reservoir of skills and experience to meet these challenges; as a rule, few people do. The key to avoid becoming another statistic or being another failed business is to augment your skills – to be smarter. Taking appropriate, relevant and practical advice is therefore a keystone in achieving commercial success.

That is why I am delighted that this book has been written specifically for growth-stage business owners and their key managers who are striving to build a successful business. The book aims to help entrepreneurs achieve business success through providing fundamental skills and knowledge – enhancing the ability of business people to overcome obstacles and make the most of the opportunities that present themselves. It contains the lessons that Peter Wilson and Sue Bates of The Enterprise Partnership have learned from working with businesses at this stage of development over the years. It is a great manual for the time-pressed owner-manager and I am sure you will find it valuable.

Once you have read the book, you may wish to receive a more personalized and in-depth level of advice that cannot be imparted by the written word alone. For those who wish to take this step, there are numerous options on the market.

Among these is the Business Link network,[1] which is run by the government's Small Business Service, the agency within government that champions business.

At Business Link for London, we work with a huge network of partners[2] to make sure that business owners can access a range of impartial and affordable business services, giving you the choice to work with the right support provider for your organization. Whomever you choose to work with, you can be assured that they will have your business's best interests at heart.

However, the first step on the path to business success is to read this book and try to implement as many practical tips as possible to aid your business's growth, profitability and success.

Together with Peter Wilson and Sue Bates, with whom I have worked for over ten years, we at Business Link for London hope that the information contained within this book, linked to additional business advice where desired and appropriate, will help you to realize your business dreams.

Judith Rutherford
Chief Executive, Business Link for London

Notes

1. The Business Link network can be contacted at www.businesslink.org or on 0845 600 9006.
2. The London Business Support Network can be accessed via Business Link for London at www.businesslink4london.com or on 0845 6000 787.

Preface

This book is about the essentials of managing a growing small business. How do we define 'small' and 'growing'? 'Small' means not big in scale or part of a larger business, not quoted on a public stock market, and owned and managed by the founders, or their progeny. The founders (or their progeny) continue to work in the business and depend on it for their livelihood, since it has survived the start-up stage – the first five or so years. In these early years, teething troubles in production, delivery and operations have been successfully resolved (a large proportion of small businesses fail in their early years: figures from the UK Department of Trade and Industry[1] show that 65 per cent do not survive beyond three years and research by Barclays Bank[2] puts average survival rates at 34 per cent five years from start-up). The business is now producing a quality product or service for its loyal customers, most of whom have been retained since the very first sale was closed. The business has satisfied customer needs to an acceptable standard all this time. Most of the first people recruited by the founder are still there, though many new faces abound. The founder and the management team have a modicum of management skills between them and these bare essentials give rise to some optimism that the firm can, if internal and external conditions are propitious, grow from small to medium-sized.

So we come to growth. By 'growth' we mean a business that demonstrates (or shows visible signs of) a propensity to expand operations significantly, because it satisfies a number of important growth criteria. These criteria include: there is continuing excellent service to customers (generating repeat orders, customer retention, referrals from satisfied customers and sustainable gross margins); the founders demonstrate their ability to manage internal operations effectively and efficiently (resulting in control of unit costs and satisfactory net margins); the business has a track record of sustained profitability (even though that may not be abnormally high); and the founders have sufficient credibility to raise the necessary finance externally, although, because of rising profitability, the business can finance a proportion of fixed and working capital from internally generated funds. The growth business we have in mind typically exhibits some or all of these characteristics, though usually erratically. The main reasons are that management resources are volatile and also that there are few, if any, systems in place to support sustained, profitable and orderly growth.

Finally (and some would say critically), successful growth is achievable because the founders have an empathy with people. They have well-developed interpersonal and communication skills and they know instinctively what motivates people to give of their best – this in spite of being considered mavericks or 'black sheep' themselves. Although they might lack 'professional' general management skills, they

probably have expertise in at least one key functional area, i.e. sales, production or operations. The founders are typically good examples of hard-working, diligent and effective contributors to the business and they manage to engender similar responses in their key people. They lead from the front.

The fact is that there are few people like this running growth businesses successfully. Many dream of transforming their small business from an informal 'lifestyle' activity into a medium-sized fast grower, lured by the challenge of managing rapid growth or by the prospect of large earnings and selling out at a fabulous price. Many of these business owners have written a business plan, which is usually gathering dust in a filing cabinet, setting out a growth strategy, and a smaller number have tried unsuccessfully to put the plan into action. However, most business founders prefer a simple and sedate existence, which is achieved by working long hours at relatively low rates of pay. They typically don't want the bother of recruiting and managing staff; the product or service *is* the business for these people and they often excel at making and delivering it. They play an important economic role as generators of wealth and social progress, but they aren't interested in running a growth business.

We have aimed this book at the many business founders who aspire to be among the few, at key managers working alongside the many, and at others who work with or need to understand the nature of the management task that faces founders of growth businesses.

Why should you read this book? It has some serious themes; it also has a hidden agenda – how to run your growing business and stay sane, to succeed on your own terms while simultaneously tuning in to the demands of customers and staff. The book came to be written because, having worked with small, sometimes rapidly growing businesses for many years, we believe that our experiences of how clients strive to manage business growth and the lessons that can be drawn from their endeavours are worth recounting. We know how difficult it can be for busy entrepreneurs immersed in day-to-day operations to get away from the office or factory floor and stand back to consider how they can move forward rapidly and profitably, and not collapse under the weight of their own success. A short, practical book on the main management issues facing growth businesses could help. There are modest advantages to reading above other learning media, and many entrepreneurs have a preference for learning in small, bite-sized chunks, which is what a short book can readily provide. For one thing, it is possible to telescope the most important issues into a very small space and make it portable. A book is cheap and disposable – if you don't like it, just throw it away! It can't come back. It's hard to get rid of an expensive business consultant quite so quickly. And a book requires no explanation. You can leave it lying around and it won't complain, it won't phone you up and remind you how useful it can be (some assumption!). And you can pass on the book without any implied insult to colleagues and key managers.

This book is full of fundamental insights into how growing businesses should be managed. You might be doing very well managing the business with consummate professional ease; but then you might read this book and get just one good idea

from it. That single idea could be worth tens or even hundreds of thousands of pounds. Or it could give you an unparalleled opportunity to get away more, do more strategic thinking and, who knows, improve your golf handicap or spend more time with your long-suffering family. Wouldn't it be worth it?

Notes

1 Department of Trade and Industry, VAT deregistration statistics, www.sbs.gov.uk.
2 Barclays Bank, Barclays Small Business Survey Q3 2002, www.business.barclays.co.uk.

Managing Business Growth

CHAPTER 1

'You see things; and you say ''Why?'' But I dream things that never were; and I say ''Why not?'''

George Bernard Shaw

Key issues dealt with in this chapter are:

- Management issues in the transition from small to medium-sized.
- Factors limiting the relevance of management theory to small organizations.
- Reconciling personal, family and business goals with the needs of the business.
- The meaning of effectiveness and efficiency.
- Synopsis of the book.

Making the transition

So you are contemplating growing your business? Perhaps it has been growing rapidly in recent years and has now come to a crossroads; or perhaps you have been focusing on internal efficiency and feel that, with a solid platform firmly in place, the time is ripe to step up the pace and go for growth. In either case, one thing is certain – growth from small, informal and simply organized to medium-sized, formal and more complex does not come easily without undergoing difficult changes to the organization's fabric: to its structure, people, processes and systems, and to its very core, the distinctive competences that set it apart from its competitors and make it successful at the moment.

The responsibility for making a successful transition from small to medium-sized falls on the founders, directors and key managers. No outsider can possibly tell you what to do. Although the ultimate goal might imply a revolution in the way you currently conduct your business, you have to strike a balance between stable evolutionary change and the rollercoaster ride of rapid growth. While your long-term goal might require a fundamental upheaval in your organization, the key to sustained profitability and positive cash flow should be incremental, systematic change led by disciplined, thinking managers.

Consider for a moment a business organization in its formative years (it could be yours). The early years are usually characterized by a sharp focus on the needs of a small number of customers, a lack of formal structures, processes and systems, and extreme informality of management style. Satisfying these customers with the highest possible level of service is usually of paramount importance. Sales are generated by the founders forging close relationships with a few key customers. The founders understand the fragility of competitiveness and are prepared to bend over backwards to provide high and rising levels of service. For them, nothing is too much trouble; they see the creative possibilities in any commercial situation; and it is their vision and drive that turn the germ of an idea into pulsating business reality.

Customer retention is usually particularly high in the early stages of growth, even when standards slip a little and prices veer out of line with those of competitors. The psychological and emotional resilience of the relationship between the founder and the customer is one factor; it is quite another that the customer's access to the chief decision maker (the founder) makes it easier to secure a prompt response when things go awry. The customer's unrestricted access to this vital resource is a major criterion of success in the early years, though few founders explicitly recognize this as a key strength or plan for its perpetuation. Not being able to 'clone' the rare *customer-satisfying* qualities of the founder as the business grows is a potential barrier to rapid growth, because it requires a high level of customer retention and continuing development of key accounts.

Another major advantage in the early years is rapid transmission of vital information, the outcome of short lines of communication. This is usually the result of a) the absence of a reporting hierarchy; b) the physical proximity of most staff to each other and to the boss; and c) a culture of consideration, of sharing things and a willingness to 'muck in'. Understanding the role of information and how it oils the inner workings of the organization is necessary to ensure that the smooth flow of information is actively nurtured in business development plans. The founders are invariably the repository of all important information – they are closest to markets, customers, bank managers, suppliers and employees – and to ensure that ever-increasing quantities of information flow smoothly to key decision makers *other than to the founders* (a requirement of effective delegation), the fact that it might not has to be recognized and a solution found and implemented.

In the early years, systems and processes do not have to be formal. With the founder in control and at the centre of the organizational 'spider's web' (explained in Chapter 4), and with all staff within easy proximity and on first-name terms, informality is an advantage. Formality makes life more difficult because it imposes costs and disrupts people's normal relationships and working habits.

Where do the founders go from here? There are distinct advantages in remaining a small, 'lifestyle' business, that is with a total complement of, say, 10 to 12 staff. Research has established that a small group finds it easier to function as an efficient, coherent unit and that eight people constitute the 'natural' span of control for a single boss. However, a small, 'lifestyle' business will not be a satisfactory achievement for those entrepreneurs who relish the challenge of managing growth.

Success in the formative years can establish a solid platform for development and, combined with further market opportunities and the drive and management skills of the founders, can soon lead to a complete transformation of the business

as growth takes its course. Customer focus remains one of the keys to making a successful transition from small and informal to medium-sized and complex. Conflicts arise because the need to create and build new functions becomes paramount and can be at variance with the concurrent need to remain strongly customer oriented. Non-operational functions, e.g. accounts, finance and personnel, become disproportionately important. The success of the business in negotiating this transitional phase is dependent on the founders recognizing that the old ways of doing things are no longer good enough. The area of greatest growth is in staff numbers and the diversity of operational tasks, and all too soon the strains begin to tell – they start typically with customer complaints and defections, breakdown in internal communications, a collapse in morale in parts of the business, growing staff disaffection and high staff turnover. The founders might ignore these problems, believing them to be temporary and leaving people to cope as best they can; or they might attempt to deal with the *symptoms* without having the relevant skills and knowledge to understand the *root causes* – essentially, problem solving and decision making have entered a new plain outside their sphere of experience. Their response might also be to avoid formality and to 'muddle' their way through busy periods, preferring to cope with stress rather than investing time and money in diagnosing the real causes and setting up new ways of doing things – incrementally changing the shape of the organization and formalizing systems, procedures and processes.

The transition from small to medium-sized requires the founding entrepreneurs to adopt new attitudes, new modes of behaviour and high-level management skills, without dropping some of their exceptional entrepreneurial attributes. Some examples are:

- Being a visionary leader.
- Being a business strategist, not merely a tactician.
- Being an information disseminator rather than an information hoarder.
- Devising accessible, reliable management information systems to replace secretive, partial, *ad hoc* sources (principally the founders themselves).
- Diagnosing organizational weaknesses and designing new functions.
- Introducing formal recruitment practices, rather than hiring someone's best friend through informal networks.
- Developing a nascent management team (who probably don't have the skills or knowledge for the job).
- Delegating responsibility for delivering outcomes to trustworthy people.
- Paying serious attention to human processes rather than solely to tasks.
- Putting emphasis on developing employees' knowledge and skills.
- Being a mentor, coach and people developer.
- Dealing with difficult situations and underperformance.
- Handing over the biggest and best customers to a professional key account team.
- Negotiating with and influencing people (some of whom you don't really like).
- Achieving positive outcomes from meetings with key people.

How do the founders adopt new attitudes, behaviour and skills, thus mutating into professional managers? Is it in fact desirable that they should do so? By making

the change, they are bound to sacrifice some of their strengths. Would it not be better to hire in a professional general manager, or even a new CEO? The ability to identify weaknesses in their personal armoury of management competences and set about plugging them with the right amount of skill and knowledge is a key turning point in the successful transition from small to medium-sized. The founders must recognize that they cannot 'go it alone' because they lack the competences that will take the business into the next phase of growth.

The relevance of management theory to growing businesses

In considering the management needs of growing businesses, we must take into account the great diversity of business organizations and their individual situations and characteristics. Can we simply apply the standard, large-company management approach to smaller, growing businesses? In other words, are growing businesses simply large ones writ small? No, there are distinct differences that give rise to the need to modify standard management theory as it applies to growing businesses.

Motivation of the founders

The presence of the founders (or their progeny) provides a central clue to the way the organization functions and how it behaves; its industry 'personality', so to speak. Entrepreneurs are generally thought to be abnormal people – the black sheep of the business community – whose autocratic management style and 'Victorian' business philosophy are considered an anachronism in the modern business world. Box 1.1 lists some of the special characteristics of entrepreneurs and their putative behavioural effects.

Some of these characteristics do not fit well with modern management theory. For example, a 'bias for action' could be considered synonymous with a lack of analysis, 'knee-jerk' undisciplined response and whimsical decision making, leading to costly mistakes. Management thinkers prefer a planned, orderly, systematic approach to business decision making in order to control risks. Yet it is crucial to understand the motivation, values and ethics of the founders. They constitute the dissatisfied minority who are not usually tolerated in large organizations. Driven by a high 'need for achievement' (managers in large organizations have a high 'need for power and affiliation'), they eschew hierarchical reporting structures (indicative of power) and extra-mural social activities (affiliation), preferring to work long hours to ensure that customers' orders are fulfilled on time and quality standards are up to scratch.

Managerial competence

Business founders are not normally professional managers. They are typically specialists in sales or technical areas; yet they still need the skills of general management. Many do not understand the nature or relevance of key functions that

could hinder successful growth, for example marketing (as opposed to promotion and advertising) and human resource development (as opposed to personnel). Paradoxically, they have an extravagant view of their capabilities, which can get in the way of evolutionary change. Nor do they have a managerial role model to learn from; in contrast, most managers in large organizations have access to excellent role models in the shape of senior managers and directors, as well as to advanced techniques of management development, including mentoring and coaching.

Box 1.1 Twenty characteristics of successful entrepreneurs

	Characteristic	Behavioural effects
1	Drive and energy	Hard working over long hours
2	Self-confidence	Ability to generate confidence and trust among customers, suppliers and employees
3	Long-term horizon	Willingness to stick to business creation over the long term
4	See money as a measure of achievement (not an end in itself)	Conserve money at the start; accept low salary and deferred gratification
5	Persistent problem solvers	Persistence in overcoming seemingly intractable obstacles
6	Clear goals	No wasteful decision making
7	Controlled risk takers	Ability to instil confidence in investors
8	Dealing head-on with failure	Not easily put off, learning from failure
9	Bias for action	Rather do things than talk about them
10	Take personal responsibility	Don’t pass the buck
11	Efficient resource users	Get the most out of every scarce £
12	High self-imposed standards	Strive to achieve high quality for customers
13	Internal locus of control	Willingness to take the blame, confidence in taking on achievable tasks
14	Tolerance of ambiguity and uncertainty	Decisiveness
15	Commit own money and personal resources	Total commitment to the venture, disciplined decision making
16	Creativity and innovativeness	Generate ‘out of the box’ solutions
17	Self-reliance	Ability to solve all problems
18	High regard for people	Willing to show trust in others
19	Reliable, honest, ethical	Win trust of stakeholders
20	Financial awareness	Confidence in negotiating

Sacred cows

Founders cocoon themselves in the cottonwool of unsubstantiated myths, assumptions and beliefs, which they deem necessary for survival as independent business owners. These flimsy beliefs can become ‘sacred cows’ that, if not challenged objectively, will ultimately cause the demise of the business. Some classic sacred cows are:

- An unsubstantiated but long-held belief in the profitability of the largest customer or best-selling product (whereas if detailed records of profitability were to exist, they might suggest differently).
- The suitability of tried-and-tested marketing and sales methods for existing and new markets (whereas close inspection reveals out-of-date literature and verbose copywriting more suited to the 1980s than to the twenty-first century).
- The loyalty and therefore assumed effectiveness of long-serving staff (whereas sane people consider them to be hopelessly out of touch and error-prone).
- The adequacy of quarterly management accounts as the main source of control on profit and cash (when in reality accounts are late, do not reflect current trading and are incorrectly and inconsistently presented).

Inseparability of ownership, investment and management

Proposals for managing the growing business should take into account the implications of having owner-investors actively engaged in running the business:

- Business founders often remortgage their homes and invest their savings in the venture, only to discover that in the early years net worth can actually decline to the point of technical insolvency. This can render decision making unduly risk averse, which is inimical to sustained growth. It does have the advantage, however, of ensuring that major decisions are taken by shareholders who have a lot to lose if things go wrong.
- The multiple roles of shareholder, worker, manager and director, which give the founders a special insight into the workings of their businesses, can limit their effectiveness as business developers. For example, as a shareholder you might have to relinquish outright control if an injection of external equity capital is needed (even though this might threaten the very essence of your motivation to go it alone, viz. the desire to control your own destiny); and as a director you need to take a long-term view, which can conflict with the roles of manager or worker, focusing on day-to-day tasks.
- The owners can view the business as a personal possession with concomitant emotional as well as financial strings, which makes it difficult to drag them away from day-to-day 'worker' tasks to take on a loftier 'strategic leadership' role.
- The family dynasty might depend on the business as its sole source of income and wealth (and, indeed, social status), with implications for management succession: the respective roles of the founders, their progeny and outsiders, and the need for professional managers. It is not easy to fire the CEO when he or she owns the business!

Undercapitalization

In combination with negative attitudes to third-party equity capital, undercapitalization is a potent force for instability in the small growing business. It arises

from inadequate founding capital combined with over-optimistic forecasts of profit and cash (which don't materialize). On top of this, there is a tendency to milk the business when cash is available and to depend too much on short-term lines of credit (overdraft and suppliers). The problem of inadequate capital can cause decision making to focus unduly on generating or preserving short-term cash at the expense of profit and long-term investment. Without the latter, there can be little prospect of stable long-term growth, and none at all of building a delegated management infrastructure, which is a necessary requirement for the founders to take a more strategic view of the business.

Customer, market or product dependence

This arises in part because of the relatively small number of customers needed to sustain a successful business and produce a good living for the founders, and also because of a lack of strategic marketing capability – the ability to identify and evaluate opportunities and threats in existing and new markets and to take the business into new growth areas with appropriate organizational competences. Moreover, it might not be realistic to move into new markets or widen the customer or product base if the strength of the firm is its market focus.

Many small businesses are very successful at 'keeping their eggs in one basket' because of a sharp focus on a market niche where customers' changing needs can be closely monitored; or they are nimble enough to move into new areas of opportunity when they emerge – a reactive approach to business development. Whether nimble or not, financial performance can be highly volatile in the short term, with the business moving from profit to loss in months. These consequences have implications for forward planning: why plan ahead when a rapid change of direction is practicable and within the scope of existing resources, or when you can't influence demand anyway?

Market powerlessness

Small businesses are unable to influence the market because of their lack of market power. Their markets are often idiosyncratic niches and generally they do not compete head-to-head with large competitors. An important consequence of this feeling of powerlessness is that owner-managers do not consider business planning to be a fruitful activity, in the way that large organizations do. Planning is regarded as the preserve of large firms, which engage in it as a means of reducing uncertainty and aligning resources with the needs of the market. Planning and power to influence the market go together. If planning is to be useful as a management tool in the smaller business, it should be seen to perform different but still appropriate functions.

Managing effectively and efficiently

Sustained, profitable growth cannot be achieved without paying proper attention to the need for greater *effectiveness* (doing the right things, which ensures that

everything gets done to an appropriate standard) and *efficiency* (doing things the right way, which ensures that tasks are undertaken in the right sequence and completed in the optimum time). While in the early years of a business sheer enthusiasm and hard work will eclipse inefficient practices, the successful transition to a medium-sized business demands greater attention to effective and efficient management and to the formal systems and procedures that need to be in place to ensure that this happens.

As complexity increases and an organizational hierarchy starts to emerge, the founders can come under pressure to add new functions and roles (the dreaded overhead!) to ensure that customers' needs are met at ***high and rising*** levels of service, while giving themselves space to stand back, plan the future and pay more attention to leadership processes. A typical example is adding a marketing department incorporating not only external communications, but also strategy, market research, product development, customer feedback, etc. In the early years parts of this function are performed by the founders, but to improve the effectiveness and efficiency of marketing, full-time marketing professionals will have to be recruited. The same overhead growth applies to other emergent areas, such as human resource management, product development, research and development, information systems and financial control activities.

At this point in the organization's development, informal, word-of-mouth methods of passing on working practices and procedures start to break down. When a handful of people perform a task, it is easy enough to brief them about the goal (desired outcome) and how it is to be achieved. When there are teams of people performing diverse, interdependent tasks, briefing becomes more complex – one or two key managers soon find it impossible to brief, train, monitor, give feedback to, motivate and lead increasing numbers of new staff, most of whom are taking on new jobs in unfamiliar surroundings. Thus task and team effectiveness starts to erode as tried-and-tested working procedures are neglected or short-circuited. If not nipped in the bud, these inefficiencies soon compromise quality, with the consequent defection of long-standing customers.

There is a similar problem with efficiency: informal ways of communicating information suit existing employees who have the ability to identify improvements, i.e. short cuts in working practices, because of long experience in the job. But with frequent infusions of inexperienced new blood, unless there are adequate safety nets in place (training, monitoring, feedback, supervision, motivation, leadership), high standards of service delivery can falter as the learning curve starts to take effect (Figure 1.1). This can stall the process of falling unit costs (curve B) – caused by errors and inefficiencies – when ideally the business needs to travel over time down learning curve A to take advantage of lower unit costs.

Many small organizations try to plug this hole by shoring up the teetering informal system with formal procedures such as those covered by ISO9000 accreditation, which ensures that quality management systems are recorded and that people adhere to them rigidly. In a curious way, formal recognition of quality systems can corrupt the culture of the organization – its belief systems – because high-quality service is ingrained in people's beliefs and working habits, rather than conforming slavishly to a quality manual. Rapid growth can undermine culture and managers

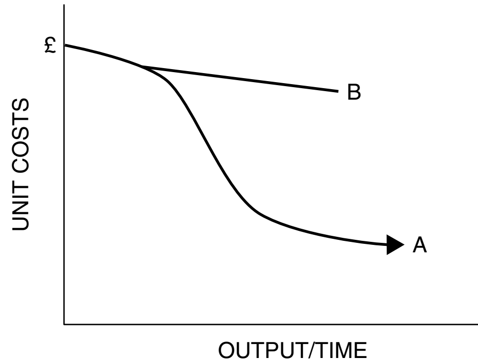

Figure 1.1: Business growth and the learning curve.

should respond by reinforcing and building on the positive things that grew up with the business.

Setting realistic goals

The motivation to found a business is sustained by a need for achievement, self-reliance and personal fulfilment, although one or more negative 'push' factors might also be a cause, e.g. redundancy, lack of alternative job opportunities or changes in personal circumstances. But once the initial 'buzz' of starting the business is over and the initial goal has been achieved, what is in it for the founders? Psychic and emotional goals (sense of independence, control of your own destiny) can conflict with economic ones, such as growth in income and net worth. For instance, founders often express their motivation (goal) in terms of 'controlling their own destiny'. Arguably, this is true only in the context of their initial career choice. Once the business is under way, the job of owning and managing it is like any other and soon control of one's own destiny is subverted to the demands of customers, suppliers, employees and bank managers. The owner-manager will soon feel that outsiders are controlling his or her destiny.

What are realistic goals for the founders as the business grows, and why change? Explicit, measurable objectives should be formulated and the first should probably be net profit margin (net profit before tax as a per centage of sales), framed with future growth in mind; growth in net worth might be a secondary objective (set it as a specific percentage uplift on the previous year), with an eye on future external financing needs. Being explicit about goals gives everyone something concrete and achievable to aim for – the founders cannot expect increasing numbers of new employees to buy into their nebulous personal goals and ambitions, even if the original loyal staff, much smaller in number, might be willing to continue to do so, because of their close emotional connection with the founders from day one. Few people will commit to a goal that seeks to build the founders' egos, or helps define the meaning of life for them!

Synopsis of the book

In this book we deal with the job of managing business growth successfully. We do not accept that growth (or rapid growth) is a foregone conclusion, even when there has been growth in the recent past. Markets can change rapidly and customers can be fickle. Each situation needs to be examined and the decision to grow or not to grow taken on its merits. Monitoring and assessing business performance and periodically evaluating existing strategy and future strategic options are crucial activities for directors; leading and managing people to implement the chosen strategy effectively and efficiently are crucial activities for managers. The following ten chapters tackle the fundamentals of directing, leading and managing a growing business: setting business strategy and getting performance from people.

We begin in Chapter 2 with business strategy, on the grounds that everything else follows the lead question: 'in which direction should the business be going?' By 'direction' we mean the market segments into which you choose to sell and the mix of products and/or services on offer in the chosen markets. We examine strategic options and techniques for making defensible choices that produce the optimum strategic fit between markets and organizational competences, thus ensuring that managers have every chance of implementing the chosen strategy profitably within planned financing limits.

We follow with further market-related issues in Chapter 3, which deals with day-to-day marketing and sales decisions. This involves more than merely advertising and printing brochures. What frameworks are available to ensure that you can meet the needs of your customers effectively and efficiently? How can you communicate effectively with your chosen markets and generate profitable leads? This chapter also deals with the development of a complete marketing function that includes the usual promotional and website roles as well as the increasingly vital ones of gathering market and customer feedback data, competitor research, product development and customer care.

Chapter 4 provides a general outline of organizational design and development. Effective and efficient organizational change is at the core of successful business growth – managers need the skills of diagnosing organizational problems accurately to ensure that proposed changes will align structure, people, processes and systems more closely with the existing and emergent needs of customers.

Having put in place the right organization to deliver the strategy, in Chapter 5 we discuss the management skills required to get teams of people to perform their tasks effectively and efficiently. Once overall corporate objectives are communicated to team leaders, they in turn can brief their teams clearly, set achievable goals for individuals, monitor progress towards these goals and provide constructive feedback on achievements. These, with an understanding of motivation and demotivation, are the essential skills of managing people at work.

Managing people effectively and efficiently requires much more than these essential skills, however. In Chapter 6 we discuss the role of the leader who understands delegation and who can apply the 'situational leadership' model to teasing out superior performance, thus distinguishing ordinary teams from excellent ones. Striking the right balance of contributions to team performance through specific team roles (and recruiting for these roles) is one aspect of

effective team leadership; another is building and developing the team through performance appraisals.

Few growing businesses thrive without the 'magic' in their culture that sets them apart from competing organizations. Chapter 7 deals with the beliefs and assumptions held by people about their organization: the way they do things that is different to their competitors. Small, dynamic, growing organizations have a special aura about them – a 'can do' culture – that initially sparkles without much explicit burnishing by managers. Yet these special features can go unrecognized and therefore be neglected in the dash for growth, with unintended damage to the human fabric of the organization.

Moving from the human side of enterprise to the financial side, Chapter 8 explains profit and loss accounts, balance sheets and cash-flow statements, not from the standpoint of the accountant but rather from that of managers faced with making the right business decisions; every decision has a direct or indirect impact on profitability and cash flow. So managers should understand clearly where and how profits are made and how effectively finance is used in their business. To this end, we analyse the accounts using common financial ratios, applying them to day-to-day as well as strategic decision making.

Chapter 9 deals with management information systems and financial controls: the systematic provision of financial, market and operational information for effective decision making, and the controls needed to ensure that financial targets are met. The quality of internal information is usually poor in growing businesses, and none so poor as profitability data on individual customers, market segments, projects and products. The emphasis is on practical information systems needed to monitor and manage the business and on the fixed and working capital controls needed to make efficient use of available long- and short-term finance.

Bringing it all together is the theme of Chapter 10, which introduces the essentials of strategic and operational business planning. The pressure to produce business plans with ever-increasing complexity is immense as the business grows, although given the rate of market change, the powerlessness of the small business and the lack of high-level management resources to implement plans, it is understandable that *plan* nowadays is considered an undesirable four-letter word! Our treatment of the topic is entirely practical: plans can be useful documents, but they must meet certain minimum standards. We provide examples of the different types of business plans in the appendices.

Our closing words in Chapter 11 are devoted to the hazards that lie innocuously in the path of the unsuspecting founder-director or key manager. Whether appointing a successor, dealing with nepotism or seeing off the 'sacred cows' of business growth, it is important to recognize them as potential obstacles to progress and to confront them head on by examining alternative options and making decisions based on an informed choice.

Making Sense of Strategy

CHAPTER 2

Key issues dealt with in this chapter are:

- The meaning of business strategy.
- Distinctive and core competences as the basis of competitiveness.
- The techniques for reviewing and setting strategy.
- The available strategic options and how to choose a direction that will maximize profits over the longer term.
- Organic growth vs merger or acquisition.

Strategic issues: Setting the scene

Strategy as applied to business is a recent phenomenon. The term 'strategy' derives from military science and describes how a general deploys his forces in battle with the objective of achieving victory by defeating the enemy. Business strategy describes how you organize your business (deploy your resources) to compete for the attention of customers in your target markets (achieve your objectives), faced by competitors and other external factors that present threats to your business (defeat the enemy, so to speak).

Business strategy addresses the following questions:

1. *Customers and markets* – which customers (and markets) should you target?
2. *Products and/or services* – what should you sell to these customers?
3. *Organizational resources and competences*, such as people, processes, structure and systems – how should you organize your business to get these products/services to your customers?
4. *Finance*, both working capital and long-term capital – how much money will be needed to make the strategy happen and to achieve corporate objectives?

Here are some fundamental propositions about strategy that explain its relevance to managing today's growing business.

1. The essence of business strategy is to compete profitably by identifying a target market with specific unmet needs (*opportunity*) and to sell products and/or

services in it, exploiting your organizational distinctiveness (*strengths*) at a price that will return the optimum level of profit, while making continuous improvements to those parts of the business that don't work well (*weaknesses*), in the face of competition and other unfavourable external factors (*threats*).

2. This seems straightforward in a period of slow, steady growth. However, strategy erodes quickly in rapidly changing times because yesterday's competitive strengths that successfully underpinned past performance cannot be automatically expected to do the same today and tomorrow. Customers, competitors and other exogenous factors will not allow it. New unique or special strengths have to be found and existing ones revamped simultaneously to ensure that profitability is maintained or increased.
3. Business strategy is a total concept embracing every function in the business: customers, products or services, research and development, marketing, production, purchasing, logistics, operations, administration, personnel, information systems and finance. Most of all, it is concerned with the way these functions are brought together to generate profits: the sharper your focus on the needs of your customers and the closer the alignment of your organization with these needs, the higher the rate of profit.
4. Customers have choices: they can buy from you, from a competitor, or, if they prefer, defer their purchase temporarily or even permanently. Competitive action and reaction are always at work, whether implicitly or explicitly. Thus customer behaviour is fundamental to business strategy. It is a moving target, continually changing its shape and composition. And as a result, it is not easily influenced in the short run.
5. Business strategy does not have to be written in a business plan to exist. All businesses have a strategy, even if it is implicit, since they have:
   - Customers to whom they sell and markets in which they compete.
   - Products or services that they sell in these markets.
   - Organizational resources that are deployed to make these sales.
   - Financial resources that underpin all this activity.

So the key questions are: What is your strategy? How well is it working? Are corporate objectives being achieved? Can profitability be raised by refining strategy and focusing resources more effectively on the right customers? Directors of growing small and medium-sized businesses generally admit that they could be more profitable. The only question is: How?

The *Titanic*: A salutary lesson in strategy

The story of the *Titanic* is widely known. The giant passenger liner was considered indestructible, embodying all the latest technologies in marine engineering, and was finished to a luxurious standard. Everything about it was top class: construction, engines, food, music, furnishings, décor, bed linen, service and crew. Nevertheless, on its maiden voyage it hit an iceberg in the North Atlantic and sank with substantial loss of life.

The point about this tragic event is that there was more focus on the internal trappings of luxury than on the external strategic picture. In other words, the