IV. MANAGEMENT THEORY:
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IV. Management Theory: Its implications in Small Business

Management is an universal phenomenon. Every organisation requires the making of decision, the coordinating of activities, the handling of people and the evaluation of performance directed towards achieving objectives. Lack of proper management invariably results in chaos, wastage of time, money and effort. The productive efficiency of business firms depend a great deal on the quality of management. It has become more important as labour has become more specialised and as the scale of operations has increased. Technological developments have continually created new challenges.

The characteristic of management is the integration and application of the knowledge and analytical approaches developed by numerous disciplines. The task of an owner-manager in a business organisation is to seek a balance among these special approaches and to apply them. Management is an activity that converts disorganised human and physical resources into useful and effective results. It brings order to endeavors by combining isolated events and disjointed information into meaningful relationships. These relationships then work to solve problems and accomplish organisational goals (Terry and Franklin, 1997).
The process of management to achieve the organisational goals is to identify the basic functions which together make up the process. Although different authors have given different names for the key functions of management, however, there is general agreement on most of the actual duties of a manager. The main function of management:

1. Planning
2. Organising
3. Directing / Decision Making
4. Communicating
5. Controlling.

Besides these main functions, there are some sub-functions of management.
These functions of management are inter-related to each other and constitute the focal process of management. They are required to be carried on simultaneously in the process of management and not in any predetermined order. William Fox points out that planning, organising and controlling are the organic functions of management. According to him, an organic function is a function which is invariably basic to, and inherent in managerial activity. These functions are performed in each and every situation. No business whether it be small business or big business organisation, can succeed without proper planning and without direction, no plan be put in operation. Better operation and correct performance of
business can be achieved only by motivation, proper co-ordination and efficient control of its different activities.

Therefore to achieve the economic objectives, the Small Business owner-manager must successfully perform all the basic management functions in the start up as well as during growth stages of the business unit.

In terms of management functions, achieving the objectives can be expressed on a three step process. The first step involves the careful planning of future needs for funds, both short-term and long-term, through the proper maintenance of an efficient budgeting system. The second step involves acquiring the needed funds from the most economical mix of sources. And the third step is to use the acquired funds in the most efficient manner. This third step is often referred to as the control function of management. If all the functions are properly conducted that may improve future performance of an organisation.

4.1. Planning and setting the goal of the organisation:

The function of planning implies that goals or objectives of an organisation have been defined. Planning refers to the determination of the line of action to achieve a desired result on goal. It is the process of thinking before performing. Imagination, foresight and sound judgement are required for planning.
Henry Sick has defined planning as “the relevant of information from the past and the present and the assignment of the probable future development so that a course of action may be determined to enable the organisation to meet its objectives.”

Planning formally correlates the organisation to its present and future environment. Once the objectives are chosen, the owner-manager has to formulate policies and programmes to achieve them within a certain specified time. He/She has to decide what is to be done, how, when and where it is to be done and who is to do it. Planning is the most important step in the process of getting results by adjusting present actions in view of the established goals. Planning bridges the gap between where we are to where we desire to be in the future. It strongly implies not only the introduction of new things but also sensible and workable implementation. Although the future can seldom be predicted with accuracy and unforeseen events may interface, unless there is planning actions tend to be aimless and left to chance.

Planning therefore, includes determination of the objectives, policies, rules, programmes, strategies, budgets and procedures. The ultimate task of planning is to minimise the risk and at the same time to take full advantage of the available opportunities. Planning eliminates uncertainties and confusion and sets a regular predetermined course of action for the
achievement of better and certain results. Proper planning also secures economies in operation.

Good planning must be flexible and capable of adjustment to the changing circumstances. Planning is necessary in good times as well as in bad times. So planning is a function which every manager has to undertake irrespective of the size and nature of enterprise. Planning generally brings a higher degree of rationality and order into the organisation. The organisation/enterprises with effective long range planning will be able to greatly outdistance their competitors.

Therefore, planning function of management implies that goals or objectives have been defined. For the purpose of the current study the need to define the proper objectives rests on these two reasons.

1. If goals or objectives of the business are unknown it cannot be determined whether or not sufficient information is available to enable planning to take place.

2. Should it be desired to determine a correlation between the amount of management information available to the owner-manager of a small business and the 'success' of the business, this would presumably be the ability to achieve goals.

Current thinking on business goals is of two main stands. First moves from the economic theory concept, that business always attempts to
maximise owner’s wealth and also suggests that due to bounded rationality and general inertia, businesses satisfy and operate at the level and always search newer options until they find a plan which provides satisfactory profits.

The second option, draws from Organisational theory as every business follow an organisational structure. This theory suggest that in a small business organisation it is impossible to distinguish the objectives of an organisation from the objectives of the owner-manager. These individuals bargain, using the resources they bring to the organisation, attempt to acquire their share of personal satisfaction, be it power, money, interesting lifestyle and so on (Nayak and Greenfield, 1994).

Both these ideas are very relevant to small businesses as the proprietor (owner-manager) does not have to bargain with other parties within the organisation and does not have to disseminate information to the internal/external parties. So it could be deduced that the objectives of the owner are those of the business too. If this idea is accepted, it is necessary to discover whether the owner has enough information to plan, for the organisation.

The literature strongly supports the argument that, in small business, planning is a key issue. Planning not only increases the success rate (Jones, 1982), but it also affects the level of performance (Schwenk and Shrader,
organising is also supported by Bracker and Pearson (1986), who identified different levels of performance associated with different levels of planning.

4.2. Organising:

Organising is the creation of a harmonious structure of authority - responsibility relationship. It is the mechanism through which management directs, co-ordinates and controls the business. Main aim of organisation is achieving optimum co-ordination of the function of any business unit. It is intentional in the sense of making sure that all the tasks necessary to accomplish goals are assigned to people who can do them best. So organising is the human relationship in group activity equivalent to social structure. In the words of Fayol to organise an enterprise means “to provide it with everything useful to its functioning – raw materials, tools, capital, personnel”. Organising is just like the functioning of the human body, through which the purpose of life is served.

In a large organisation, organising usually relates to deciding who within the business will perform which task and what resources they need to do it. But in a Small Business with only one decision maker it will focus more on ensuring that the information is to hand (Nayak and Greenfield, 1994). Handy in his book “Understanding Organisation”, discusses that
organisational structure of Small Business Enterprises are power centric. The organisational structure of Small Business is best depicted as a web – where all authority and power emanating from one individual. There is little bureaucracy but they rely heavily on the central figure and the successor provides the key to continued success or failure. It is a competitive atmosphere, closely controlled from the centre.

![Organisational Structure of Small Business]

4.3. Directing and Decision Making:

The decision-making process is an important and integral part of the management process. Managerial action is largely decision-making. It is the act of choosing from among alternatives. A good decision is based on a choice of calculated alternatives based on judgement. It is the product of deliberation, evaluation and thought process. To make good decisions, manager’s should follow a sequential set of steps. If managers do not go through this sequence, they are likely to make a decision that will solve
wrong problem rather create new one. Decision making process in an organisation involves the following stages:

(i) Identifying the problem
(ii) Analysing the problem
(iii) Developing alternative solutions.
(iv) Comparing the alternative solutions.
(v) Choosing the best solution
(vi) Implementing and verifying the decision.

Fredickson and Mitchell (1984) defined decision comprehensiveness as the "extent to which an organisation (or individual) attempts to be exhaustive or inclusive in making and integrating strategic decision. According to these authors, a comprehensive decision maker is one who follows a formal rational decision process in which the cause of the decision problem is formally identified and an exhaustive or large set of decision alternatives is developed and evaluated. In implementing this decision process, the comprehensive decision maker attempts to gather as much information as possible using sources both inside and outside of the organisation. In summary, the comprehensive decision maker strives to make the best decision possible through the identification and evaluating of a large number of alternatives."
Small businesses owner-managers are described as decisive and unique individuals who are impatient and quick to respond to organisational problems. Consequently, it would be expected that these owner managers to be less comprehensive in their decision making. For example, entrepreneurs from small business firms would be unlikely to assign formal responsibility for a decision to a subordinate because of limited personnel and their need to control (Borland, 1974). Further, one would expect entrepreneurs to be too impatient and not to have the organisational systems appropriate for following a rational comprehensive decision model involving extensive and exhaustive information gathering and analysis (Smith et. al. 1988).

As small business owner-managers are the individuals who single handedly control the whole activities of his/her organisation. So, and hence is in a better position then big business to identify the actual problem and take proper decision.

4.4. Communicating and motivating:

Managers spend a major percentage of their time transmitting their ideas to others, orally and in writing. Other managerial functions, especially controlling and organizing, involve communication problem. Communication serves as a linking process by which parts of a system are tied together. It makes possible the managerial process and serves as the
lubricant for its smooth operation. Communication helps managerial planning to be performed effectively, managerial organising to be carried out effectively and managerial controlling to be applied efficiently. So providing regular and complete information to different members of an organisation to ensure that they are able to carry out their job effectively, individually and as a team, is one of the most difficult tasks of management.

Motivation implies securing fullest co-operation of each individual worker for the realisation of the economic goal of the business organisation. Norms of performance laid down under "controlling" may not be achieved simply by "directing" alone. Human needs, desires and sentiments are to be taken into consideration. Motivation is the process of creating in the workers, a will-to-work and to develop a co-operative attitude so that they put in their best. So, motivating participants to work for the benefit of the organisation is a hard task. To effectively respond to participants' communicational and motivational needs requires constant awareness of changes in the organisation and in the roles and attitudes of all participants. These issues (communication and motivation) are less problematic in small businesses as there is either only one or few participants, so that activities and issues can be discussed regularly and a team spirit can be generated.

On the motivations of Small Business's owner-manager, three important messages appear to emerge from the empirical literature, (Bolton
Committee 1971; Hankinson 1985; D'Amboise and Gasse 1980; Ray and Hutchinson 1983). They suggest that owner-managers (1) may not have a single overriding aim like wealth maximization but rather their intentions are likely to be numerous and complex; (2) motives which are unequivocally non-monetary and (3) have considerable freedom to pursue objectives, monetary or otherwise.

Frequently cited motivating factors include the need to control one’s own life, to have greater flexibility for personal and family life, to achieve a higher position in society, to be respected and to have freedom in adapting one’s own approach to work (LeCornu, et. al. 1996).

Keats and Bracker (1988) suggest that “performance may have a different set of meanings of small firms than for large firms”. The melding of ownership and management in small business allows the goals of the owner-manager to become the goals of the firm (Naftziger, et. al. 1992). In this way it appears that behaviour and decision making in small business units are unequivocally attached to the personal motivations of the owner-manager.

4.5. Controlling:

Control within organisations is a process of monitoring activities to ensure that they are fulfilling organisational goals. The essence of control lies in checking existing actions against some desired results determined in
the planning process. As the predetermined criterion should be stated explicitly, for this reason, quantitative statements are usually preferable. In financial management, money value serve as explicit statements of norms. Management use past achievement of the firm in financial term as crude yardsticks for controlling current operations.

In any control system by the management, the measurement of actual performance is the most important element. This step usually requires proper records and appropriate reports which is devised to present information in the organisation that will fit the control system. Prompt reporting of actual performance increases the efficiency of a control system.

Another element of control system involves the study of relationship. Such techniques on financial ratio analysis, trend analysis, mathematical equations and charts etc. can help to the measurements of actual performance by showing the relation of actual experience to the pre-determined (planned/budgeted) criterion. The purpose of comparing past performance with planned performance is not only to determine when a mistake has been made but also to enable the manager to predict future problems. A good control system in an organisation will provide information quickly so that trouble can be prevented in future.

So, controlling involves scanning the environment for means of fulfilling goals, choosing alternative course of actions and subsequently
checking whether or not those actions have succeeded. In large business organisations controlling involves defining, co-ordinating and measuring the activities of the various department and members of the organisation. But in case of Small Business unit it will focus more on the resources that the owner-manager (Proprietor) has put into his business, and to measure the effectiveness of his decisions on the day to day running as well as long term decision making (Nayak and Greenfield, 1994).

Bank of America’s Small Business Reporter publication entitled “Avoiding Management Pitfalls” cites eight (8) areas of management incompetency that generally lead to small business failure. They are:

1. Downgrading the need for experience.
2. Poor record keeping.
3. Poor cash management.
4. Failure to plan.
5. Misuse of time.
6. Inattention of marketing.
7. Ignoring the human factor.
8. Failure to assume the proper role.

1. **Downgrading the need for experience**: Most of the small business units are founded on one person’s abilities; the owner-manager. If this individual lacks the skills and versatility to either perform or supervise
the tanks of finance, accounting, marketing and other aspect of management, the venture is destined for failure.

2. Poor record keeping: Poor financial records create problems in ever fact of the small business; yet the need for a good accounting system is frequently overlooked. A study of unsuccessful small business units showed that all had accounting system so imprecise that the state of the business remained unknown even to the owner. Although a knowledgeable accountant can set up an effective system and keep it going; the owner-manager must understand the financial information derived from the system and be able to use it in decision making.

3. Poor cash management: The failure to maintain a stable and adequate financial position is a serious management error. A “cash poor” firm has little or no bargaining power and must waste a good deal of time struggling to appease creditors.

In the new firm the problem is one of under capitalisation simply not putting enough capital into the venture to really get started. In the going concern, on the other hand, too much capital can get tied up in fixed assets, slow-paying receivables or obsolete inventory, if growth is not properly controlled.
In dealing with the cash flow problem, the owner-managers of small business should prepare their budget and adopt money management techniques to accomplish cost and cash control.

4. **Failure to plan**: Professional business consultants generally agree that one of the most frequent causes of small business failure they observe is the lack of planning. The rapidly changing market of today demands forward-looking strategies. Well-formulated plans permit the business organisation to take better advantage of opportunities as they arise and head off management difficulties before they become too serious.

Planning is not simply ‘thinking ahead’. It involves the establishment of objectives and determination of methods for reaching the objectives. Without these elements the owner-manager of small business is merely indulging in wishful thinking, not planning.

5. **Misuse of time**: The typical entrepreneur has too much to do in too little lime. Good time management is learning to control the job rather than letting the job control the person. The job objective is to work “smarter”, not harder. Proper management of time is a matter of self-discipline. Effective manager’s put ‘first things first’; they generally rank duties according to their importance.

A critical aspect of time management involves delegating appropriate jobs to suitable persons, to free the owner-manager for the routine,
operational duties. A owner-manager who fails to properly delegate can become so involved with everyday activities that important jobs, like planning, etc. often rushed.

6. **Inattention to marketing**: Sales are the secret to success in any business venture. The best of products, personnel and physical plant is of little use without customers. Unfortunately, some owner-manager of small businesses has the false impression that their products on services will sell themselves. But, the true is, few things sell themselves. Marketing is essential to build customer awareness.

An objective analysis of the firm’s products or services, its present marketing effort, the competitive situation and the genuine needs of customers will show the ways to solve sales problems.

7. **Ignoring the human factor**: Most employee difficulties result from poor personnel administration. Too many owner-managers spend all their time worrying about production, sales etc. and solve personnel problems on a ‘crisis’ basis. A loyal and efficient work force can be built only if adequate attention is given to hiring, training and managing of employees.

8. **Failure to assume the proper role**: The success or failure of any business venture depends on the quality of owner-manager. The skills and talents required to be a good owner-manager, change as the organisation
changes due to time. The owner-manager’s managerial know-how necessary to run a one-man operation in the early years is much difficult from the needs of a growing firm five or ten years down the line.

As the business grows to new stages of development the owner-manager must adopt his/her role. The transition from operator to manager, to execute must be smooth.

The eight pitfalls described are by no means a complete list, but alone or in combination, they emerge as most significant factors to small business failures. One generalisation is valid here: the success or failure of any small business depends basically on one person, the owner-manager and their ability to manage. They generally face problem by improving their managerial skill. Therefore, final determination for starting a business venture depends upon the availability of managerial talent.