Unit 1

Introduction to Business Management

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Apply the best methods for creating, leading, and managing your own business
- ✓ Establish an organizational framework through operations, finance, and leadership
- ✓ Set up an effective and efficient system for hiring, retaining, and succession planning
- ✓ Start researching and designing your strategic plan
- ✓ Describe the essential elements of marketing, sales, and your company brand
- ✓ Apply financial and accounting terms correctly

Unit 1
Introduction to Business Management

What is Our Business?

When you establish your business, you may be planning every step and thinking everything through carefully, or you may jump in and start first because the opportunity is there and you want to act now, organizing as you go. If you are one of the "organizing as you go" set, you have to get strategic very quickly. You should also realize that some things will make your accountant more frustrated than others!

Getting organized and strategic quickly means that you are able to keep your focus on your business growth, rather than reacting to things around you and potentially missing out on some opportunities. In deciding what your business is, you will need to answer several questions. You also need to be able to describe your products and services very clearly; no one is going to buy from you if you cannot describe what it is that you sell. (Note that for ease of reading, we will refer to services that are offered as a product, rather than saying "products or services" over and over.)

Some people will be opposed to the thought of selling, but the truth is that if you do not sell your products, you will not be in business very long. If you do not feel that you are a strong salesperson, or you have never sold anything in the past, keep in mind that there are professional salespeople who can help you reach your goals.

Test your Knowledge

Describe your product(s) as simply as you can.

Who will sell the product(s)?

Who will provide support for the product(s)? (This includes answering questions, troubleshooting, making repairs, and honoring warranties and guarantees.)

Where will you get the money to get your business started or to help with growth?

Pre-Assignment Review

Here are the answers to the pre-assignment. The jurisdiction where you do business might use different terms to the ones we have below, but they will have similar terms and meanings.

Sole Proprietorship
An individual establishes and runs a business where they make all business decisions, and are responsible for providing a product or service(s).

Partnership (General)
Two or more people decide to work together and share the profits as well as the risks associated with running their company.

Partnership (Limited)
Two or more people decide to work together. Certain partners accept more risk than others.

Corporation
The owner of a business decides to create an entity that is separate from their own self. That business has the status of an entity. It can enter into contracts, pays tax, and files taxes separate from the people who own the business.

Joint Venture
Two or more people contribute goods, services, or monetary resources to a shared business enterprise. This is usually founded with a contract that all parties will sign. That contract will describe things like profit distribution, the management structure, and who is responsible to contribute what.

Franchise
An individual or a business may wish to establish and operate within parameters set by another company where the products, services, procedures, and more are all prescribed by the company.

Subsidiary
A company in one country can establish a presence in another country, provided they are following all the laws and rules in the new country.

The Owner's Role
Will you be an owner or an entrepreneur? How about a consultant? Or a freelancer? What's the difference?

The answer to these questions is important because you get to choose the approach that you want to take based on your goals.

When you consider self-employment or starting a business, you will hear a range of opinions from other people. They may think you have the best life ever and that your achievements have all been the result of good luck, without any recognition at all for the hours of work, the risk, and the opportunities that you have created for yourself. Other people will tell you that you are crazy, that you need the security of working for an established employer, or that you are never going to make it in today's economy. Don't discount their own experiences in self-employment (if indeed they have that experience), and keep in mind that once you have established yourself as being a freelancer, a business owner, or an entrepreneur, going back to traditional employment is not usually an attractive option.

Common in all instances of self-employment are the following attributes. These are necessary characteristics for business owners, consultants, freelancers, and entrepreneurs:

- You must be able to admit when you make a mistake, and then learn from it.
- It's important that you can listen to the advice of others, and then sort the good from the not so good.
- You must be able to create a plan and take action on it.
- You need to have the technical skills required or to attract people to work with you who have the skills that you don't.
- You must be able to tolerate risk. There are plenty of risks attached to each type of business.

Differentiation

A **business owner** is the boss within a clearly defined business. When I think of a business owner, a picture comes to mind of a small to medium sized business. The owner is the one who makes the decisions, and the business is probably going to end with him or her (or be inherited by someone in their family). An independent lobster fisherman who hires two or four people to help him on his boat during lobster season is a business owner. A hairstylist who opens her own shop and rents three stalls to other stylists (or hires them) is also a business owner.

An **entrepreneur** is usually seen as taking on greater risks than your typical owner. They tackle challenging situations and solve problems that are part art and part science. What they do will certainly overlap with an owner, especially early in the business. The entrepreneur invests money that they gather from their own resources, investors, the bank, and wherever they can find the people that they need. The biggest difference between a business owner and an entrepreneur is that the entrepreneur has a long-term view that is focused on systematizing, growing, and then selling the business for a profit. A hairstylist who opens her own shop, and then creates a system for hair and beauty related services that she develops into a chain of spas across the country, is an entrepreneur.

If you want to be a **freelancer** because you are a great writer, editor, artist, consultant, accountant, etc., then be a freelancer. Working as a freelancer is a great way to operate as a business, and to keep the freedom that freelancing and self-employment promise.

Lots of people start out as a freelancer, but then try to hire a few freelancers to work under them. Growth through hiring more freelancers can makes things tricky, especially if you still want to work as a freelancer, because someone has to also be a manager. You run a good risk of frustrating and pushing out the other freelancers, especially if they see that you selectively pick from the job jar and keep the best assignments for yourself. Instead, decide if the nature of the business is such that you are actually an owner rather than a freelancer.

You get to choose what you are: freelancer or owner or entrepreneur.

Words of Wisdom

As **Michael Gerber** has taught for many years with his seminal books on *The E-Myth*, if you're an entrepreneur, you cannot grow and succeed in business by doing all the work yourself. You've got to step back and see the larger picture of the business in order to create the circumstances to move forward. If you are doing all the work, you're not systematizing a business and making it bigger; you are simply hiring yourself to do the work. If you're happy with doing the work (which Gerber refers to as working **in** the business and not **on** the business), then you need to hire a manager to run the business, and take your direction from the manager. If you want to continue in the role of entrepreneur, then **you** need to assume the role of manager and create a company where the people you hire do the work.

Keeping Things Moving

In the early days of a business, an owner or entrepreneur may attract employees who are excited about the future, creating opportunities, and working through the challenges of a new business. Once things are running smoothly, those same people who thrived on the unknown and were of great help to you may be ready to move on. You may find yourself that you are ready to move on to something new or equally engaging.

What will you do to keep yourself engaged in your business once the "newness" wears off?

Designing Your Organizational Structure

Bringing the Idea to Life

When you are establishing or making adjustments to the organization, you can make some choices about the kind of organization that you want to be a part of. **Small organizations** often start out with a fairly flat structure (owner and a few staff who all have direct access to the owner), but as the company grows, they also tend to become more hierarchical (employees reporting to a manager, who in turn reports to the owner). In **large companies**, there can be several layers of supervisors, managers, directors, and vice presidents, in something which mirrors military hierarchy.

As an owner, you may want to have contact with everyone, but the reality is that the bigger the company becomes, the more you will have to delegate and step back from the front line in order to manage your time and facilitate growth within the company.

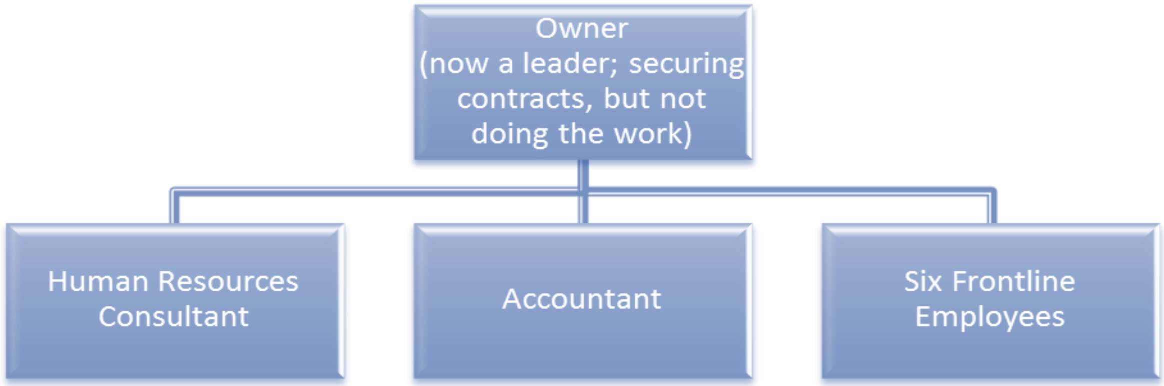
In addition to giving you a break from doing all the work yourself, introducing staff in senior or management roles allows you to establish paths of communication and authority (or a chain of command in more formal organizations). For example, if you are getting ready to grow and you want to hire several people, but it is also time to file the company tax return, you will run yourself ragged with advertising vacancies, interviewing, hiring, checking references, and making job offers while combing through paperwork to get it to an accountant. Instead, you could delegate the hiring process to someone who specializes in human resources. Similarly, you can delegate financial reporting, day to day accounting, bank reconciliations, procurement, payroll, and tax remittance to an accountant. Ultimately, you will remain responsible for the outcomes that you get from human resources and finance, but you will do so by meeting with the people you assign those tasks, rather than having to do the work yourself.

Identify the stress points within your organization, where you know that you need to hire people because maintaining the status quo will actually impede your growth.

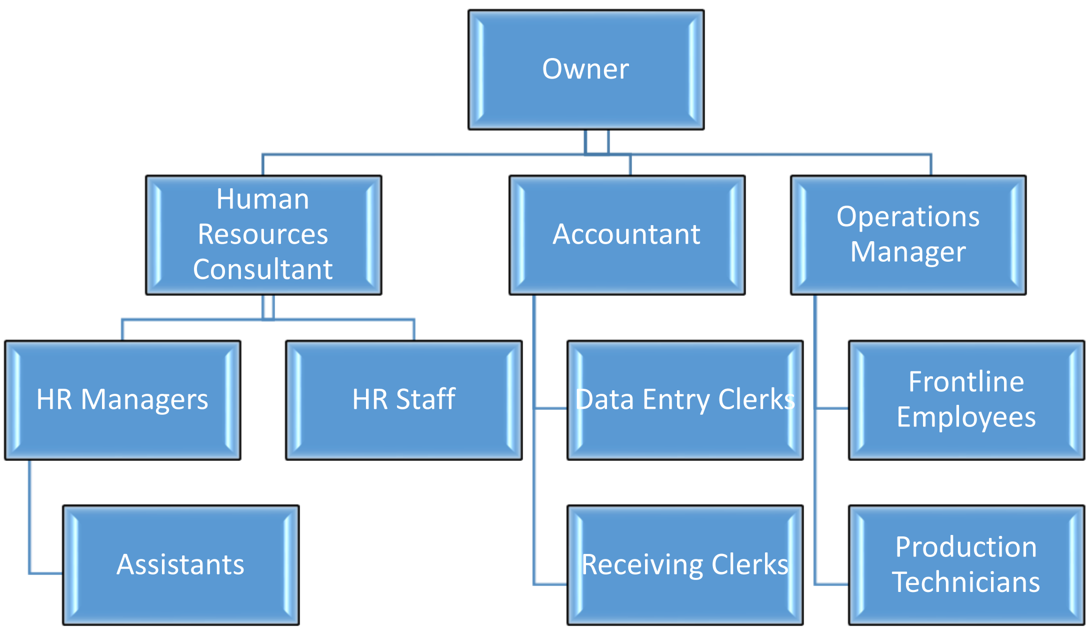
Leveraging Structure

When you start out, it may just be you and one other person. As the company grows, you run out of hours to get all the work done as well as doing the management tasks that are needed. Let's say that you secure a big contract, and need to hire eight people to do the work, including an accountant and someone to do the hiring and people management.

The new organization chart might look like this:



Again, as the organization grows, we tend to add layers of management and workers to meet the business needs. Some companies will try to stay flat in order to provide those workers with the authority they need to carry on the work. At other times, they look like large, layered pyramids, like the one below. As the organization grows, people at the front line get farther away from the decision maker at the top of the pyramid, and the decision maker also gets farther away from the customer or client.



Organizational structure is of critical importance. If you are currently a small business that wants to grow, establishing the right structure will help you adapt to changes in the business environment. In addition, although we speak of structure, we have to keep in mind that the work is performed by and relationship developed with people. If you forget the human part of your business, you aren't going to find much support for it.

Looking at the Options

The types of structures we have talked about so far are functional structures: the typical pyramid where the CEO is at the top and the functional positions report upward to the CEO. This, however, is not the only option.

In order to work within larger environments, particularly when you are working across time zones, borders, and among different cultures, it's essential to be able to communicate throughout the organization. Each structure that we will describe below has strengths and weaknesses. You will need to weigh the options out and perhaps experiment in order to find what will work best for you.

Geographic Structure

A geographic structure, where there is a regional Vice President addressing the needs of each region, could be organized as follows. While this sometimes brings things closer together in terms of time zones, you'll note that the cross cultural mix will require attention to language, culture, and regional business practices.

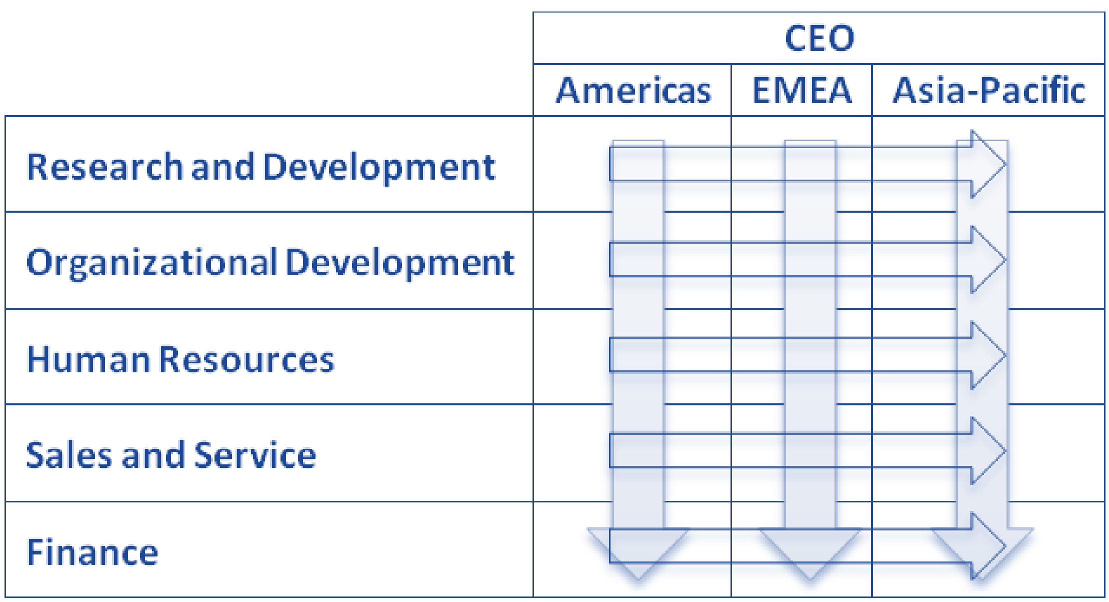
CEO	**Americas**	USA
		Canada
		Mexico
		Brazil
		Venezuela
	Europe, Middle East, Africa (EMEA)	United Kingdom
		United Arab Emirates
		Egypt
		South Africa
		Germany
	Asia-Pacific	Japan
		Australia
		China
		New Zealand
		India

Divisional Structure

In another example, where a multinational company needs to organize differently, they may implement a divisional structure, where people are organized according to their product. The example below is for a soap manufacturer and distributor:

Matrix Structure

Another format that is becoming more common in global companies is a matrix structure. The company is divided into horizontal and vertical silos according to geography and function, or sometimes products.



Summary

Each of these structures has benefits, and each has weaknesses. At their best, people can develop and share what they learn through their scope of work through a best practice approach, creating a stronger and more viable organization. At their worst, infighting, negative political environments, and internal competition can be extremely disruptive to the organization. Business leaders, including the CEO, need to be very knowledgeable about every aspect of business administration and leadership.

Test your Knowledge

What strengths and weaknesses do you see in these structural options?

How would you overcome the weaknesses?

Who is in Charge?

Differences for Corporations

Although we speak of structure frequently, being overly rigid about structure can be a deterrent to getting things done. Being flexible is required to succeed in today's marketplace, where we frequently deal with large multinational and global enterprises.

If the business is to be established as a corporation, there are additional organizational factors to consider. In a corporation, there is not one owner as there is in a proprietorship. A corporation is owned by the shareholders (although the founder of the company may hold some or even all the shares).

The corporation is led and managed by a **Chief Executive Officer (CEO)**, who in turn is governed by a **board of directors**. The CEO leads and manages the operations of the company, while the Chairman of the Board leads the board while governing the CEO.

In looking after the shareholders' interests, the board takes responsibility for making sure that the money the shareholders invest (or for non-stock operations, the interests of government, an agency, a university, etc.) is looked after. This puts a heavy onus of responsibility on members of the board, even in a small company.

Choosing Board Members

It's not uncommon for the CEO to "recommend" people for the board, and then those individuals are granted admission by the board with what's called a "rubber stamp" approach. This means that the board does not really know the applicant, but merely agrees to do the CEO's bidding. Sometimes the governing body of an organization (as in a college) will select the members for the board. It's up to the chairman of the board to supervise the CEO and to determine whether the selection process and nominations are in the best interest of the organization. To reduce the threat of conflict of interest or the selection of inappropriate board members, you are discouraged from having the same person in the positions of CEO and chairman of the board.

Note that in non-profit or not-for-profit societies and agencies, the CEO is often referred to as the Executive Director.

Board Issues

When a board is dysfunctional, or a weak board is run by a domineering CEO, it's possible for the corporation to falter due to mismanagement. People who accept a board nomination are obligated to make themselves fully aware of their responsibilities, and not just jump at the chance to be on the board of an organization they wish to support.

A member of the board legally has obligations associated with that position, and in an age where the public and shareholders are demanding more accountability, members of the board will be held to a greater degree of responsibility than they have in to past.

These responsibilities include, but are not restricted to:

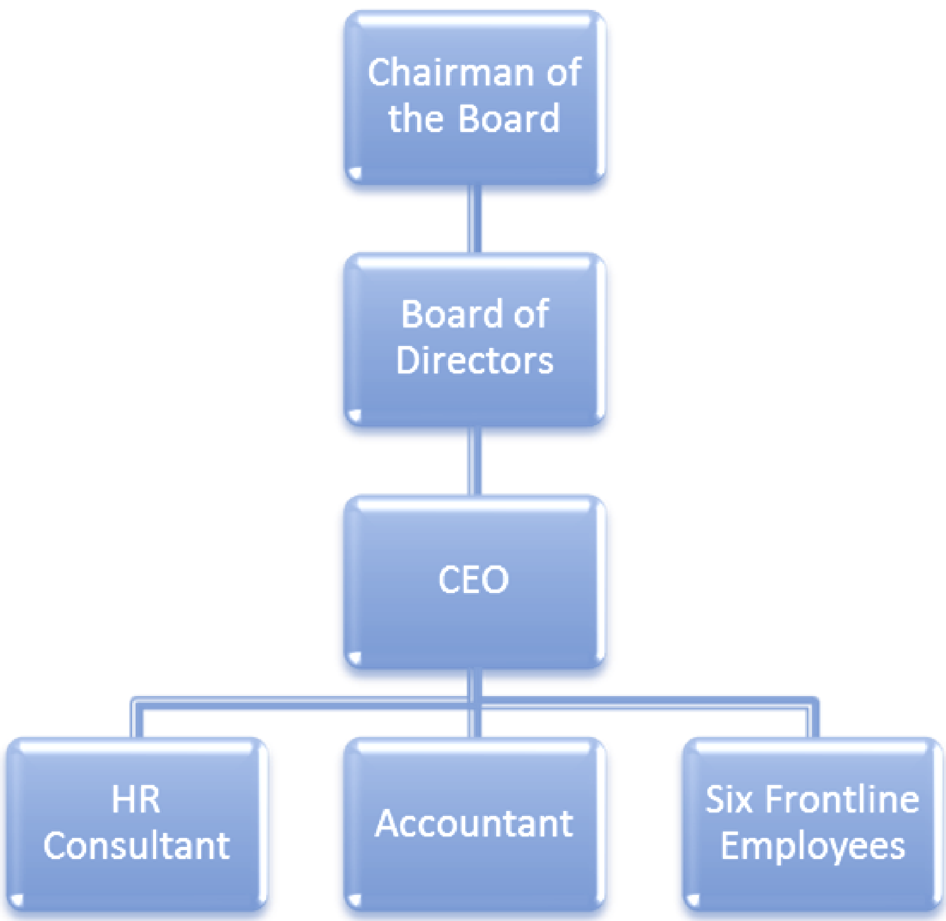
- Monitoring the actions of the CEO
- Ensuring that the company meets the bylaws of the organization
- Making sure that the company remains financially sound and is audited according to the law
- Ensuring that the company meets regulatory obligations that are established by governing bodies, like industry and government

The Role of Shareholders

It should also be noted that in the past, individuals often purchased shares (or stock) in a company, which made them a shareholder. If the company went out of business, the individual could lose their savings as the stocks lost value. Nowadays, it is more common for groups of people (as in mutual funds) and corporations to hold stock in different companies. This represents vast amounts of money being offered by shareholders, who, in any economic crisis, have experienced tremendous financial losses. As a result, the duty of responsibility assumed by members of the board of directors is becoming more highly regulated in many areas of the world.

The Big Picture

In a corporation, the organizational structure of a small business can evolve into something like this:



In some countries, depending on the law and governance, this structure can look different, or you will see the board referred to by other names. For example, there may be a board of directors that is managed by a second board (sometimes called the executive board).

Words of Wisdom

In his book *Up the Organization: How to Stop the Corporation from Stifling People and Strangling Profits,* Robert Townsend presents an irreverent and funny look at how organizations and their structure pigeon-holes and bores people. Although the book was written in 1984, it remains very relevant when we consider organizations that are committed to their hierarchies, treating executives with all kinds of perks and incentives that are unavailable to everyone else (special parking spaces, business class travel, learning opportunities, etc.). Townsend considers this a reflection of power. While these things seemed appropriate fifty or seventy years ago (before the workforce started to become well educated), they are no longer appropriate where we now have workers who are as valuable (or even more so) than their managers are, in terms of education and experience.

Current Thinking

Current thinking encourages organizational behavior that **influences**, as opposed to older practices of controlling employee behavior. However, in many workplaces, the reality is that power and control are strongly applied. Organizational behavior and industrial psychology are sometimes considered as extensions of the power applications of big companies, but they can be applied strategically to strengthen and improve organizational performance as well as individual and group engagement and satisfaction.

The application of **systems theory** is one way that openness and feedback are incorporated within an organization. This is where we see owners and managers learning what it means to be a learning organization, where they:

- Display a commitment to lifelong learning and development for themselves and their workers
- Demonstrate leadership qualities as opposed to management-only practices
- Embrace a commitment to engaging their workforce purposefully

Structural Considerations

What is your current business structure?

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What is the percentage of growth that you want in the next 24 months?

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On a scale of 1-10 (where 1 is not likely at all and 10 is absolutely), what is the likelihood that you will achieve those targets with your current business structure?

What changes can you make to your structure to improve the likelihood of reaching your goals?

Further Reading: