

ENTREPRENEURIAL MANAGEMENT – LECTURE 13

CHAPTER 13 – Professional Management and the Small Business

LESSON 13

**Professional Management and the Small Business**

**Learning Objective 13.1 – Small Business Leadership**

Depending on the size of the company and its stage of development, several leadership responsibilities are required. An enterprise that is just starting started, for example, will confront issues and uncertainties that a family corporation that has been in operation for two or three generations will not. As a result, we must acknowledge that leadership cannot be reduced to a set of basic principles or methods that apply to all situations.

What is Leadership?

Leading entails indicating the way and persuading others to follow. It is much more concerned with the final destination than with the intricacies of how to get there. An entrepreneur must communicate his or her vision for the future of the company to all other stakeholders so that they can best contribute to the mission's success. Although executives must engage in more routine operations as the firm grows, the small business owner's first responsibility is to create and express the organization's vision.

Leadership Qualities of Founders

The founder of a brand-new business faces a lot of unknowns and concerns. As a result, persons who are founding promising businesses that have the potential to grow to a large scale or profitability must possess certain characteristics. Tolerance for ambiguity is one of the most crucial characteristics. Because beginning a new firm is risky, entrepreneurs must be adaptive, able to adjust to unforeseen obstacles and possibilities. These two fundamental attributes can be effective in a variety of business situations, but none are more critical than in a startup.

What Makes a Leader Effective?

Effective leadership is defined by a focus on achieving corporate objectives rather than a larger-than-life personality. Leadership in most small businesses is a personal thing. The owner-manager is not a faceless figure; rather, he or she is someone that employees see and interact with on a daily basis. This is in stark contrast to the scenario in large firms, where the majority of employees never see the CEO.

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Employees in small businesses generate strong feelings of personal devotion to their employer if the employer-employee connection is positive.

### Leadership Styles

Many different leadership styles are used by leaders. Some leadership styles may be more suited to specific situations, but most leaders use a range of techniques to address various difficulties. Six distinct leadership styles have been found by psychologist Daniel Goleman and his colleagues. Effective leaders change smoothly and often between the first four forms described below, and they make very limited but skilled use of the last two styles, according to their study of nearly 4,000 managers.

1. The visionary inspires individuals to work together toward a common goal.
2. People are developed by the coach through the establishment of a relationship and trust.
3. The team builder fosters emotional relationships as well as organizational cohesion.
4. The populist achieves consensus by involving the public.
5. The paragon sets high expectations that are both hard and interesting, and he expects nothing less than the best.
6. The general expects immediate action.

**Empowerment.** Authorization of employees to make decisions or take actions on their own.

**Self-managed work teams.** Groups of employees with freedom to function without direct supervision, but with responsibility for results.

### **Learning Objective 13.2 – The Small Firm Management Process**

The obstacles that small business entrepreneurs encounter are vastly different from those faced by large executives. Some of these issues may develop as the company grows from a startup to the point where it can hire a full staff of professional managers who are trained in advanced management techniques.

### From Founder to Professional Manager

Businesses and other organizations are managed in a variety of ways. The endpoints of a continuum are represented by the extremes of very unskilled and highly professional styles of management. Entrepreneurs and other managers at the lower end of the spectrum rely heavily on past

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experience, rules of thumb, and personal whims to steer their firms. In the vast majority of situations, their mental models for management are based on how they were treated in previous work or family relationships. Others, such as business owners and executives, adopt a more sophisticated approach. When it comes to dealing with management difficulties and issues, they are analytical and systematic. Their routines are frequently described as more systematic in nature because they prioritize gathering facts and formulating logical solutions.

**Professional managers** A manager who uses systematic, analytical methods of management.

#### **Firm Growth and Managerial Practices**

The organizational structure and management pattern of a freshly founded business will need to be altered as it expands and becomes established. Any organization's management must adapt to growth and change to some extent. However, the changes that occur during the early phases of a new business's growth are far more extensive than those that occur during the growth of an established business. A number of specialists have presented models for commercial firms in various stages of development. These models usually outline four or five stages of growth and the management difficulties that each stage brings. The model we propose focuses primarily on the managerial problems that each of these stages of expansion brings.

#### **Learning Objective 13.3 – Managerial Responsibilities of Entrepreneurs**

#### **Planning Activities**

Most entrepreneurs prepare for the continuous operation of their businesses in addition to producing an initial business plan to guide the launch of a new venture. The quantity of planning, on the other hand, is often less than ideal, and it is haphazard and focused on specific and pressing issues—for example, how much inventory to have on hand, whether to buy new equipment, and so on. The extent to which formal planning is required depends on the circumstances, but most firms may operate more profitably by increasing the amount of planning done by management and making it more systematic. A long-range plan, often known as a strategic plan, lays out a company's essential roadmap to the future. Strategy decisions include things like recognizing specialized markets and defining qualities that set a company apart from its competition. Even in established businesses, however, planning is necessary to ensure that changes in the business environment may be addressed as they occur. Short-term plans are action plans for activities in manufacturing, marketing, and other sectors that will take place in the next year or less. The budget, a document that defines future objectives in monetary terms, is an important

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aspect of a short-term operating plan. A budget is typically established once a year (one year in advance), with data broken down by month or quarter.

#### Creating an Organizational Structure

While an entrepreneur can provide direction through personal leadership, he or she must also define the links between the firm's activities and the people who work for it. Operations become chaotic and morale suffers without some type of organizational framework.

#### The Unplanned Structure

Natural evolution isn't always a terrible thing. In reality, these configurations are frequently characterized by a significant element of practicality. Rather than being plucked from thin air or duplicated from another firm's organizational chart, the structure is fashioned through the experience of working and expanding. However, unplanned organizations are rarely flawless, and growth almost always necessitates organizational change. For effective teamwork, the entrepreneur should review structural relationships on a regular basis and make necessary improvements.

#### The Chain of Command

A chain of command refers to the relationship between superiors and subordinates, as well as the downward flow of orders, but it entails much more. It's also a two-way communication channel. In practice, strict obedience to the chain of command is not recommended. A bureaucratic and inefficient organization will have a rigid principal communication route. At the same time, the bypassed manager's status is quickly eroded by frequent and flagrant contempt for the chain of command. There is a need for balance, and achieving it necessitates appropriate caution and foresight. In a line organization, each employee reports to and receives instructions from a single supervisor. All personnel are actively involved in the firm's operations, such as production, sales, and administrative or financial activities. This structure is used by the majority of extremely small businesses—for example, those with fewer than ten employees. In a line-and-staff structure, everyone reports to a single supervisor, much like in a line organization. A line-and-staff structure, on the other hand, includes staff specialists who provide specific services or serve as management consultants in specific areas. A human resource manager, a production control technician, a quality control expert, and a president's assistant are examples of staff specialists. Many small enterprises employ the line-and-staff arrangement in some manner.

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### Span of Control

The number of personnel under a manager's supervision is referred to as the span of control. Although some experts claim that one person can only properly oversee six to eight individuals, the optimal span of control is a variable that depends on a number of circumstances. The nature of the job, as well as the manager's knowledge, energy, attitude, and competencies, are all aspects to consider. Furthermore, if subordinates' abilities are above average, the control span can be expanded proportionately.

### Delegating Authority

A manager grants subordinates the authority to act or make choices through delegation of authority. Delegating authority and delegating some functions to subordinates allows the superior to focus on more important activities.

**Span of control.** The number of employees who are supervised by one manager.

**Delegation of authority.** The process of granting to subordinates the right to act or make decisions.

### Controlling Operations

Organizations never work flawlessly, no matter how well they are planned. As a result, managers must keep a close eye on operations in order to spot deviations from the plan and make required adjustments. These managerial tasks help to keep the company on track.

The formation of standards, which are established through planning and goal setting, is the first step in the control process. By making goals measurable, planners can turn them into norms (standards). For example, a goal to grow market share could be expressed as a projected dollar gain in sales volume over the next year. Such an annual target can then be divided down into quarterly target standards, allowing for early intervention if performance begins to fall short of expectations.

### Communicating

Effective communication—getting managers and employees to talk to one another and openly share issues and ideas—is another cornerstone to a thriving organization. The outcome is two-way communication, which is a far cry from the traditional model of managers issuing orders and staff merely carrying them out.

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#### Negotiating

When running a firm, entrepreneurs and managers must contact with other people on a regular basis. Outsiders, such as suppliers, customers, bankers, realtors, and business service providers, are involved in some interactions. Typically, the parties' interests are at odds, at least to some extent.

Negotiation is the process of discovering workable solutions through discussions or exchanges. In our daily lives, we are all negotiators, both within and outside of our familial connections. In order to live happily together, we must reconcile, or negotiate, our differing interests, wants, and demands.

#### **Learning Objective 13.4 – Personal Time Management**

A typical small business owner spends a large portion of his or her day on the front lines, meeting customers, fixing problems, listening to employee complaints, conversing with suppliers, and so on. She or he deals with such issues with the help of a small team. As a result, the energies and activities of the owner-manager are dispersed, and time becomes a scarce resource. This emphasizes the value of time management.

#### The Problem of Time Pressure

According to survey data published by Inc. magazine, 43 percent of small business owners work 40 to 80 hours each week on average. Another 13% of those polled reported working more than 80 hours each week! Such schedules frequently result in ineffective work performance, particularly when the entrepreneur has not taken the necessary effort to prioritize his or her life and work. Owner-managers may be too preoccupied to meet with sales representatives who could provide market information on new products and processes, too preoccupied to read technical reports or trade literature that would tell them what others are doing and what improvements could be adapted to their own use, too preoccupied to listen carefully to employees' opinions and grievances, and too preoccupied to provide employees with the instructions they need to do their jobs correctly.

#### **Learning Objective 13.5 – Outside Management Assistance**

#### The Need for Outside Assistance

Given the tiny staff size of most new businesses, entrepreneurs frequently lack opportunities to discuss ideas with peers. As a result, people may suffer feelings of loneliness. Joining organizations like the Entrepreneurs' Organization ([eonetwork.org](http://eonetwork.org)) and the Young Presidents' Organization ([ypo.org](http://ypo.org)) can

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help small business owners feel less isolated by allowing them to meet with peers from other companies and share challenges and experiences.

#### Sources of Management Assistance

Entrepreneurs that need management help can turn to a variety of resources, including SBA-funded programs, management consultants, and personal and professional networks. Many colleges and universities also provide resources to help entrepreneurs deal with the obstacles of running a small firm.

**Service corps of retired executives (SCORE)** An SBA-sponsored group of retired executives who give free advice to small business owners.

**Small business development centers (SBDCs)** University-affiliated centers offering consulting, education, and other support to small business owners.

**Networking.** The process of developing and engaging in mutually beneficial informal relationships.

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Assignment

Explain the following

1. Identify the managerial tasks of entrepreneurs.
2. Describe the problem of time pressure and suggest solutions.
3. Explain the small business management process and its unique features.

Answer key

1. • Both long-range planning and short-range planning are required, but they are often postponed or neglected. • An organizational structure must be created to provide for orderly direction of operations. • Successful delegation of authority allows entrepreneurs to devote more time to important duties that drive the business forward. • Managers exercise control by monitoring operations in order to detect and correct deviations from plans. • Effective two-way communication is important in building a healthy organization. • Entrepreneurs need to develop their public speaking skills to meet the demands of being the leader of a growing business. • Managers must be able to negotiate with both insiders and outsiders and should focus on win-win strategies, which will satisfy the basic interests of both parties.
2. • Time pressure creates inefficiencies in the management of a small firm because the entrepreneur's energies are scattered. • The greatest time saver is the effective use of time, which requires firmly established priorities and self-discipline. • A manager can reduce time pressure through such practices as eliminating unnecessary activities and planning work carefully, using such tools as a "to-do" list and prioritizing activities according to their urgency and importance.
3. • Many founders tend to manage more from gut instinct and are less analytical and systematic in their approach when compared to professional managers. • A founder's less-sophisticated management style can adversely affect business growth, and many find it difficult to adopt more effective models. • Small companies are particularly vulnerable to managerial inefficiency, which

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may even lead to a firm's failure. • Small firm managers face special financial and personnel constraints. • As a new business grows, it adds layers of supervision and increases formality of management, a trend that moves through four or five stages. • A firm's growth requires the entrepreneur to become more of a manager and less of a doer.

### Quiz

#### Identification

1. The expansion of international business, encouraged by converging market preferences, falling trade barriers, and the integration of national economies.
2. Small companies launched with cross-border business activities in mind.
3. Per-unit savings gained from the repeated production of the same product
4. Insights, gained from experience, that lead to improved work performance.
5. Efficiencies from expanded production that result from spreading fixed costs over more units of output.
6. A strategy that involves accessing foreign business operations through contracts with independent providers.
7. A strategy that involves relocating operations abroad.
8. Selling products produced in the home country to customers in another country.
9. Selling products produced in another country to buyers in the home country
10. A strategy that allows a company in another country to purchase the rights to manufacture and sell a company's products in international markets.
11. The company buying licensing rights.
12. The company selling licensing rights.
13. Fees paid by the licensee to the licensor for each unit produced under a licensing contract.
14. The unauthorized use of a company's intellectual property or manufacture of its products.
15. A strategy to sell a standard package of products, systems, and management services to a company in another country
16. An organizational relationship that allows companies in different countries to pool resources and share risks as they enter new markets.

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17. The purchase by a business in one country of a company located in another country
18. A wholly owned subsidiary formed from scratch in another country
19. The probability that a country's government will mismanage its economy in ways that hinder the performance of firms operating there.
20. The value of one country's currency relative to that of another country.

#### Answer key

1. Globalization
2. Born-Global Firms
3. Experience Curve Efficiencies
4. Learning Effects
5. Economies of Scale
6. International Outsourcing
7. Offshoring
8. Exporting
9. Importing
10. Foreign Licensing
11. Licensee
12. Licensor
13. Royalties
14. Counterfeit activity
15. International franchising
16. International Strategic alliance
17. Cross-border acquisition
18. Greenfield venture
19. Economic risk
20. Exchange rates