

ORGANIZING, DIRECTING, AND CONTROLLING THE SMALL BUSINESS

In starting a new enterprise, it is not unusual for the owner to operate alone. He performs all the functions needed for his business to get even a foothold in the market it intends to serve. In most cases, however, this condition is temporary. When a deeper and more specialized attention is needed for all or some of the functions, the owner makes some adjustments. These could mean hiring people, buying equipment, identifying target market, among others.

Of course, some of the enterprise owners have sufficient resources to start with a full complement of employees, materials, and equipment. In any case, the identified tasks can be accomplished if the firm is properly organized, directed, and controlled.

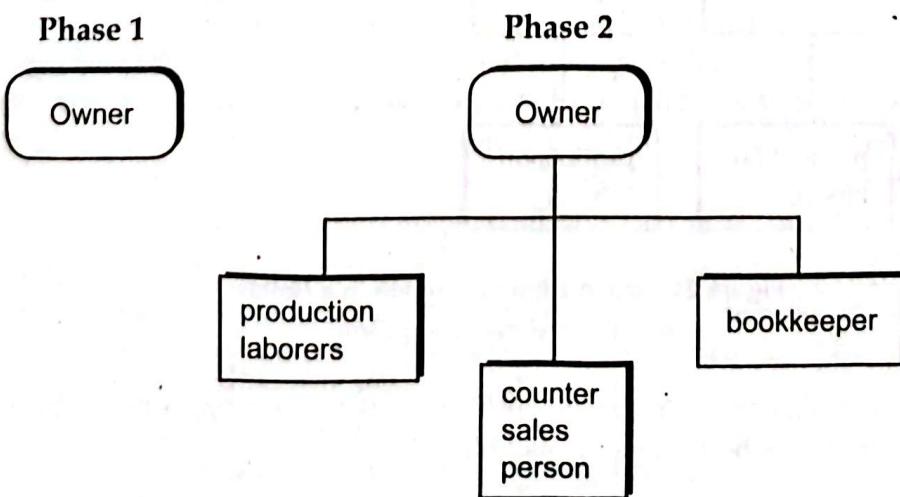
Organizing the Small Business

Organizing is the means by which management blends human and nonhuman resources through the design of a formal structure of tasks and authority. The objective of this function is to produce an organizational structure for the firm which indicates who performs which task and who supervises whom.

The Appropriate Organizational Structure

Every enterprise has its own objective, so an appropriate organizational structure must be adapted by each.

The type of organization which has to be considered will depend on how many persons are needed to assist in accomplishing the objectives of the firm. If the owner thinks he can perform all tasks, then he should not worry about organizing because he is "the organization." This is particularly referred to as phase one of organizational growth. If, however after a certain period, he feels the need for hiring assistants, then he proceeds to phase two. He moves to the next phase as his employees increase in number. The period of transition from one phase to another varies according to the needs of the firm. Figure 21 shows the different phases of organizational growth.



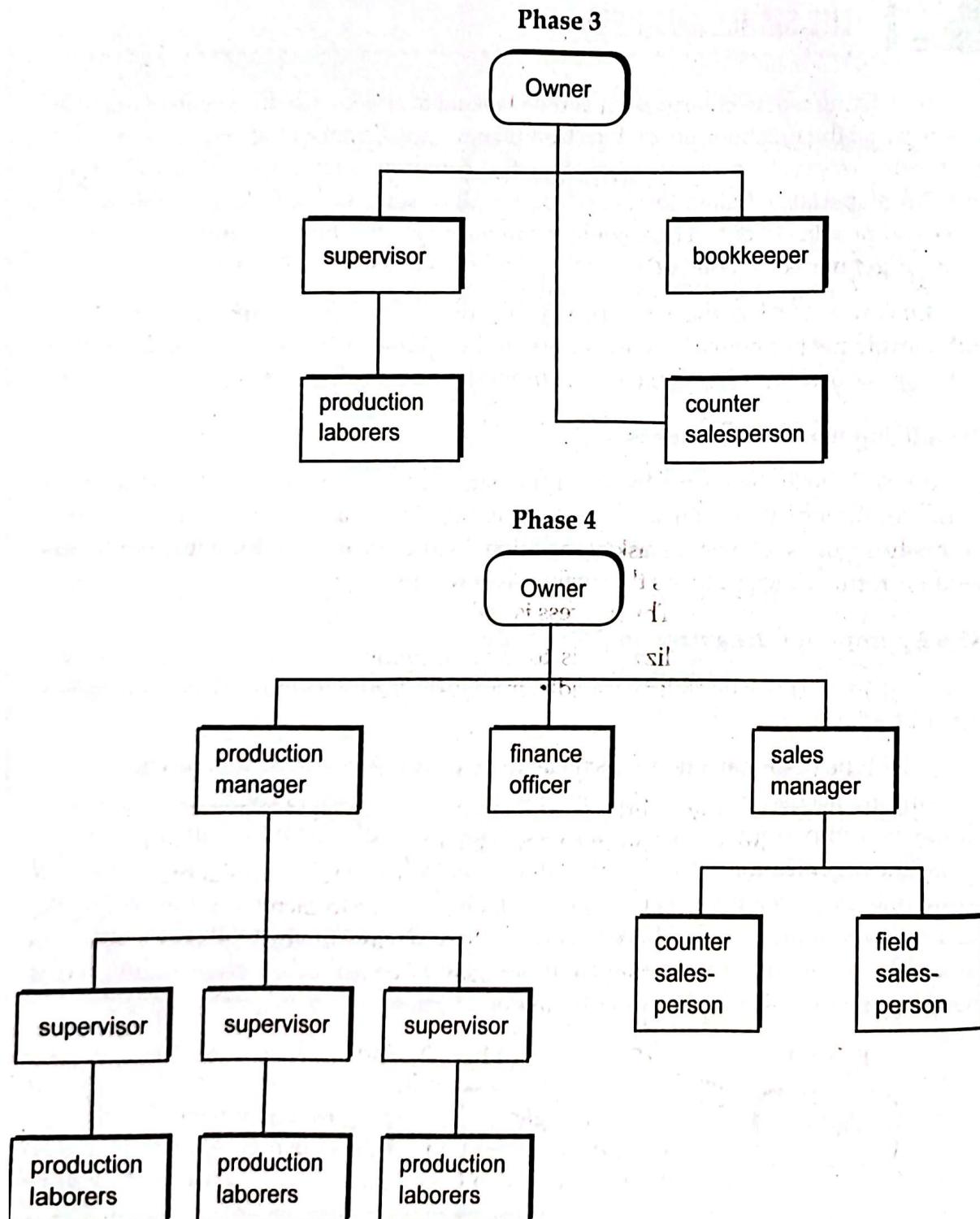


Figure 21. Organizational Growth in a Hollow Blocks Manufacturing Firm

It is not necessary, however, for the entrepreneur to start with phase one. He may adapt any for start-up as he finds it applicable.

The Owner's Concern in the Organizational Structure

In designing the firm's organizational structure, the owner needs to consider the following:

1. activities necessary to reach the goals must be identified;
2. an analysis of the jobs to be performed must be made; and
3. the placement of people with the interest and qualifications in performing the jobs.

The following concerns are reflected in the organizational structure:

1. specialization;
2. departmentalization;
3. delegation of authority;
4. span of management;
5. hierarchy of objectives; and
6. degree of centralization.

Specialization. The first task of the owner is to determine the total function of the organization. Then he divides the total work into small, specialized tasks and assigns employees to specific tasks. This process is called *specialization*.

The purpose of specialization is to make employees more efficient. A person who performs a specific task repeatedly, masters it after a certain period of time has elapsed.

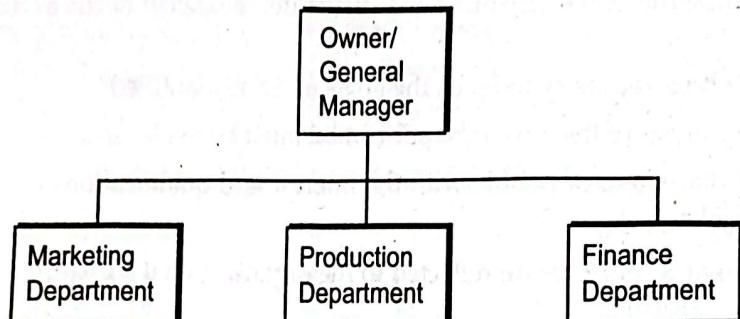
An example of the benefit of specialization may be provided as follows:

In a furniture-making enterprise, six persons are employed to manufacture tables. Individually, they are able to produce one table each per day. Each of them performs all the necessary tasks of sawing, assembling, and varnishing. The total production for the six employees was six tables per day. In an attempt to increase productivity, the owner reassigned two employees to perform only sawing, three employees to perform only assembling, and one employee to perform only varnishing. The result was that the total production of the group rose to eight tables per day.

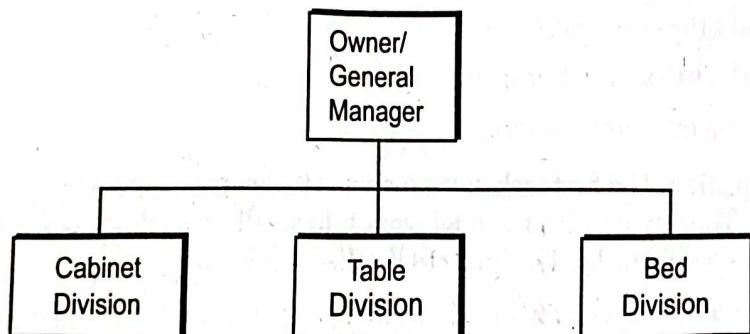
Departmentalization. When jobs are grouped into working units, the process is called *departmentalization*. The units formed are called departments, units, groups, or divisions. The departments may be organized according to function such as finance, marketing, and human resource development, or product such as cabinet, table, and bed, or territory such as Northern Luzon, Central Luzon, and Southern Luzon or customers such as consumers, private institutions, and government (see Figure 22).

Delegation of Authority. When an organization grows beyond phase one (i.e., the one-man organization), some of the tasks will have to be assigned to subordinates who will be delegated with commensurate authorities. This is so because at a certain point, no single individual can effectively handle the number of variety of situations where decisions have to be made. Proper delegation of authority will simplify the task of the owner. For instance, minor decisions regarding marketing, finance and production may be assigned to subordinates while major decisions are reserved for the general manager, who is most often the owner.

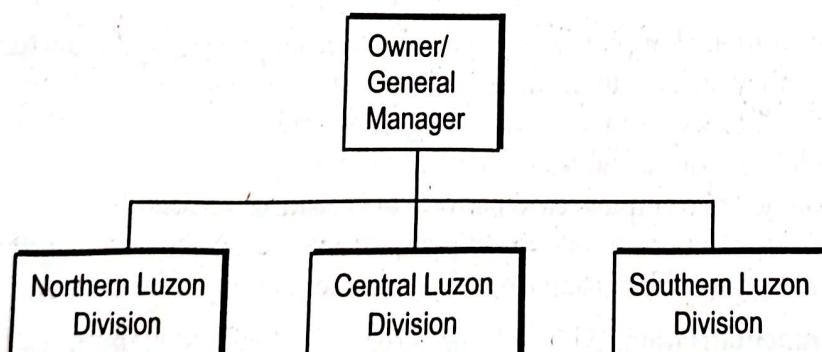
A. FUNCTIONAL DEPARTMENTALIZATION



B. PRODUCT DEPARTMENTALIZATION



C. TERRITORIAL DEPARTMENTALIZATION



D. CUSTOMER DEPARTMENTALIZATION

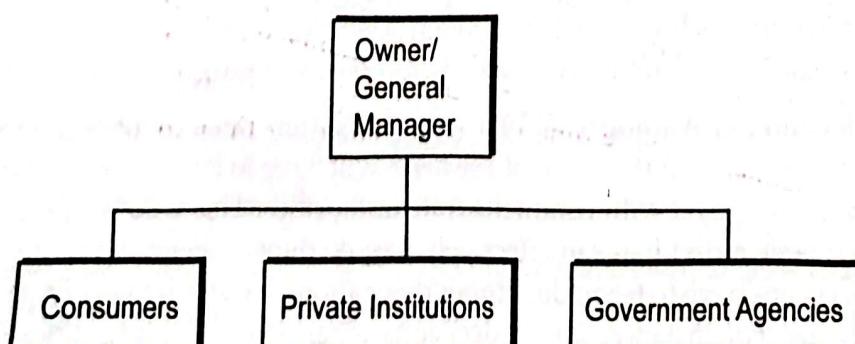


Figure 22. The Various Types of Departmentalization

Span of Management. The small business operator must consider the number of subordinates reporting to a supervisor or to himself. When there are too many subordinates reporting to a single supervisor, the quality of directing and controlling the subordinates may be compromised. Narrowing the span, however, will mean hiring more supervisors and this will increase overhead costs.

In any case, a sensible balance between the two extremes must be worked out to achieve efficiency. In general, it is easier to supervise subordinates with similar jobs. So if a supervisor is forced to handle subordinates with dissimilar jobs, their number must be kept to a minimum. If this is not possible, hiring an additional supervisor might be a good idea.

Hierarchy of Objectives. An entrepreneurial venture is expected to achieve a certain objective which most often is related to the realization of profits. This is made possible through the achievement of subordinate objectives like target sales volume and/or target expenditures. In turn, these subordinate objectives will be possible if lower level objectives are achieved.

For instance, the strategic objective of a small educational institution is to become the top school in the city in terms of enrolment. This may be broken down into enrolment objectives for each department or unit. It is further broken down into individual-sized specific objectives such as increased number of enrollees per class.

It is essential, however, that the achievement of individual objectives should contribute to the accomplishment of the overall organization objectives.

Degree of Centralization. Authority is often required to be delegated to lower level units if work is expected to be accomplished. This is not always the case, however. In any case, management has to decide on whether authority would be centralized or decentralized. It is not unusual, however, for management to designate certain units or functions as centralized or decentralized.

A centralized organization is characterized by the concentration of authority for decision-making in the hands of one or a few, usually the sole proprietor, the senior partner or top management. Centralized decision-making is adapted when conditions are risky and when lower level managers lack the necessary skills in decision-making. In entrepreneurship, decision-making is usually centralized at the first few years of operation.

A decentralized organization is one where authority is widely delegated to subordinates. Decentralization is useful in organizations that operate in complex and unpredictable environments. A decentralized organization reduces the load of top management and more time will be available for them to attend to some other important matters.

Adapting a Small Business Organizational Structure

The organization is the vehicle by which the SBO or the entrepreneur will achieve his business objectives. In the day-to-day operations of the business, he is confronted with the formal and informal organizations.

The Formal Organization

Depending on the size and the nature of business, an organizational structure will be adapted by the SBO or the entrepreneur. The one adapted will be the firm's formal organization structure which clearly defines relationships, channels of communication, and responsibilities resulting from the delegation of authority from one level of organization to another. This formal structure is shown in a pictorial representation called the *organization chart*. The formal structure is the one sanctioned by the management and is designed to achieve organizational objectives.

Formal organizations are of various types. They are the following:

1. line type;
2. functional type;
3. line and staff type; and
4. committee type.

Line Type. This organization structure is based on the direct flow of authority from the chief executive to the subordinates. Decision-making is the responsibility of each person situated in the direct line of authority. The manager of each unit can make decisions quickly based on the clear chain of command. This advantage is very important in highly competitive situations where quick decisions are required. For instance, if a regular customer requests a certain privilege like buying after store hours, the store manager can accommodate that request right away. Shown in Figure 23 is an illustration of the line type of organization.

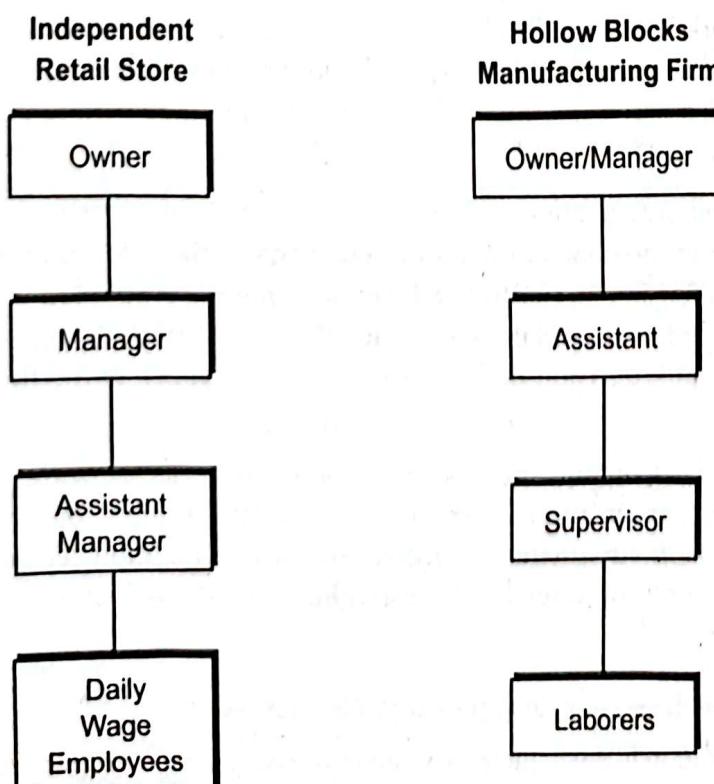


Figure 23. Examples of Line Organizations

Functional Type. The functional organization structure is one in which there are a number of functional specialists supervising the activities of a single subordinate. This organization type adapts some kinds of specialized functions. Authority is vested on qualified managers to provide expertise to each specialized function. As specialization is adapted and enhanced, it provides certain benefits that are required in certain situations like when specialized products or services are needed. For instance, a motor car service shop with specialists will attract certain types of customers.

The disadvantage of functional organization is that sometimes departmental concerns tend to override basic business concerns. Figure 24 is an illustration of a functional organization.

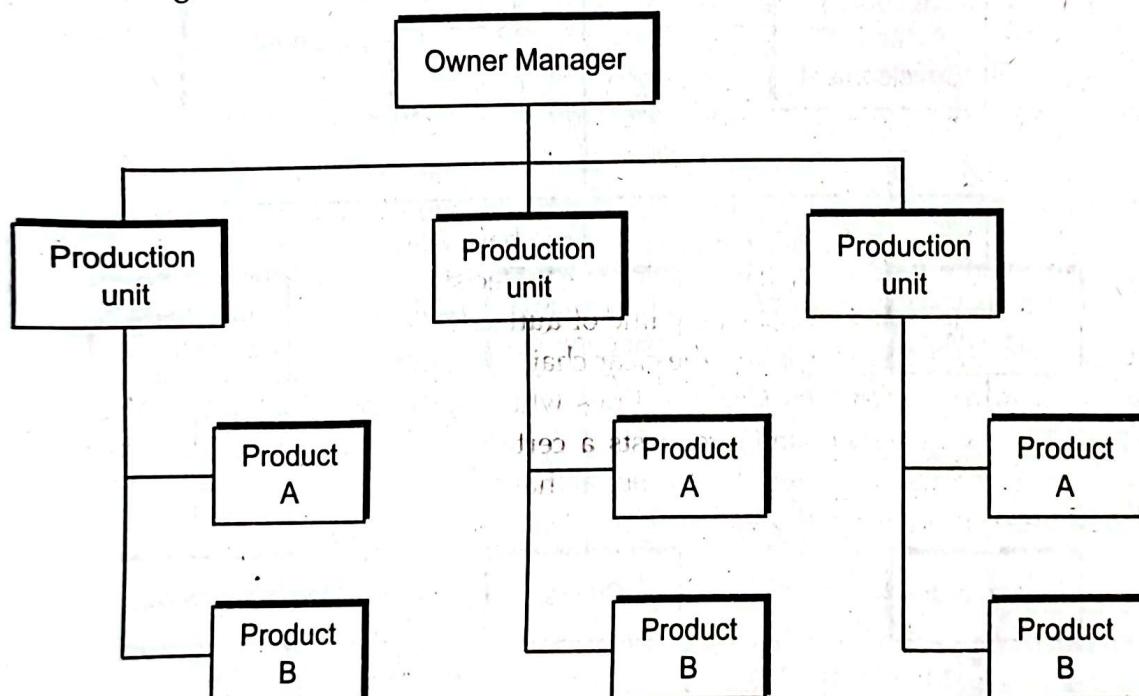


Figure 24. A Functional Organization

Line and Staff Type. This type of organization is characterized by line functions directly responsible for the achievement of organizational objectives and which are indirectly influenced by staff functions through advice, recommendations, research, and technical expertise.

The line and staff type of organization fuses the advantages of the line type and the functional type. The line officers are provided with authority and the benefit of receiving advice from staff officers who are experts in their particular lines.

The disadvantage refers to the cost involved in maintaining the structure. However, as the organization grows in size, the more appropriate the line and staff structure becomes. Shown in Figure 25 is a typical line and staff organization.

Committee Type. A committee is a formal organizational group created to carry out a specific organizational task. It consists of a group of individuals vested with authority and responsibility and performs a specific task which the individual manager cannot complete. It is not a separate structure for the entire organization but a part of a regular line and staff structure.

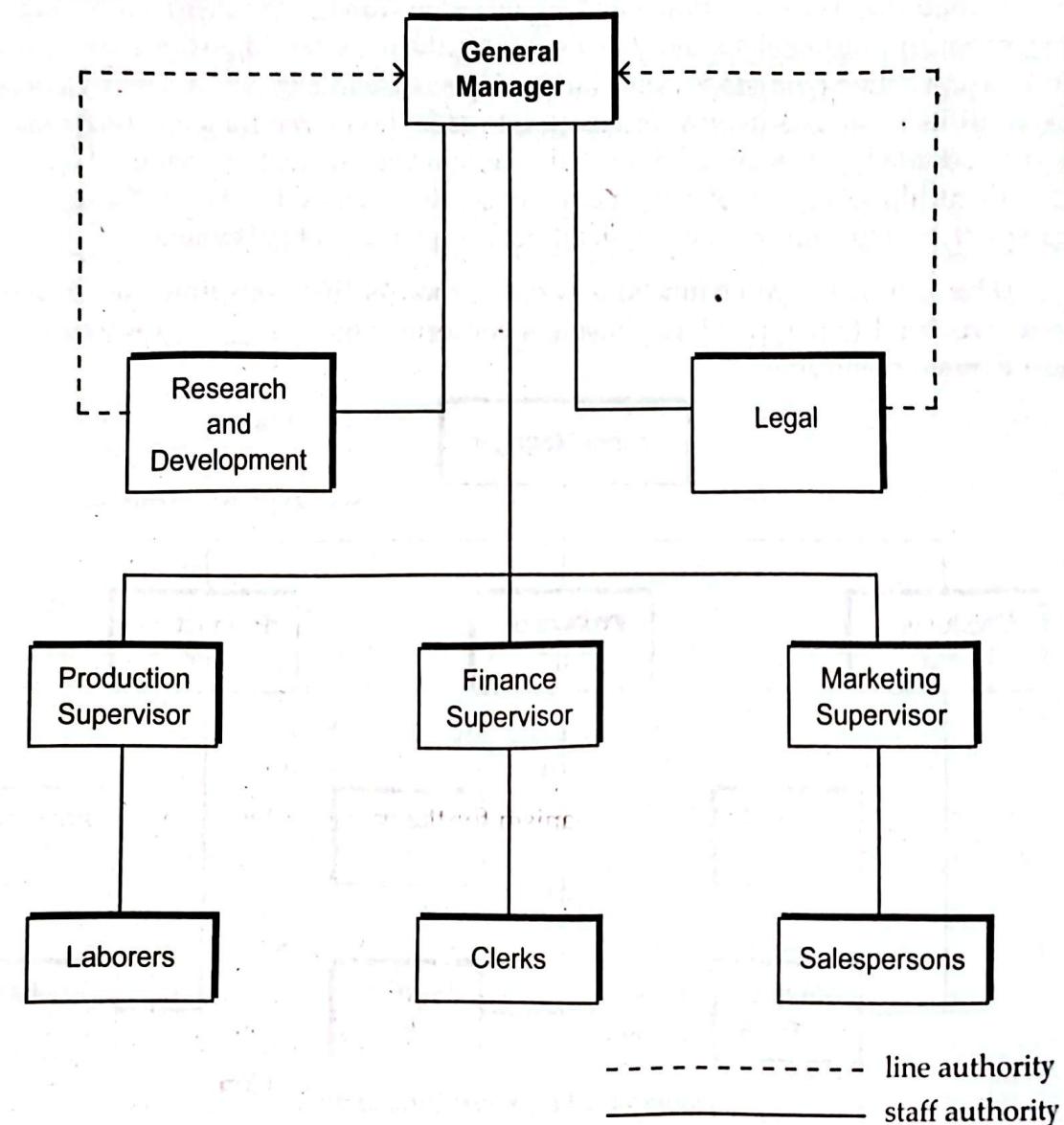


Figure 25. A Typical Line and Staff Organization

Committees provide effective means of pooling the expertise of different members of an organization and channeling their efforts toward a common goal.

Committees are of two types: (1) *ad hoc* and (2) *standing*. An *ad hoc* committee is created for a short-term purpose and has a limited life. An example is the search-and-screen committee organized to nominate candidates for a key management position. A standing committee is relatively permanent and performs a specific, recurring task, like reviewing budgets, hiring practices, and pricing policies.

The Informal Organization

The performance of individual employees depends on how successful management is in motivating work groups that are formally vested with authority. In many ways, however, employee performance is affected either positively or negatively by the influence of groups not formally sanctioned by the firm. Such groups are referred to as "informal organizations."

An example of an informal organization is a group of nine individuals working in the same company who meet every Sunday and play tennis. Another example is a group of six teachers in a school with mutual interest in playing music. They meet every Friday evening bringing with them their respective musical instruments and play till midnight.

These types of informal groups are useful to the organization if the members accept the organizational goals. This is one concern where the small business owner can use his management skill to motivate employees to work for the firm.

The Importance of Organizational Structure in Small Business

No matter how small or how new the enterprise is, some form of organization must be established. Even if it is only the sole owner who is minding the business, he still has to organize himself so he can perform the varied tasks required to run the firm.

In adapting an organizational structure, economics plays an important part. One must be used if it will provide more benefits than other structures.

Many small business ventures will adapt the line structure due to the following reasons:

1. Its simplicity is conducive to an immediate start-up in operations.
2. It is a good launching mechanism for the more sophisticated organizational structures.
3. It is adaptable to small-scale operations as all employees will be fully occupied with work.

As the organization grows, however, the need for specialists is felt, and as affordability is increased, they are hired. The small business may finally adapt the line and staff structure as the firm becomes bigger and more stable. Committees may also be created to address specific concerns.

Directing the Small Business

After the organizing phase, the task of implementing what has been planned must be undertaken. The specific function called directing takes care of actual implementation.

Directing refers to guiding and motivating employees to accomplish organizational objectives. It involves explaining procedures, issuing orders, and seeing that mistakes are corrected.

The small business operator needs to use the following skills that are required for effective directing:

1. communicating with subordinates;
2. providing counseling services;
3. motivating; and
4. maintaining discipline.

Communicating with Subordinates

Communication plays an important role in the achievement of company objectives. If subordinates are expected to perform, the small business operator must provide information that is accurate and adequate. If management expects specific results, this must be communicated in precise terms to the subordinates.

Communication may be defined as a meaningful exchange of information through messages.

Functions of Communication. The small business operator can use communication as a tool to perform the following functions:

1. *Information function* – The SBO uses communication as a means to gather information he needs for making decisions.
2. *Motivational function* – Communication is used to motivate subordinates to contribute to the achievement of company goals.
3. *Control function* – The clarifications provided through communication in terms of duties, authority, and responsibilities lay the ground for effective control.
4. *Emotive function* – Communication provides subordinates with an outlet for self-expression.

The Communication Process. Communication is a process that involves the following:

- | | |
|-------------|-----------------|
| 1. sender; | 4. decoder; and |
| 2. encoder; | 5. receiver. |
| 3. medium; | |

The *sender* is the one who speaks or dictates the message. The *encoder* transcribes what is spoken or dictated and prepares it for sending. The *medium* conveys or transmits the message through written, oral, nonverbal, or electronic means. The *decoder* interprets the message. Finally, the *receiver* receives the message. Figure 26 is an illustration of the communication process.

It must be noted that communication errors may happen at any point between the sender and the receiver. The SBO needs to make sure that they do not happen, and if they do happen, some means of correcting them must be provided.

Providing Counseling Services

There are certain instances when the actuations of some employees do not jibe with the required activities designed to accomplish the company's objectives. When these happen, there is a need to redirect the efforts of the concerned employees.

The small business operator must perform the additional role of counselor so that hindrances in the attainment of company objectives could be effectively cast aside. This additional task involves listening, giving advice, and preventing and solving employees' problems.

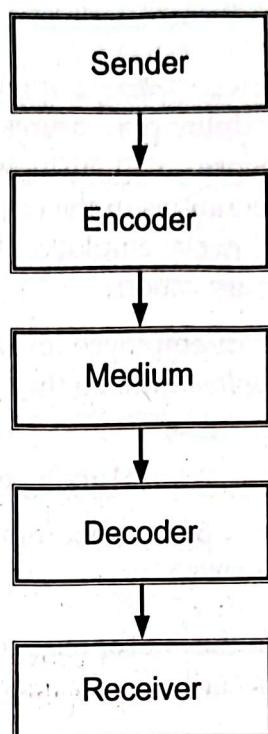


Figure 26. The Communication Process

An example is the employee who complains of difficulty in preparing the documents required in his application for a building permit. He wants to construct a house in his newly acquired lot. He mentioned the problem to his boss who immediately directed the company's administrative officer to assist him.

The effect of the gesture is that the employees now believe that the management is aware and is concerned with their welfare and that they are provided with some assistance in solving their problems.

Motivating

It is widely accepted that motivated employees are crucial to the achievement of enterprise objectives. These employees tend to work better and complain less. Motivated employees, however, do not happen by accident. They will be so depending on how their personal needs are satisfied. It is the job of the entrepreneur to determine these needs, find ways to satisfy them, and once these are satisfied, to channel this motivation to the accomplishment of the enterprise goals.

The entrepreneur who desires to motivate his subordinates could benefit from the various theories and practices expounded by well-known writers and researchers, such as Peter Drucker, Richard Daft, and many others.

The popular methods and programs adapted to motivate employees consist of:

1. improving the organization of the elements of a job;
2. modifying organizational behavior;
3. harnessing recognition and pride; and
4. financial incentives.

Maintaining Discipline

Much as the small business owner likes to avoid negative actions, there are instances where punishment and disciplinary measures are used to eliminate undesired behavior and poor performance. Since small businesses are most especially prone to the disadvantages brought by fluctuations in the economy, a high degree of compliance with directives is required of every employee. Failure to comply with requirements oftentimes justifies disciplinary action.

Any action directed towards an employee for failing to follow company rules, standards, or policies is called *discipline*. Among the common reasons for disciplining employees are the following:

- 1. loafing;
- 2. absenteeism;
- 3. fighting;
- 4. falsifying records; and
- 5. insubordination.

Progressive Discipline. When the SBO applies corrective measures in increasing degrees to get an employee to voluntarily correct inappropriate behavior, the measure is called *progressive discipline*.

A typical progressive discipline procedure consists of the following:

- 1. *Verbal warning* – This is the first stage of disciplinary measures, where an employee is told by the SBO or his supervisor about his or her undesirable behavior.
- 2. *Written warning* – This is a warning in writing sent to an employee by the SBO, saying that unless there is a positive change in the behavior of the employee, he or she will be dismissed.
- 3. *A one-day suspension* – If after the written warning, the undesirable behavior is repeated, a one-day absence without pay is prescribed.
- 4. *A three-day suspension* – The employee is suspended for three days without pay if the undesirable behavior still continues.
- 5. *Termination* – The employee is terminated if his or her behavior is still not improved.

Controlling the Organization

Controlling is a very important management function. If the small business is to succeed, this function must be exercised very well. *Controlling* refers to the process of efficient performance to attain the objectives of the firm.

Controlling involves the following:

- 1. establishing goals and standards;
- 2. measuring performance against the established goals and standards; and
- 3. reinforcing successes and correcting shortcomings.

Kinds of Control

Control consists of various types and those appropriate for small business will depend on the stage of growth of the firm. They are as follows:

Stage	Appropriate Control Tools
1. Start-up	Simple accounting records and personal supervision
2. Early growth	Operational budgets, management by objectives
3. Late growth	Greater use of budgets, standard cost systems, use of computer
4. Resource maturity	More sophisticated use of control measures indicated in the late growth stage

As the small business grows, the need for computers becomes more pronounced, as computers can provide answers to more complex control problems. It is very encouraging to note, though, that recent developments in computer technology provide solutions to control problems of small businesses at reduced costs.

Summary

A small business must be properly organized, directed, and controlled. As early as the start-up stage, it must adapt an appropriate organizational structure.

In most cases, the chosen structure reflects specialization, departmentalization, delegation, span of management, hierarchy of objectives, and degree of centralization.

The types of formal organizational structures are the line type, the functional type, the line and staff type, and the committee type. Each type offers a unique feature appropriate to a particular small business.

Within the formal structure, informal groups are oftentimes formed as a consequence of varying circumstances. These groups affect, positively or negatively, employee performance.

After the organizational structure is put in place, directing the activities of employees becomes necessary.

For effective directing, the following activities are required:

1. communicating with subordinates;
2. counseling;
3. motivating; and
4. disciplining.

Efforts expended in organizing and directing may be rendered useless unless effective control systems are put in place. Controlling is a management function that makes sure resources are efficiently used.