ASIA TIMES

Planning For Success

Although the causes of corporate failure are many and various, a knowledge of the primary causes is essential, in order to identify any problems and therefore take the necessary actions. Historically poor management has always been the main cause, but the extent of the recent recession has meant that external environmental factors are becoming increasingly important. One of those companies which fail principally due to poor management, four separate factors can be identified:

1) Insufficient management depth;
2) A poor finance function;
3) An overbearing managing director / chairperson
4) An uninvolved work force.

In order to create an involved work force it is important that all employees know the goals of organisation and are sufficiently motivated.

The Demise of IBM

A consequence of weak management is the poor planning and decision making which arises. Planning has to be done in advance in order to prevent day to day problems becoming crises, which will inevitably lead to management becoming involved in fire fighting and possibly wrong decisions as well.

An example of poor planning could have been seen in America, when IBM reported a world record annual trading loss of $4 billion. Having failed to appreciate the changing market in main frame computers, they found that only a massive reconstruction could be enough to save this truly mammoth corporation found.

Planning is essential regardless of the size of the company. One factor to determine is to assess the environment in which the business operates and therefore determine the external factors which will have a bearing on its performance. These factors should then be monitored in order to take preventative action at an early stage. Management should also start by determining the principal objectives of the business. Once these have been determined a strategic plan needs to be evolved, incorporating these objectives, bearing in mind, the resources available and the external environment.

The strategic plan can then be devised into a plan of action with short and long term aims. Another consequence of weak management tends to be inadequate financial control. This leads to a lack of financial information which means that management is unable to determine its present success or lack of it nor indeed plan its resources for the future. Financial control should not solely evolve around the preparation of annual accounts, which although important for long term planning, do not allow for the day to day monitoring of a business health.

A more appropriate method of assessing a business's well being is the preparation of monthly budgets which allow a company to set medium term targets and assess its performance against these targets.

Throwing money away

The preparation of cash flows will enable a business to plan its future borrowing requirements. A cashflow should be prepared by every business, regardless of its size. An example, can be seen with a case of a small confectionery shop in Birmingham which recently incurred a banking charge of £45 on a cheque of £50 made payable to a supplier. A simple cashflow would have prevented this cheque from being dishonoured. Hence proper monitoring will not only save money, but also embarrassment.

Finally a crucial error made by businesses is to fail to understand and appreciate their own markets. They may become product oriented and hence concentrate on production or distribution at the expense of marketing.

An example, of the way marketing can improve profits can be seen at its simplest, in the case of a shop keeper who can start by determining the relative mark-up on his products and strategically placing the products with the highest mark-up, on those shelves his customers are more likely to see. Successful business have always been those that are run by management willing to take the time and effort to prepare strategic plans, both on a short and long term basis. The secret of success in the recent cash starved times, is to a tight control and monitoring over the businesses cash resources by the implementation of stringent debt collection procedures and have a thorough ongoing view of its cost structure.