The Fatal Management Traps

Being guilty of any one of the ten most common business failings can sink any business, large or small, into near oblivion.

By: Rick Krepela

Contractors fail in days of prosperity—turning otherwise profitable enterprises into dismal failures—often in surprisingly short time.

A highly detailed survey was recently conducted by the Bureau of Business Research of the University of Pittsburgh. Their investigators uncovered thirty management “traps.”

Red ink, according to the authors of the survey’s report, is an indication, not a cause, for a breakdown in a company’s health.

Being guilty of one failing of the ten major ones outlined, or a combination of several, can sink any profitable business into oblivion. Whether a firm is a giant in its field, or is a relatively small firm, the businesses which fail are guilty of one or more lapses of good management, and fall into one or more of the following traps:

1. Keeping inadequate records:

The surest way to run afoul of accountants and tax collectors is to conduct your business with “scraps of paper.” A drawer full of bills, a stack of statements and notations on the back of envelopes detailing sales orders is not the same as a carefully kept set of records.

Poor records lead to an absence of adequate financial information to allow management to know the results of operations.

While larger firms often skirt this problem because of full time staffs, inadequate record keeping was the
“Nepotism may be one way to keep your family in control, but look out. Unless the relative is at least as competent in his job as someone else you may hire, the practice of burdening a payroll with family members siphons cash from the till and squelches initiative in non-family employees.”

greatest single cause of business failures unearthed. It was an important factor in nine out of every ten firms studied. Management did not KNOW they were heading for trouble until it was too late.

2. Ignore new developments in your field:
Do things in the same old way simply because they were once successful is a sure way to invite aggressive, up-to-date competition to take over. Retailers need store modernization programs, manufacturers must constantly improve their products, and service industries must be on the lookout for new and better ways to serve their customers. The report emphasized that “keeping abreast” was not only essential to a firm’s growth, but it detailed a number of instances where failure to adopt new ways was a dominant factor in leading to the “out-of-business” signs.

3. Incur cumulative losses:
A trickle of red ink isn’t much to worry about, or is it? At least 40% of the firms in the study discovered that the “little” leaks added up to a torrent. Add one unproductive line of work to excessive waste in some other area; couple it to “minor” losses elsewhere, and the result can wreck havoc with a firm’s profit and loss statement.

4. Hitch your wagon to one customer:
Signing up a single big account to the exclusion of others MAY look like an easy road to a secure future. Specialty contractors sub-contract one small part for a larger firm, or latch onto a single big account and think they have it made. Sounds great! No sales headaches, only one customer to keep happy but NO PLACE TO HIDE if the account suddenly sours on you. The University of Pittsburgh report shows that three out of ten bankrupt firms fell into this particularly inviting trap; found out to their chagrin that “friends in court” move on, that the old saw about all your eggs in one basket is all too true.

5. Be your own expert:
Trying to save money on professional advice can lead to costly mistakes, the survey shows. Any expert —production, sales training, distribution, not to mention legal or tax aid— costs money. But specialized opinions minimize errors; form a sound basis for decisions. Operate solely on your own hunches and half-proven guesses and you could wind up making one or two company-killing mistakes.

6. Build a family empire:
Nepotism may be one way to keep your family in control, but look out. Unless the relative is at least as competent in his job as someone else you might hire, the practice of burdening a payroll with family members siphons cash from the till and squelches initiative in non-family employees.

It isn’t only a question of the cash
drain going out to a non-productive or lazy brother-in-law. Think what happens to staff morale when conscientious, eager management talent finds the top of the ladder blocked.

7. **Forget about cost analysis:**
   So long as the checkbook shows a balance, why bother? For one thing, the investigators proved that unless a firm knows EXACTLY what it costs to provide a product or service, the matter of pricing is largely guesswork. Usually it boils down to “meeting competition.” Trouble here is that the competition could be in the dark too.

   Competition can only go so far in setting a price. If you or your firm cannot provide a product or service at a profitable price, it is probably better, the experts agree, to drop it and let the competition go bust. If the competition can handle the item profitably, then something is wrong with your costs. Only careful cost analysis can pinpoint the faults.

8. **Ignore your competitor’s mistakes:**
   Many business magazines detail glowing success stories. Meet a guy at a convention, and he will likely tell you about the things he’s doing RIGHT. But what about the companies that fall by the wayside? If they are in your line of business, it is a good idea to find out what happened.

   The answers may be more revealing than studying—or worse yet, envying—the success around you. Excessive inventory, poor sales management, obsolete equipment or methods; whatever the reasons, make sure your firm isn’t making the SAME mistakes.

9. **Expand beyond resources:**
   An enthusiastic salesman who signs up dozens of big jobs can throw a production schedule into a tailspin if the company isn’t geared to increase output. Likewise, a prosperous business gulping down “acquisitions and mergers” at the drop of a stock-swap can soon find itself with headaches of coordinating activities throughout a corporate empire that were undreamed of when the company was a single unit. Again, if a company launches new products before it has put a solid marketing and servicing base under the old ones, it, too, has expanded beyond its resources.

   A really successful business, the study shows, grows within its means.
The rate can be fast or slow, but it must have sound financial footing and, above all, the management talent necessary to consolidate new gains.

Also under this heading are such expansion moves as runaway borrowing to purchase little needed equipment or facilities. The report states quite frankly that some lenders lack “proper management and financial analysis” and that credit to some thinly capitalized companies in the study was surprisingly easy.

10. Let everyone shift for himself:

The researchers cite several instances where partners were so busy trying to outsmart each other that otherwise profitable businesses were jeopardized by the intramural struggles. Uneven work loads on supervisory personnel, failure to delegate authority along with responsibility, unusual or unequal management privileges inevitably sap a management team of its enthusiasm. Coordination comes from the top on any organizational chart, and the objectives and energies of a company must come from this same direction.

Failure to provide firm guidance along these lines results in either staff bickering or a company figuratively set adrift. In either case, the management breakdown can prove disastrous.

There are other points in the Bureau of Business Research study. Failure to watch depreciation schedules, neglecting to provide for a competent successor to the present management, unequal sales territories and a host of specialized reasons why particular businesses went bust. But the ten points listed here are applicable to virtually ANY business, large or small.

Whether or not your firm is next on the red ink parade depends in large part upon how well you follow-or how cleverly you avoid-this checklist of ten common management “traps.”