

Invest early to build your business infrastructure

Professional managers can help you set up internal operating procedures that fit your company's objectives and lead to orderly growth.

Now let's discuss the 80% perspiration part of the business. Work is fun when things around you are happening quickly. You want to work hard because everyone is responsive. But that fast-moving environment can develop only if you have an efficient operation that systematically supports ongoing activities. A gung-ho engineer who often has to wait around for prototype parts to arrive will soon accept long product-development cycles as a way of life. A chaotic operation will turn your vision of an ideal organization into so much wishful thinking.

In this segment of the Business Engineering series, I discuss the internal workings of a low-risk startup company as they relate to accounting, finance, information systems, administration, and other operational issues. You want to invest early in an infrastructure in anticipation of your future needs to avoid chaos.

To run a business you have to attend to a lot of details. You can't do it all yourself for very long. You want to evolve from a doer to a manager and eventually to a leader, so the best strategy is to hire professionals to do the job and to work closely with them. By being actively involved from the start, you'll define the culture, develop an intuition for the business, and delegate more effectively as the company grows (see "Learning from the pros").

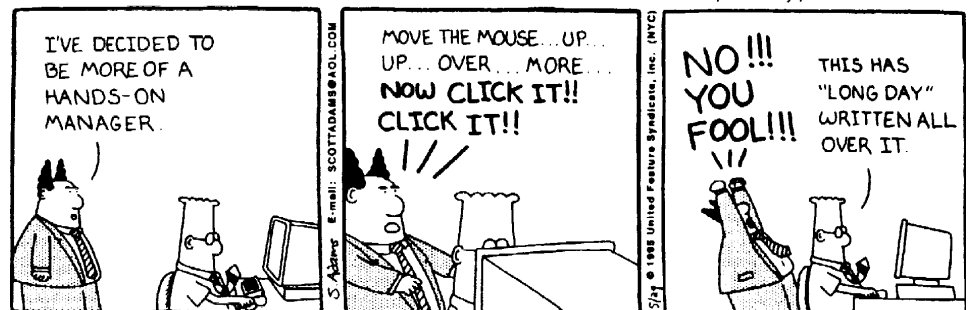
Administration and finance

When you start a company using the low-risk model (see also *Laser Focus World*, June 1995, p. 61), you're not likely to attract a seasoned financial person. Ideally, you'll have an involved

advisor, such as the vice president of finance for another company. This person can help you plan ahead and develop a financing strategy. You'll need an accounting professional to help you set up the books and to provide advice on an ongoing basis. Many freelance accountants specialize in doing just that. They can give you a turnkey system and charge you on an hourly basis. You'll also need an accounting firm to provide the audit/review function that simplifies your dealing with the IRS. Plan on using one of the "Big Six" accounting firms to convey to people that you're serious and that your company is here to stay.

change in spending pattern can prompt you to take action. The financial statements are easy to understand at this stage, so you'll want to begin practicing now.

Another important control function is knowing where the company's money is going, which, unfortunately, includes making sure it doesn't get into the wrong hands. While participating in an executive management program at Harvard Business School with 120 company presidents from around the world, I was shocked to learn that about 75% of them had experienced theft in their business. It's hard to protect yourself from a professional embezzler, but sim-



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A trusted administrator is a godsend to take care of record keeping and to make timely filings. Over time this person will learn your philosophy. He or she will become one of the guardians of the culture and help bring company history into decision making. So you should consider compatibility of personality as well as the person's aptitude, attitude, and aspirations when you hire for that position.

As you add more engineers and increase your R&D spending to develop your product, you'll need a full-time controller or accounting manager to help you understand the business as well as to pay bills. For example, after your controller sets up a chart of accounts, you will be able to see at a glance how much money is spent by each department. Accounting begins to take on a "control" role. Any

ple sign-off procedures will discourage improprieties. If you review all invoices and checks yourself, you'll learn a lot about what's going on and gain another management "control" tool.

Information systems

Take advantage of computers early by making them a way of life in your business. An information system can help you control the business and make it run more efficiently, giving you a competitive advantage. Even before you're ready to ship products, you'll want to go beyond word processing and databases and begin to computerize the area where the volume of manual paperwork is increasing the fastest; that's usually accounting or manufacturing.

Right from the beginning, you'll want someone to be the champion of the information system (IS) to help people

do their jobs. The IS provides a focus for the company-wide process of developing procedures and protocols. Because the IS is a communication tool, it can encourage teamwork by tying together different functions. The IS reinforces the company culture!

You have to start early, because it takes time to think through the ramifications of your decisions and to refine the process. If you start too late, when the organization is under pressure to ship products, people won't have time or patience to work on the infrastructure. You'll likely never get out of the fire-fighting, chaotic mode of operations.

Ramping up

Once you have begun to ship products, the number of employees will increase more rapidly as every department adds people. Things can happen faster, mistakes can be bigger and more costly, and you certainly have more people spending money. You'll want to go through the exercise of formal planning to encourage strategic thinking. The planning process provides a vehicle for involving everyone in the company and encouraging them to compare notes, agree upon a vision and strategy, define a course of action, set milestones, and establish a budget. To avoid losing control of the situation, compare your plan to what's happening and provide feedback to keep people on track.

The accounting function now evolves from tracking to analysis and looking ahead. Your financial person can be a driver in developing the plan and the budget. That person will most likely over time become your confident and sounding board. In fact, the finance department often takes on the function of managing the information system because it has access to all the numbers. And because of the many accounting rules and regulations, the financial people also get involved with contracts and take on the administrative aspects of human resources. You'll want to recruit with these roles in mind.

At this stage, you'll need to take on a leadership role to help your professionals manage. New people need to know what makes the company tick, and existing people may feel a loss of control with more people on board. Everyone wants to do a good job, but

Learning from the pros

A good manager forms a complete picture by combining knowledge gained from reading financial reports and from interacting with people. Benchmarking with industry data can also help you confirm that you're heading in the right direction. You'll develop deeper insights as you hone your number-reading skills and broaden your understanding of how to use an information system.

Reading between the numbers

You can often correlate changes in sales and profit with market pressures and your own business development activities. Spending also impacts profits, but a drop in spending is not always good. For example, if a salesperson reports lower traveling expenses, it could mean fewer sales later. An increase in inventory can mean the company is gearing up to introduce new products, but it can also mean that manufacturing is experiencing problems or that products are not selling well.

A good manager also looks at cash flow, perhaps even more closely than profit. When receivables go up without an increase in sales, it usually means there's a glitch in operations. The problem can range from shipping and invoicing errors to customers refusing to pay because products aren't working properly.

The numbers can help you formulate financing strategies. For example, if your profit margin is high, you'll want to leverage your investments by borrowing. Your debt-to-assets ratio can provide a sanity check. The liquidity ratios will tell you how much more you can borrow and still meet your debt obligations and pay your bills on time.

Developing an information system

It's wise to invest early in an information system (IS) that can integrate data from all parts, of the company. To begin with, understand how IS fits into your business strategy and what to expect of the manager of IS (MIS).

The information system is a tool for decision making — it's about gathering, grouping, disseminating,

interpreting, understanding, and using information. An outsider can maintain your hardware, but you are responsible for information input and output.

The MIS must be a team player with an innate curiosity about what people do and a natural tendency to reach out and to be helpful. At the same time, the organization has to embrace the IS and cooperate in providing information and knowledge to the MIS. Unless you provide leadership and set the example, that's not likely to occur.

You'll want to take the explicit position that information should be open and available. The use (or abuse) of information as a tool to control people runs contrary to a culture of teamwork and independent decision making. Naturally, you don't want information to get into the wrong hands, but look at the alternatives. At best, people can't work efficiently when they don't have full knowledge of what's going on; at worst, some can get incredibly negative. Even if the information leaks to competitors, it often satisfies their curiosity more than it changes their behavior. You have more to gain than to lose by being open.

Managing the professionals

You'll want to establish a close working relationship with the professionals in all parts of the company. They can serve as a valuable sounding board and can help you articulate and communicate your vision. But they have to know what you want done before they can do it. Delegate responsibilities, but don't abandon them. If professionals seem to go overboard, try to understand the reasons for what they do and challenge them to come up with creative solutions to get the same results. One technique I have found useful is to keep asking, "What's my downside if I do it differently? How will that change our behavior?" Your willingness to take a position on issues as they occur can prevent wheel-spinning and speed up the pace of the whole organization.

people feel insecure about making decisions on their own when things are changing too rapidly. Many questions arise: Am I doing okay? Are we all pulling our weight? Where's the company headed? How's the company doing?

Employees need the bigger picture (vision, goals, philosophy, culture, and strategy) to provide them with a banner, resources (technicians, test instruments, and a budget) to get the job done, and the infrastructure (IS, procedures, and process) to help them work efficiently. To give your employees what they need, your professionals must be committed to developing procedures, documenting them, and constantly refining them as the environment changes. You'll spend most of your time clarifying the bigger picture so the procedures they develop will fit into the company's overall objectives.

You'll need a vice president of

finance to help you with day-to-day activities, to plan ahead, to formulate strategy, and to deal with financing issues. The way you structure your business in the beginning can have major tax ramifications later because of certain technical accounting rules. Your accounting department will begin to take on finance and legal responsibilities. Ideally, your employees will be motivated to grow into the position. They can learn from your lawyers, auditors, directors, and other outside experts. Inside people have an intrinsic understanding of your culture and know the company's history well enough to make good decisions.

A personal note

Engineers often don't trust "business people," a category into which they lump MBAs and anybody dealing with money, and they care even less to learn what these people do. That's silly,

of course. Allowing preconceived notions to exclude people and ideas is almost always bad.

People in finance do things we engineers don't do well or don't care to do; they make all the numbers come together to allow the business to run. Many times, we engineers have ideas for businesses but never start them — or if we do, our businesses never get off the ground — because of roadblocks we don't know how to get around. The main culprit is the lack of ability to execute. The best way to prepare yourself for the operational aspects of the business you want to start is to participate in the planning cycle and the budgeting process in your present job. □

FURTHER READING

Robert C. Higgins, *Analysis For Financial Management*, 3rd. ed., Richard D. Irwin Inc. (Burr Ridge, IL), 1992.