

Test: How good is your management know-how?

Try the acid test. See if you have the strategic skills needed to succeed as an entrepreneur. A number of tricky typical decision-making situations which young entrepreneurs may face in practice are presented below. Choose one of the possible responses to each question. The test evaluation is given at the end.

Case 1. You are in the process of establishing a firm or taking a major growth step in your existing business. The figures indicate that financing will be very scarce but probably just about sufficient. What do you decide?

- a) I obtain extra financial leeway through discussions with banks and suppliers.
- b) I prefer not to speak to external third parties so as not to make them aware of my tight financial situation.
- c) I wait to see how sales go. There are always opportunities for additional financing.

Case 2. You have registered your firm with the authorities. A short time later you receive a questionnaire from the social-security department asking about the level of your expected turnover and profits. How do you react?

- a) I would estimate the values on the low side.
- b) I would give high values to be on the safe side in order to avoid any trouble.
- c) It is important to be open with the authorities when it comes to financial matters. I would therefore enter my actual estimated figures in the questionnaire.

Case 3. You suspect that you will be able to purchase larger quantities than before and want to increase your capacities massively. What do you decide?

- a) I invest in all machines at a given time and gradually start to produce more so that I am ready for all possibilities.
- b) I try to adapt step by step to increased sales volumes and therefore purchase machines as I go along.
- c) I am careful to invest in new machines straight away and then wait for a while.

Case 4. You are opening a retail business on 1 January of the following year. You expect to be so well-established by the end of the year that you will need three full-time employees. What do you decide?

- a) I employ three full-time employees as soon as possible so that they can become fully integrated.
- b) I wait until the following year to see whether I really need additional full-time employees.
- c) I observe developments over the following months and employ one full-time employee first of all if required, and then possibly more.

Case 5. You notice that your overall turnover has been steadily declining in recent months. What do you do in order to identify the reasons for this negative development?

- a) I investigate (personally or via a third party) the behaviour of my clients and competitors.
- b) I sign up for a marketing seminar at short notice.
- c) I contact my bank for advice.

Case 6. Your customers want to receive quick deliveries. You therefore have large stocks of all items so that you are able to fulfil as much demand as possible. Your bank advisor thinks that your stock ties up too much capital. On the other hand, the client is king. What do you decide?

- a) For me, the client's wishes always come first. Therefore I don't change anything.

- b) I only keep the best-selling products in stock. For the rest, I agree to a delivery period of a few days with the supplier.
- c) I determine a supply quantity for each individual item so that I am always ready to make a delivery on the basis of the known client relationship and my suppliers' delivery periods.

Case 7. Your business is doing well. This is partly because you are fully involved with your day-to-day business at all times. Naturally, this means that it is difficult to maintain a general overview of the overall situation. How do you react?

- a) I put even more effort into the day-to-day business. At the end of the day: If cash flows are healthy you don't need to have a handle on every last detail.
- b) I try to delegate some of the day-to-day activities to qualified employees and use the free time to obtain a better overview of my firm.
- c) I concentrate fully on the day-to-day business and hire an external consultancy firm to analyze my problems.

Case 8. You are the manager of a computer and system house. In addition to individual software, you provide computer hardware in the form of PCs and larger company computers. Sales of PCs have been declining for the past two months, the software order situation has improved significantly and sales of large computers have remained stable with a downward trend in prices. What do you do?

- a) I move out of the PC sub-segment as quickly as possible.
- b) I stop selling computer hardware and concentrate exclusively on software production.
- c) I first analyze the causes of the decline in sales figures, and then try to stimulate sales through targeted advertising.

Evaluation

The situations contain only a small number of (simplified) facts. However, all the decision alternatives put forward point only to action strategies whose goals and effects differ significantly from one another. In this sense, you should consider the following solutions:

Case 1: Solution a

Always be completely open with your closest business partners. There is nothing worse than when lending banks and suppliers lose their trust in you.

Case 2: Solution a

You create cash-flow advantages for yourself in the initial phase, because preliminary social-security payments (old-age insurance) are lower. You create reserves for potential additional claims if the business figures prove to be better than those declared.

Case 3: Solution b

You develop greater capacities than you actually use. This would be counterproductive both in terms of cash-flow and costs. Try to manage your growth in such a way that you do not create too much idle capacity. There will naturally be some inevitable flaws, because you cannot acquire half a machine.

Case 4: Solution c

It is important in terms of human resources to balance capacities in such a way that business processes are not restricted and unused staff capacities are not wasted. As far as growth processes are concerned, it is important to consider how to respond to growing demand in a progressive manner.

Case 5: Solution a

Close contact with customers and observation of competitors are of central importance.

Case 6: Solution c

Electronic data processing offers a range of possibilities in terms of supervision and coordination in the logistics field and allows you to operate in a relatively simple, economical manner.

Case 7: Solution b

Create space for strategic perspectives without totally neglecting day-to-day business. The combination of strategic and operative activities is particularly promising.

Case 8: Solution c

It is important to react to the market. But short-term setbacks should not provoke hasty reactions. That's why it is important to conduct intensive research. Find out whether your customers expect you to offer software and hardware as a combined solution package.

Source: Prof. Dr. Heinz Klandt, Chair of Entrepreneurship, European Business School (ebs)