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Simon Sez: 'Create Systems, Make Profits'

"Systems" may sound like a dirty word to entrepreneurs, who typically thrive on chaos and seat-of-the-pants decisions.

"Systems" may sound like a dirty word to entrepreneurs, who typically thrive on chaos and seat-of-the-pants decisions.

But your company can only survive so long that way. To continue growing, you need an internal infrastructure — formal processes and procedures.

Without systems, you'll start to see some fallout by the time your company hits \$1 million in revenues. And depending on your industry, \$3 million — \$5 million becomes the real breaking point. If you're not headed for disaster, you're certainly going to lose ground. A few symptoms to watch out for:

- Do you feel like you have a paid audience? Do employees look at you and ask, "What's next, boss?" instead of knowing what to tackle next.
- Inconsistencies are showing up in your product or service.
- You're losing customers to competitors.
- Your bankers are asking questions you can't answer.

The knee-jerk reaction of most business owners is to blame employees. But the real problem is a lack of procedures.

Systems help you make better use of time and resources, so you're not constantly reinventing the wheel or fixing the same problems over and over. They also help you provide customers with consistent results by providing reliable measures to benchmark quality. What's more, internal infrastructure takes the pressure off the CEO; the business can run without you being there 24 hours a day.

"The smaller a company is, the longer you can get away without proper systems — but you can't scale without them," points out Brian Scudamore, founder of 1-800-Got-Junk?, a junk-removal company based in Vancouver, British Columbia. 1-800-Got-Junk? generates more than \$10 million in revenues today, and a systems mindset has played a critical role in the company's growth, says Scudamore.

First things first

Before launching any operational or organizational system, it's crucial to define your mission, vision and values.

Many entrepreneurs don't think about the big picture — they just roll up their sleeves and starting working. Yet to build a sustainable, scalable company, you must understand why you're in business in the first place. What kind of company do you hope to build? What kind of customers and employees are you trying to attract? Why is it important to you?

Clearly define your mission (what business you're in), your vision (where you're going) and

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Running Like a Machine



Carmine Marinaro
Corporate Information Systems

"We were doing well, but I thought we could do better," says Carmine Marinaro., CEO of Corporate Information Systems. His key to growth? Embracing a systems mindset.

Photo by Michael Paras.

The Systematic 7

1. **Don't procrastinate.** Business owners usually wait until there's a crisis, and then they go overboard with systems, spending far more money on software or consultants than would have been necessary if they had started sooner.
2. **Plan for it.** Systems should be part of your annual and quarterly reviews. Internal infrastructure needs constant tweaking. This is a never-ending project.
3. **Get outside expertise.** Many of your systems are highly technical, and consultants can be a big help with the set-up phase. Just make sure you know where you want to end up so you can maintain the system.
4. **Get employee input.** Don't design a process that doesn't work for the people who will be using it.
5. **Think holistically.** Systems

values (how you want to operate). This will help guide you to an appropriate infrastructure; all processes and procedures should link back to these strategic objectives.

"There is so much going on in a growing business. As a CEO, I'm trusting people that I've never even met," says Scudamore, noting that 1-800-Got-Junk? operates in 26 cities with 250 employees. "I don't know them all personally, and I never will. But I want to make sure they live up to our four promises: on-time service; upfront rates; clean, shiny trucks and friendly, uniformed drivers.

"Some people might argue that you can't have a system for friendly employees. But you can," stresses Scudamore. "You can design a hiring system to make sure you find friendly people. You can create a performance-evaluation system that rewards friendly behavior."

Getting organized

Establishing internal infrastructure is a huge project. After all, you're developing a variety of systems: managing and leading people, strategic planning, financial management and controls, sales and marketing, and production or delivery of services.

Experts suggest tackling problem areas first. If you're having trouble with employee turnover, work on human-resource systems; if you're bleeding financially, dive into financial controls.

Tip: Your organizational chart can be an important tool — as long as it accurately reflects the functions your company must do to be successful. Too often, business owners plot organizational strategy according to the skills of current employees, rather than the people they really need. And that can leave holes.

After you've listed critical functions, write detailed job descriptions for all positions. Those descriptions will shed light on the systems needed to help people fulfill their responsibilities.

And when you're writing job descriptions, don't skip your own. This exercise will help you step out of a technical role and into a leadership role; it gives you clarity regarding how you should be spending your time.

Key components of a good system:

- *Clarity.* Details are important, but don't overwhelm your employees; procedures must be easy to read and follow.
- *Standards.* Quantitatively or qualitatively measure how work gets done so you can gauge progress.
- *Ownership.* Someone must make sure that others are trained or aware of the procedures.
- *Build on it.* Develop methods for continuous improvement.
- *Documentation.* Putting something down on paper forces you to think clearly and to choose words that precisely express those thoughts. In addition, it gives everyone in your company guidelines for accountability.

The power of paper

Granted, documentation can be frustrating because founders innately know how things should be done. Taking time out from your already jammed-packed schedule to define that

must be integrated so that *all* departments are carrying out your vision and values.

Cross-functional communications and interaction can be built into your processes: For example, if you have a product-development meeting every week, insist that all departments are represented.

6. **Pace yourself.** An internal infrastructure is not going to happen overnight — nor do you want it to. It's important to develop and implement it over time.
7. **Not for employees only.** Owners as well as staff must honor the systems. Be prepared to follow the system 120% if you expect employees to follow it 100%.

Michael Gerber on Systems

How people-dependent is your company? "That's the clarion call for second-stage entrepreneurs," says Michael Gerber, celebrated author of "The E-Myth" and founder of E-Myth Worldwide, a distance-learning school for business owners.

"What's invariably true in second-stage companies is that whatever success they have is built less on the company's ability to produce and more on individuals' ability to produce," says Gerber.

That means that either you're doing everything, or you're relying on "experts" that you've recruited. Either case has inherent fallout: You can only be a one-man or one-woman show for so long; and if your experts leave, that expertise goes out the door with them.

View your business as a school, urges Gerber: "There is a way to do everything we do, and there's a better way to do everything we do — rather than a better person to do it."

A systems-intelligent organization allows you to hire less-skilled people. They don't have to be industry hotshots; they only need to become

methodology is a distraction; it feels like homework.

Yet the payoff can be surprising, says Stephen Halasnik, president of Expertseeker.com and its parent, Atlas Technology Services Inc., an \$11 million executive-recruiting firm in Boonton, N.J. "After I began documenting, I saw the value of processes — how they can help you move from being a mom-and-pop organization to a more progressive company," he says.

About a year ago, Halasnik began to develop a policy manual for Atlas. "The manual helped our organization be more professional," he says. "It allowed us to see what we were doing, who's responsible for what, and then eliminate some unnecessary steps.

"For example, we used to have an unclear understanding of our process for entering orders into our system," he explains. "Once we documented our order-imputing process and assigned the parts to people, our process ran much smoother, and it was also easier for new employees to learn."

As companies grow, owners become more removed from the front lines. If you haven't established formal procedures, there's less chance of work being done the way you want.

Case in point: Capstone Publishing, a division of Coughlan Cos. in Mankato, Minn., has grown rapidly since its inception in 1993 — from \$0 to \$30 million. About four years ago, CEO Bob Coughlan began to define and record Capstone's procedures as part of an ISO 9002 exercise.

"In five years, we had grown from 12 employees to more than 100 people. New managers would come on board and change things to conform with their experience," says Coughlan. "Now that we have documented procedures, they're easier to communicate — and not so easy to alter unless there's a good reason."

Establishing this internal infrastructure has also benefited Coughlan in his leadership role: "It helps me understand from top to bottom what all our departments are doing — even though I don't come from a publishing background," he explains.

Procedural pointers

Financial infrastructure. Because numbers can be intimidating, this is usually the last group of systems that business owners want to attack — and the first set of systems they should develop. It's tough to make solid decisions unless you have up-to-the-minute fiscal information.

Get some standard reporting systems in place, including ones for current cash flow, your profit-and-loss statement, budget variance, profitability and liquidity ratios. These reports are snapshots of your company's health. If you review them on a timely basis, you can catch problems sooner and start corrective action. (Some good news: There's so much off-the-shelf software available that setting up financial reporting systems is much easier today.)

After your reporting systems are in place, start to work on procedures. The collections department is one area where the ball often gets dropped. If your employees don't know when to call an overdue account, you could quickly wind up in a cash crunch. Establish firm rules about when to call, what to say and when to turn an account over to an outside

experts at using your systems and improving them. The opportunity to improve the system is what develops your employees and gives them greater returns.

A systems perspective must begin with a vision. "A vision is primary. Without a vision, there is no passion, no heart," stresses Gerber. "But without a system, your business will continually fall apart. The system becomes the method that ensures your vision will be realized, both on a day-to-day basis and a long-term strategic level."

The vision is the "what" — what do we intend to be; the system is the "how" — how do we become what we intend?

One caveat: "You'll never create the perfect company," says Gerber. "Your goal is to create the 'ever-perfecting' company."

Related Information

["How to Write an Operations Manual,"](#) Edward Lowe Foundation Quick-Read Solution.

["Forget Policy Manuals"](#) by Patrick Kelly, Inc. (April 1, 1998): 37-38.

["ISO Certification: How to Get It and Why,"](#) Edward Lowe Foundation Quick-Read Solution.

collections agency.

Management systems. Many entrepreneurs find management duties painful and would rather ignore personnel problems than try to resolve them. Yet confrontation becomes much more comfortable with a system.

Suppose you have an employee who is chronically late or isn't performing well. Here's a seven-step system for resolving the problems:

1. Identify the problem.
2. Get agreement to the problem (the employee needs to acknowledge that it's a problem).
3. Discuss why the behavior is a problem.
4. Get the employee's commitment to address the issue.
5. Create a plan *with* the employee — as opposed to creating a plan *for* him or her.
6. Agree to the plan.
7. Implement the plan, then follow up and re-evaluate at a later date.

This procedure creates clarity and produces results.

Recruiting procedures. Another area where entrepreneurs often resist structure is human resources. "Having a chat" with job candidates is not an effective interview procedure.

"I always say that people don't fail, systems do. But you have to start with the right people," says Scudamore. His company, 1-800-Got-Junk?, follows a detailed recruiting system, not only for corporate employees, but also for franchise partners.

"First we ask potential franchisees to research the competition in their city," Scudamore explains. "When they present their findings, we examine their attention to detail. Then we interview them over the phone — not once, but twice. Next, we bring prospects to our headquarters in Vancouver, where they meet with key members of our executive team.

"It's lengthy process," admits Scudamore. "But it helps ensure that new franchisees will be successful.

"We're constantly tweaking this system," he adds. "We evaluate it every six months, looking at partners we've brought on board and how successful they've been. One recent change we've made is to look more closely at drive — are potential partners driven to do whatever it takes to build a strong franchise in their city?"

A creative exercise

Entrepreneurs may fear that any sort of structure (plans, standards, operating procedures) will stifle the creativity and experimentation that they love so much. And your founding crew may resist processes by urging you "to keep things loose."

Although systems may sound sterile, there's nothing cookie-cutter about it. You're developing procedures that are unique for your company; it's an exercise in creativity.

What's more, having an internal infrastructure actually focuses your team's creativity. If you create systems according to your plan and vision, then people know where the company is going; they'll be able to develop ideas for that vision.

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Capturing the Best of Best Practices

Establishing formal procedures is the only way to determine best practices — processes that consistently deliver the results you want.

"Best practices are a response to pain," says Keith Schwartz, founder of On Target Promotions, a \$2 million manufacturer of men's ties and belts in Euclid, Ohio. At the end of last year, Schwartz's business grew from two part-time employees to seven full-timers. The combination of new faces and burgeoning sales began to cause fallout, which ranged from errors in customer orders to botched travel plans. When Schwartz showed up for a presentation — on the wrong day — he knew it was time to take action.

Schwartz began to create processes and an infrastructure for On Target, along with assigning accountability. For example, his warehouse manager became responsible for quality control. Now before a delivery is shipped to a customer, she checks the contents against an invoice. "Before, I was getting some really bad complaints from customers," says Schwartz. "But since we've implemented this system, my phone's stopped ringing, and I'm not seeing charge backs."

The importance of infrastructure

Before you can determine best practices, formal processes and procedures must be in place.

"Best practices begin with expectations," says Ivan Nikkhoo, co-founder and president of [Vertex Systems](#), a Los Angeles-based technology-consulting firm with about \$10 million in revenues.

Last year, motivated by the sour economy, Nikkhoo began to develop formal processes to make Vertex more efficient. He began by dividing Vertex into functional areas, such as sales, finance and human resources; then he established expectations for those areas. "You've got to have a base line before you can tell if you're improving," says Nikkhoo. "It's like playing tennis: If you don't have a system to keep score, you don't know who's winning."

Although it's only been a few months, Nikkhoo's pursuit of procedures has already evoked some best practices. For example, Vertex salespeople gather in teams of four to make weekly sales calls, each taking a turn at the phone while the other three listen. "Every salesperson has a different way of selling with unique mannerisms, demeanor and language," says Nikkhoo. "Yet by watching and listening to someone else's approach, they pick up pointers to polish their own presentations."

Within six weeks of implementing this practice, both the number of solid leads and client visits increased.

A system from a system

Fast growth has sparked a systems mindset for Chuck Hall. "It seemed as though we were

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In search of systems



Kelsey August
Lone Star Direct and
WorkplaceToolbox.com

Kelsey August launched Lone Star Direct in 1993, and the direct-mail/fulfillment company has grown to \$2.5 million in revenues last year. Her quest for best practices led her to create a new business.

Photo by Matt Lankes.

3 steps to 'better' best practices

Look at your business as a set of interrelated systems. Whether it's answering the phone or hiring a new employee, everything can be broken down into formal processes and procedures that address the question, "Is this the best way?"

Best practices can be broken into three phases:

1. **Innovation.** Someone comes up with a new or better way to do something.
2. **Quantification.** Give the new idea a try, measure the results and compare those results to what was done in the past. (This is the stage where a lot of people fall down. They wing it, using their perception or intuition to gauge effectiveness. But just because something feels good doesn't mean it's really

reinventing the wheel each time we started a project," says Hall, founder of Charles Hall Construction in Clarendon Hills, Ill., which generated \$9.8 million in 2001 revenues (up from \$2.3 million in 2000) and expects to hit \$22 million this year.

Yet Hall was cautious: "I've worked for other companies where systems were too rote, too documented — there was no room for innovation."

To balance consistency with creativity, Hall introduced a quality-control system patterned after the U.S. Army's After-Action Review. "Each project is seen as a single event in the eyes of the company," Hall explains.

During a project, which can take eight to 12 months to complete, Hall selects key events or milestones to gauge progress. When milestones are reached, the project team discusses both successes and mistakes and looks ahead. The meetings are chaired by a "client committee" — a team of key executives and personnel that focuses on issues from the client's perspective. Meeting client expectations is crucial because Hall relies on repeat business and referrals rather than having a sales team.

By providing a forum to discuss what has gone well and what hasn't, the milestone meetings have an important byproduct: They shed light on best practices.

"There's been an improvement in documents that the entire team uses, which gives us better coordination up front. Our next big step is capturing the information in a database so people can reference it later and learn," says Hall.

Creating a culture for best practices

"We're always looking for the most efficient ways to do things," says Robbin Lenz, COO of the New York State Business Group (NYSBG), a \$130 million insurance company in Patchogue, N.Y., which Lenz's father founded in the early '60s.

Case in point: Whenever service reps at NYSBG receive customer calls, those conversations get a three-digit number defining the reason for the call. Lenz then receives a weekly report showing the number of hits for each code in descending order, which helps her quickly pinpoint and solve problems.

Lenz stresses that best-practice thinking requires teamwork, which is one reason she advocates cross training. When employees know how to do the same task, they start looking over each other's shoulders and comparing approaches, analyzing which one gets the best results.

Leaders must also tune in, adds Lenz: "I'm an advocate of one-on-one discussions and don't like big meetings. Brilliant people aren't necessarily outspoken."

Sticking with it

"A best practice is never a best practice unless it's consistently and broadly applied," says Cristi Cristich, founder of [Cristek Interconnects Inc.](#), an Anaheim, Calif.-based manufacturer of electronic connectors and cables with 120 employees and \$12 million in 2001 revenues. "Entrepreneurs are by nature impatient, and we're often our own worst enemy," observes Cristich. "Too many CEOs have systems that are 'flavors of the months.' Sometimes it's not so important what you do, but that you stick with it and give best

better.)

3. **Orchestration.** If quantification proves that the new idea is more effective, you're ready to implement it. This means documenting the system, training people in it, and management followup. Don't assume that people are using the best practice just because you told them to.

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Related Information

[BMP: Best Manufacturing Practices](#), U.S. Department of the Navy.

["Improving Product Quality,"](#) Edward Lowe Foundation Quick-Read Solution, 2000.

["How to Write an Operations Manual,"](#) Edward Lowe Foundation Quick-Read Solution, 2001.

practices a chance to bloom."

Once you have best practices and a support team in place, you don't have to manage people on a day-to-day basis, points out Schwartz: "For business owners of my size, that's a huge burden lifted."

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How to Write an Operations Manual

An Edward Lowe Quick-Read Solution

A procedures manual for your company protects you from trusting too much in particular employees to operate your business, serves as a guide for new trainees, and provides an emergency recovery plan.

OVERVIEW [\[top\]](#)

Identify an employee within your organization who plays an integral role in your company. What would happen if that employee quit without providing notice? Key individuals can be found in any company, but it is vital that you not become dependent on a particular person to operate your business.

Not only does an operations manual save you from relying too much on individual employees, it also serves to guide and reinforce the training of new employees and allows for the self-taught, cross training of existing employees. What's more, if you are considering selling your business, an operations manual can reinforce — or even increase — your asking price, as it will foster a smooth transition to new management.

In this Quick-Read you will find:

- Tips on a functional layout for your operations manual.
- What elements to include.
- How to manage the project.

SOLUTION [\[top\]](#)

An operations manual is a comprehensive documentation of how your company functions. If written correctly, it should guide someone unfamiliar with your company through the day-to-day procedures for operating your business. This should not be confused with an employee handbook, a much smaller document addressing conditions of employment, corporate culture and acceptable behavior policies. (See Quick-Read, "[Creating Your Employee Policy Handbook.](#)")

Layout

Before you start writing, plan the physical layout of the manual. You'll find that the layout tends to dictate the manual's usability.

1. Divide your manual into sections that coincide with the departmental organization of your company. This will facilitate employee contributions during the writing process and allow easy access to information once the manual is in circulation. Include a table of contents that lists subsections.
2. Have authors create the document using the same word-processing software. Common software will not only make it easier to construct the manual now but it should also ensure the document can be easily modified in the future. Always have a hard copy of all

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the versions at a safe location.

3. Number the sections and then the pages within sections. For example, page 4 of section 10 would be numbered "10.4." This will save you from having to reprint the entire document each time you make a change. Recent word-processing programs provide this page numbering option.
4. On each page, add a footer indicating when the page was last modified. Photocopied pages frequently lie around, and an outdated one could do much damage.
5. You can also include an appendix for interim additions or changes, so that you will not have to edit and reprint the manual to include periodic alterations.

Content

Operations manuals typically include four types of information:

1. How-to procedures, e.g., how to enter a new account into your billing system, how to perform computer file back-ups.
2. Locations of items, e.g., keys.
3. Contacts, e.g., insurance company.
4. Business-related policies, e.g., not accepting personal checks.

Descriptions of department-specific tasks will make up the bulk of your manual, but you'll also want to include:

- Job descriptions. Formal job descriptions help individuals understand their roles within your company and also allow new and existing staff to identify each other's responsibilities.
- Emergency procedures. In most cases, you can obtain detailed emergency procedures from your landlord or from community groups. You will have to personalize some of the text, such as a gathering point in the event of a fire, but most of the information will already be prepared for you. Make two additional copies of your emergency procedures section to keep at reception and in the staff room for easy access.
- Disaster recovery plan. Document how to re-establish your business following a fire, theft or earthquake. Having a plan prepared in advance will help you restore normal operations quickly and thus prevent significant revenue loss. It's also good for public relations because customers will see that you are dedicated to providing uninterrupted service.

Don't go overboard! The manual needs to state just what a substitute or replacement worker might need — not the obvious procedural details. A sure way to devalue the manual is to trivialize it with too much detail.

Don't rewrite manuals that already exist! Your phone system, for example, probably already comes with a user guide. Reference the phone system guide in your operations manual, including the title and the version number, for replacement purposes only.

If any departments have procedure guides that are too extensive to include in the company manual, be sure the department guides are referenced in the company manual so that they will be found when they are needed and so that there's a reminder to treat them the same as other procedures when they are checked or changed.

Project Manager

The office manager, operations manager, or communications manager is typically responsible for writing the operations manual. Regardless of who is assigned the task, be sure the writer has good writing skills, is organized and is attentive to details. The writer must be able to present the processes in a manner that allows someone unfamiliar with your business to perform the task. If you do not already employ such a person, consider outsourcing the project. If you outsource, there is no need to hire a professional: a communications student or entry-level technical writer can do the job. You'll simply need to assign a project manager from within your office.

Regardless of who writes the manual, understand that it is not a one-person project. You are creating a company-wide document and will need input from all departments. The project manager should create a list of general how-to questions. Then, whichever employee is currently responsible for a given task should record how to do it. Then the project manager or writer can formalize it.

Testing

Once your operations manual is complete, try it out. Have an employee or the project manager follow the steps for a particular activity in another department. Testing will help you ascertain the accuracy and ease of use of the manual before you need it.

REAL-LIFE EXAMPLE [\[top\]](#)

When Sherle Hathaway, office manager for Rolynx Technologies, approached her boss about preparing an operations manual for the company, his initial reaction was to dismiss the idea, claiming the company was too small to warrant an operations manual.

"I tried to explain the importance of an ops manual to a company," Hathaway recalls. "It is a valuable resource tool, saving aggravation and lost time in an employee's short- or long-term absence. Its value has little to do with the size of the company."

By the end of their discussion, Hathaway's boss gave his approval to start the project. It took eight months to complete the manual, including drafting and testing the written procedures.

"The manual should have taken only six months to prepare," says Hathaway, "but I ran into some difficulties getting staff to participate when I started. It wasn't a priority for some staff. They saw it as extra work."

Hathaway communicated her concerns to her boss and fellow managers. She realized that, because the project had not been adequately explained to the other managers, they had not relayed its importance to their department staffs. To address this, Hathaway's boss distributed a memo to all staff, carefully highlighting the benefits of an operations manual to both the employees and to the organization as a whole.

"Once the staff understood that it was a company-wide effort — not just my project — the

cooperation level doubled. I would definitely recommend that any company taking on an operations manual project make it known to the staff how important the document is, and ask for their full cooperation."

DO IT [\[top\]](#)

1. Appoint an internal project manager.
2. Discuss with your staff the importance of an operations manual. Staff may feel threatened if asked to document everything they do. Explain the benefits of an operations manual:
 - It's easier to take holidays if others can perform your duties.
 - One employee's work will not be hindered by the absence of another.
 - New staff will become productive more quickly.
 - Staff can learn how to do the work required of other positions if interested.
3. Begin by writing job descriptions. Ideally, have the employees write the descriptions and then review them with their respective managers.
4. For each department, list a series of tasks to be documented and assign them to individuals based on the job descriptions. Tell staff to add to the list if a procedure has been overlooked.
5. Have the project manager perform the task according to the written procedures. It is better to test the documentation immediately, rather than wait until it is needed.
6. Update the operations manual every two months or so, depending on how quickly job activities change in your company. Interim additions can be placed in an appendix.

RESOURCES [\[top\]](#)

Books

Midnight Networks, Inc., by H. Kent Bowen and Marilyn E. Matis (Harvard Business School Publishing, 1998). This case describes how the five founders built their business from operations earnings and how they established "best practices" operational processes to run their firm successfully.

Design and Maintenance of Accounting Manuals, third edition, by Harry L. Brown (Wiley, 1998). Useful ideas for accounting and auditing department procedure manuals. Consider starting the procedure-manual project with accounting procedures to get a good complete model in place for other departments to follow.

Writing Effective Policies and Procedures: A Step-by-Step Resource for Clear Communication by Nancy J. Campbell (AMACOM, 1998). Pretty basic, but a good checklist of steps for getting the manual written and used.

How To Write An Effective Policies And Procedures Manual And Employee Handbook (Gene Levine Associates, 2000).

Internet Sites

[Writing Revisable Manuals: Print & Online](#) (Technical Communicators Resource Site)

Use search engines, such as [Google.com](#) to find examples of operations manual entries by searching for the word *procedure* and a desired function, e.g., type *procedure "petty cash."*

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