PART SEVEN
Leading growth

7.1

How small business owners can become better leaders and managers

***Ruth Spellman**, chief executive at the Chartered Management Institute, explains how the demands on leaders change as enterprises move beyond start-up*

Nick Brown started his first business in the mid 1990s. An individual with immense drive and creativity he spotted a gap in the market and worked 24/7 along with his partner – his wife – to build the business. A natural entrepreneur, born salesman, keen marketer and IT and finance literate, there wasn't an aspect of the business he didn't influence or get involved with. His wife focused on the administrative, finance and operations functions. At peak times family members were drafted in on a temporary basis to assist with the operational and fulfilment processes.

The business grew quickly and Nick's appearance became more haggard by the day as he worked weekends and all the hours he could to keep up with fulfilling the demand he had created. As for holidays, these were distinctly things of the past; a distant memory of when he was a salesman for a medium-sized corporate.

As turnover passed the £2 million mark, the arrival of his first child brought things to a head. His wife was suddenly no longer able to provide the level of support he was used to and demand kept growing.

It soon became clear to Nick that he needed permanent staff if the business was not to become a victim of its own success. In very short order he hired people to look after admin, operations, the books and packaging up and posting out the orders.

However, while recruitment and selection were relatively straightforward, internally, after some months, things began to get into a mess as duplication occurred, paperwork was mislaid, staff misunderstood instructions, customers' calls were not returned and tempers began to fray under the unrelenting pressure. Things came to a head one Friday when two of the packagers resorted to fisticuffs and were ordered off the premises. Nick began to wonder what he had done to deserve this turn of events.

Nick belonged to a classic car club and though he rarely attended local events decided on this occasion to attend the next one as a good friend and former colleague was going to be present.

Over a pint of beer he poured out his troubles and answered the questions put to him in return. A number of things soon became clear to his companion, a senior executive at a large multinational.

In common with most managers Nick had never received any formal training in management and leadership. Neither did Nick belong to a professional institute from which he could source advice and guidance on management issues.

His small business appeared to be run along informal lines with no structures and processes in place. There was no induction and no training provided. If they were lucky, new staff were shown what to do on a one-off basis. Otherwise, they were pitched in at the deep-end. There were no team meetings or 'town-hall' type sessions. There was little or no formal communication.

Although Nick was good at leading from the front, he was a poor listener and lousy at delegating, believing that no one could do the job as well as he could or in the way he wanted it done.

This completed Nick's tale of woe. The good news, remarked his friend Richard, was that most of this was fixable.

The first thing his friend recommended was undertaking some management and leadership training; training that would ultimately lead to a qualification. Not only would Nick benefit from practical application of what he would learn but if he achieved something like the Chartered Manager award this would provide him with an additional source of competitive advantage when bidding for new contracts. However, this was a medium- to longer-term solution.

The second thing Richard recommended would provide a quicker fix, and that was joining a professional institute that encompassed management and leadership. For a relatively modest annual fee (under £100) Nick would have 24/7 access to how-to guides, case studies, e-learning modules, checklists, research reports, podcasts on best practices, videos and a full range of problem-solving tools covering everything from handling staff issues to team building.

He pointed out that Nick could benefit from some one-to-one coaching to address his listening and delegation issues.

Richard also pointed out that research had shown that holding a professional qualification and being a member of a professional body held numerous benefits, citing increased earnings as his lead argument.

Quoting further research conducted for the CMI he pointed out that only a small minority of workers think of their boss as 'accessible' and 'approachable'. He suggested that empowering staff to carry out their roles to agreed objectives and KPIs was one of the keys to establishing better levels of employee engagement and to seeing a significant upturn in profitability. But more, Richard said that if his words weren't persuasive enough, Nick should take account of a report from the Work Foundation, which shows that an increased investment in workplace practices related to employee engagement actually increases profits.

By this point in the conversation Nick had begun to perk up. He could see that there were several things he could undertake himself to improve his management and

leadership of his organization that didn't rely on the hiring of consultants or a large amount of investment.

As the evening drew to a close, Richard offered to visit Nick at his office to help him thrash out an action plan to help him become a better manager and leader. Nick readily agreed and they confirmed a date.

Several days later Richard arrived at Nick's offices. There was no one in the reception area and the first person Richard encountered gruffly stated that customer orders were only taken over the phone or online. Richard explained his presence and was shown the direction of Nick's office. Not a good omen he thought to himself.

Once they were ensconced in Nick's office with coffees to hand Richard began to outline an agenda that would encompass not only Nick's ability to manage and lead more effectively but sharpen up general practice across the business, particularly in the area of customer service.

Richard asked how many permanent staff now worked for Nick and whether he could identify those with the talent to supervise and manage staff and develop the business according to Nick's overall vision and objectives. Nick responded that he had never articulated a vision, mission or set of overarching goals or objectives. Step one, then, was to get this done and share and discuss them with all staff through a forum or meeting.

This would be the first lesson in beginning to build a unified team that interacted positively and cooperated with each other resulting in good working relationships. Richard suggested this was followed by a session on strategies. Nick should share and discuss with his team the actions he thought should be implemented to drive the business forward. He should also seek views from his team on where they thought the business could be improved and constructively listen and respond to their responses.

Richard pointed out that team building is an ideal way to deal with the challenges that face any business. It can provide organizations with the tools and strategies to get them back on track. Team building didn't have to take the form of expensive 'away days' or excursions, it could be something as simple as a team meeting with an element of fun, possibly holding the meeting over lunch or celebrating successes.

He continued by saying that managers like Nick needed to remember that teams are much more than just a group of people who happen to work together. Teams are groups of people all working towards the same common goals and objectives and they are more likely to be successful if they have a mix of different skills, expertise and knowledge. For example, how successful would Manchester United be if all eleven players were centre backs?

Richard then turned to the predominant management style that was exhibited by Nick within his organization. He referred to recent research carried out by CMI into managers' quality of working life, which found that the top three management styles prevalent in the UK (bureaucratic, reactive and authoritarian) have a negative impact on motivation, health and productivity and a detrimental effect on any team-building efforts. For example, these particular management styles can lead to managers dominating the work of teams, or exercising excessive control, which can stifle creativity. The research found that such styles are associated with stalled or declining businesses. Nick winced as this sounded familiar.

On the flip side, remarked Richard, organizations that have an accessible and empowering style are more likely to have a culture that enables successful team working. Nick admitted that his management style was probably fairly authoritarian and that he would need to alter his approach to how he dealt with staff and the issues they faced. Richard suggested undertaking a light-hearted management-style quiz that could be found at **www.comparethemanager.com**. Nick could use this as a springboard to read about different management styles and what could be done to offset the behaviours that accompanied a more authoritarian style of management.

Richard completed the session by outlining the common traits, behaviours and actions that characterized a number of chief executives who had taken their companies from being merely good to great and sustained this over more than 15 years. These companies had outperformed the market and their peer group of competitors by every common measure including market capitalization, turnover, profit, customer satisfaction, employee engagement and advocacy. Richard supplied the name of the management guru who had undertaken the work in this field and begun to establish a type of leadership index against which other business leaders could measure themselves and their companies.

The common traits, behaviours and actions included what *not to do* and what to *stop* doing as well as what to *do*; getting the right people 'on the bus', the wrong people 'off the bus' and most importantly the right people in the right seats; being the best at your core business. If you cannot be the best, establish what you can be the best at, otherwise mediocrity will be the norm; establish a culture of discipline. With disciplined people, disciplined thought and disciplined action hierarchy, bureaucracy and excessive controls are not needed. Additionally, understand how to carefully select and apply modern technologies.

So here endeth the lesson Richard stated. Nick's mind was working overtime as he thanked his friend; keen to begin his journey to establishing better management and leadership within his organization.

- Managers are the biggest occupational group in the country, and growing, as over 800,000 new management jobs will be created by 2017 according to figures from UKCES.
- Independent analysis of Labour Market Force Data shows that by holding a professional qualification and membership of a professional body, individuals can earn an additional £152,000 over their career.
- CMI research data from April 2010 shows that 10 per cent of workers described their bosses as accessible and just 7 per cent thought senior staff were empowering.

The Chartered Management Institute is the only chartered professional body dedicated to managers and leaders and the organizations they work in. Our

tailor-made training programmes and qualifications are designed to meet the needs of today's management professionals and to support employers in developing and delivering management and leadership excellence across their organizations. We provide up-to-the-minute research on the hottest management issues, the most relevant information and guidance through our online management centre, and consultancy services and guidance for managers at every level and across every type of organization.

As chief executive of the Chartered Management Institute, Ruth Spellman OBE leads the drive to encourage individuals, businesses and government to invest in the high-level skills we need to increase UK competitiveness and productivity. Prior to joining the Institute in June 2008, Ruth was the first female chief executive officer of the Institution of Mechanical Engineers, following seven successful years as chief executive of Investors in People. Prior to that she was a senior member of the consulting practice at Coopers and Lybrand, HR Director of the NSPCC and an advisor to NEDO (the National Economic Development Office). She brings a broad experience of the private, public and voluntary sectors to her new role.

Developing the next layer of management

7.2

***Jeanette Purcell**, founder and director of JP Associates, discusses how to find – and prepare – the right person to take the business forward*

At a networking event recently I was introduced to someone who had built a successful business over 10 years, selling and installing air conditioners. With a background as a heating engineer he started the business on his own, now employed two other engineers and had, over the years, enlisted the help of his wife, son and, most recently, his daughter. It was his daughter, he said, who had made him aware that the business had far more potential for growth than he realized. She had sought out new customers, weighed up the competition and persuaded her father to focus on customer service, something that, in the past, he had not considered important. 'Now,' he proudly told me, 'she is doing an Executive MBA. The business is sponsoring her and already we are reaping the benefits. I am confident that I will be able to pass the business over to her and that, under her management, we will really take off.'

The case for developing your talent

Here was someone who recognized the potential for his business to grow but understood that he was probably not the person to help the company develop. Luckily for him, his daughter quite obviously demonstrated the skills and talent required and he did the right thing by encouraging her further development. For other small businesses (often family owned) it is not so easy to identify the next layer of management. Many face the challenge of finding the people in their team who are going to move the company beyond its small beginnings to the next growth phase. And that's not the only problem – having identified the need to develop its people, how does a small business, preoccupied with short-term survival in a period of recession, justify the time and the money required to invest in training? It's an important question. However, the owner-manager of the air conditioning business reflects an increasing awareness that investment in the long term is crucial even, or

perhaps especially, when times are hard. And investment in MBA training continues to be the most popular option for potential business leaders.

MBAs are versatile

Ten years ago the MBA might have been considered a qualification that was designed primarily for city high-fliers, was offered at a few prestigious business schools at a high price and only on a full-time basis. The situation has changed dramatically in recent years. The MBA market is strong and vibrant, despite the recession, and courses are available in thousands of good business schools in a range of formats. The beauty of an MBA is its versatility. It is essentially a general management degree, giving you good all-round business skills and preparing you for business leadership in any industry from manufacturing to consultancy. All MBAs offer the opportunity for students to specialize in their chosen field or area of interest, either through a range of electives that accompany the 'core' modules, or through a specialist MBA that focuses on a particular industry (there is even a very popular 'Wine MBA' delivered by the BEM Bordeaux School of Management!).

Leadership can be learnt

There are some who argue that only experience can make a good manager, claiming that you can't teach leadership. Certainly, experience is important and business schools with accredited MBA programmes will insist on at least three years' relevant experience before enrolment onto the course. The intention is to build on and enhance what you already know and can do and to provide opportunities for you to share and exchange experiences with others on the course. If you come onto an MBA programme without experience you will struggle to keep up. But experience alone is not enough – it is inevitably specific to your own background, area of business and restricted to the particular challenges and projects you have managed. The real value of an MBA is its ability to enhance and develop 'real life' experience while at the same time adding new knowledge (the business theory if you like) and new, practical business skills. All of this in a stimulating, learning environment with a high level of academic and practitioner support. This combination of experience, knowledge and skills is extremely powerful and is, arguably, the richest and most effective form of learning.

Research the options

Anyone considering enrolling on an MBA course should spend time considering what they want to get out of it, what type of course would suit them and how much time and money they are prepared to spend. If you are clear about these things and you research the options thoroughly, you have a better chance of choosing the right programme for you and therefore of getting the most out of the experience. There are

so many choices available that good planning and research before enrolment are essential. Not all MBA programmes are the same and business schools differ in their approach, their specializations and the fees they charge. Don't make the mistake of simply going for the most highly ranked business school or even of choosing the cheapest course you can find. Choose according to your needs. It's a good idea to consider only MBA programmes that are accredited by the Association of MBAs (AMBA) – accreditation provides an assurance of quality and, with over 45 accredited programmes in the UK, still offers a diverse range of courses.

Part-time study

What will I get out of studying an MBA? The answer depends on a number of factors including the type of programme you choose: full-time, part-time, distance learning or any number of flexible study formats that are widely available. The part-time and distance learning courses are particularly attractive to those who need to continue working and want to spread the cost and time involved over a longer period. These courses involve a lot of hard work and commitment – it's not easy to start studying after working a full day and some of the tuition will often take place at the weekends. The advantage of a part-time course though is that it allows students to apply their new knowledge and skills in their workplace as they go along. In this way, both the student *and* their employer get a more immediate payback from their investment in the course.

MBA content

MBA programmes include a range of subject areas and all will cover the basic business functions such as finance, marketing, operations and human resources. However, in response to changes in business practice and the global business environment, many business schools offer programmes that are far more international in content and delivery. It is not unusual, for example, for an MBA programme these days to involve international exchanges or to require the study of a second language. In addition, rather than focusing solely on the 'hard' stuff of business, MBA courses are increasingly focusing on the development of so-called 'soft' skills such as communication, team building, networking etc. This change of emphasis reflects the growing demand from employers for senior managers who can manage teams, work constructively with others and communicate effectively. It is interesting that what many MBA graduates remember as a key benefit of their training, is the opportunity they had to learn from and work alongside a highly talented, experienced and diverse group of fellow MBA students. A typical MBA course can include over 20 different nationalities from a range of cultures and backgrounds, which makes for a challenging and dynamic learning environment. The networks formed among MBA students during study are highly valuable and continue to add value long after graduation day.

Financial support

MBA courses are not cheap and sadly the number of employers offering sponsorship to their staff for study has declined recently. Although many small businesses recognize the long-term benefits of funding staff development, others are reluctant to provide any finance. However, if money is an issue, it is worth considering some of the other ways in which employers can provide support for MBA study and protect their investment in the qualification. Time off for study or money for books are less costly alternatives and demonstrate a willingness to help. Employers can also specify that the MBA business project (a compulsory part of the course) is based on a particular issue or topic relevant to the company. In addition, employers paying tuition fees can also insist on a written contract that requires their employee to remain with the company for, say, two years after graduating. These sorts of arrangement are not unusual given the sums involved.

When money is tight, customers are scarce and competition is fierce it's all too easy to forget about the long term, neglect your people and avoid the question of succession planning. Enlightened businesses keep an eye on the long term and have discovered that the MBA opens up the possibilities for developing talent and for securing their company's future.

Choosing a business school

- clearly specify your objectives, budget and preferred way of learning;
- seek out the business schools and programmes that meet your objectives;
- use all resources for information: websites, accreditation bodies, rankings, MBA fairs;
- visit your shortlisted business schools, you can even sit in on a lecture;
- ask business schools about funding options.

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The leadership process

7.3

Without leadership, growth will falter. ***David Pardey****, head of research and policy at the Institute of Leadership and Management, discusses the skills and characteristics that enterprises will have to find within themselves*

The demands of growing a company, especially in the current economic climate, mean that the day-to-day emphasis is inevitably on securing deals, driving revenue and maintaining competitive edge. Growth, however, will be short-lived if a business doesn't have the necessary leadership processes in place to ensure it is sustainable or a proper succession planning strategy to provide a pipeline of talent for the longer term.

Many small businesses are particularly susceptible to this neglect, with the busy owner/manager or entrepreneur at the top often firefighting their way through the day rather than setting time aside to focus on the medium- and long-term. Compounding the problem is that they are often the kind of people who find it hard to delegate because they have grown used to being in total control. Emerging from recovery after a recession can be a particularly hazardous time from this point of view. It is in an entrepreneur's nature to seize all new market opportunities that are out there. In doing so, however, they can often over-stretch the company and themselves or make rash decisions that adversely impact elsewhere on the business.

Small business owners must learn how to be effective leaders if they are to elevate the operation of their companies on to a more professional basis. Moreover, they must also learn how to recognize and develop the leadership potential in those individuals around them. This isn't just because one day they will have to hand the reins of the company over, but because businesses need good leadership at all levels.

A survey carried out by the Institute of Leadership and Management may provide small-business owners with insight if not a yardstick for assessing their own abilities as leaders as well as identifying leadership potential in others. The report, *Creating Future Leaders*, which surveyed senior HR professionals, found that future leaders must possess a distinct set of personal characteristics, principally embedded in the relationship and inter-personal domain. More than one third (36 per cent) said leaders must be able to motivate and inspire others, while a third (34 per cent) believed they must have high levels of emotional intelligence and the ability to deal with people. Other important characteristics were natural leadership (24 per cent),

followed by trustworthiness, being a natural communicator, possessing vision and being driven and ambitious (all on 22 per cent).

Combined with these characteristics, more than half (56 per cent) believe leaders should also have technical and professional skills in particular areas of practice, such as law, accounting or engineering, and a deep understanding of broader business issues and commercial acumen (54 per cent). Perhaps surprisingly, problem-solving and being entrepreneurial, intellectual or insightful ranked relatively lowly with only 4 per cent and 6 per cent, respectively, citing them.

Much is expected of leaders today and the debate over whether leaders are born or made continues. Many entrepreneurs are naturally inspirational people because they have typically built their businesses from scratch through their own inventiveness and sheer hard work, so in theory they should have a head start over leaders at bigger organizations. They must, however, demonstrate this side to their people, as well as their ability to be a real team player. There can be a tendency for small-business owners to go off in their own direction and not be concerned about who is following them. They must be self-aware and understand the impact their behaviour is having on the workforce or a particular team. So although leaders can be born, most are made and by focusing on certain areas all small-business owners can start to embed leadership processes into the organization that will help to build solid foundations for growth and a sustained model for the future.

Learning to trust others and earning the trust of employees is central to effective leadership. With trust in place, employers are more likely to feel comfortable delegating and empowering people and sharing tasks and responsibilities. It also means they have more scope to assess the performance of their people and identify where the talent lies. From the employee's viewpoint, if they believe there is mutual trust they are more likely to follow the leader, possess a desire to perform, as well as be prepared to go the extra mile for the business. Without doubt trust plays a major part in releasing an employee's discretionary effort and, at a time when workforces are reduced, this is key.

The ILM's Trust Index identifies six factors that are key to rating trust: ability, understanding, fairness, openness, integrity and consistency. All are traits also associated with good leadership. Developing an open and honest style of leadership is essential to building trust and it is vital for employers to deliver on any promises they make. When trust breaks down, it is usually because one side fails to do what they said they would. So the more consistent and authentic a leader is in their behaviour, the more effective they'll be at building trust.

Recent years has put the importance of a high level of emotional intelligence on the map as far as effective leadership is concerned and ILM's report on future leaders showed that a third of those surveyed see it as essential. Those leaders with a high emotional intelligence quotient are more able to empathize and see another person's point of view. This means they are also far more likely to be able to find out what motivates people, communicate with them and therefore get the best out of them. The pressure of the day-to-day toil can mean that small business owners don't spend sufficient time understanding their people and what matters to them. Scheduling-in regular face-to-face meetings will help but it is also important to tune into them as people on a day-to-day basis.

Although many entrepreneurs are gifted when it comes to spotting an opportunity in the market, they are not as strategic or visionary as they should be. They need to be able to take a step back and see the business in a broader context and anticipate the challenges it might face further down the line. Being able to predict and adapt to change and changing market conditions is essential in an uncertain economic climate. It is also important to involve your people in the vision so they understand the part they will play in it today and in the future. Ensuring the business has their buy-in and understanding of the vision is a key strand in your succession planning strategy. It makes employees feel they have a future in the company and that they are instrumental to its growth.

Investing in their own personal development is not generally seen as a priority by the small-business owner, whether it be because they don't feel they have the time or because they have learnt their skills on the job. Owner/managers can be the least qualified people within their company even though they place importance on qualifications when recruiting people. No matter how successful in business, however, there has to be an openness to learn. A willingness to take on board new ideas and new ways of thinking is key to innovation, the lifeblood of any organization. Investing in learning and development is also important for developing the future leaders and employers must accept responsibility for this. Training no longer has to be something that takes the individual out of the business for several days. The emergence of more bite-sized and on-demand online learning modules mean it is more accessible and relevant than it has ever been.

HR professionals surveyed in ILM's *Creating Future Leaders* report identified a need in the modern business world for a more bespoke style of training potential leaders. The report says the training needs of senior managers often reflect the current state of the organization. So if the company is involved in major transformation, the emphasis will be on change management training. People management skills were still held up as a prime target for training and development efforts and should never be underestimated when it comes to embedding leadership processes within the company. There was a general recognition of the value of practical, on-the-job training which ensured that the development was embedded directly in the business. Clearly this approach will be favoured by small businesses, who need to maximize the benefit of any money spent on training.

Whether heading up a major blue chip company or at the helm of a small business, no one can pretend that the leadership challenges aren't significant. More than ever, leaders need to maximize the opportunities today as well as keep the long-term vision in view and the latter is likely to be a changing picture in the current operating environment. They can only do this if they give themselves the time, opportunity and space to do so and ensure that behind them is a succession of talent that can support and grow the business alongside them.

The Institute of Leadership & Management (ILM) is Europe's leading management organization. We believe that good leadership and management holds the key to organizational effectiveness and social and economic prosperity.

Our fast-growing community of over 30,000 practising leaders and managers gives us a real insight into the issues affecting the management community day-to-day, both in the UK and globally.

Each year we help over 85,000 practising and aspiring managers to fulfil their potential and achieve success through a range of flexible leadership and management development solutions.

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The Institute of Leadership and Management (ILM) website is at: **www.i-l-m.com**.

Ethics and the growing company

7.4

As you grow, you are going to face a series of ethical dilemmas. Your company's survival ultimately depends on how you handle them, according to a report from Victor Smart at CIMA:

> *Ethics are pivotal in determining the success or failure of an organisation. They affect a company's reputation and help to define a business model that will thrive often in adversity.*
>
> **CHARTERED INSTITUTE OF MANAGEMENT ACCOUNTANTS, INCORPORATING ETHICS INTO STRATEGY, 2010**

Are ethics relevant to business growth?

In 1970, the economist Milton Friedman famously argued that in a free society, 'there is one and only one social responsibility of business… to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.'

But many would now agree that even were this true then, things have changed. Since these words were written, the 'rules of the game' in free societies have altered to such an extent that, today, companies that do not embrace a much broader practice of corporate ethics and social responsibility, through sustainable growth and profitability, are unlikely to survive.

Why are ethics relevant?

So why should growing companies concern themselves with ethics, or corporate social responsibility, as it has become more recently known? What's in it for them? This chapter will consider:

- the impact of ethics on business success and failure;
- how corporate ethics impacts on companies and those who interact with them;
- why ethics has never been more important to corporate survival than today; and
- why ethics and profitability are becoming inextricably linked.

Of the 28 companies that fell out of the world-leading Standard & Poors index in the past 10 years, comparatively few casualties were claimed by shifts in technologies and markets. More were victims of massive fraud (as with Enron and WorldCom) or had leaders who'd failed to create a sustainable business model. This was evident most graphically in the financial services industry, with the likes of Lehman Brothers, Bear Stearns and Wachovia choosing huge short-term gains at the cost of their long-term survival. Similarly, the UK electronics company Marconi was brought down by its unsustainable plan for its business. In other words, somewhere in the companies' business models, there was almost certainly a failure to behave in an ethical or sustainable way.

What are business ethics?

One problem for businesses is that, although some ethical issues are straightforward, many are highly debatable. Are nuclear power stations bad and wind turbines good, for example? Should an armaments business quit markets where bribery is rife or simply behave better than its rivals? And terms such as 'predatory lending', 'excessive risk taking' and 'greed' are all notoriously hard to define.

How should a growing company behave?

Business ethics may be defined simply as the code of behaviour by which a company chooses to conduct its business. How does an incorporated company, which is a separate legal entity, choose how its representatives will behave? If the company is growing, the chances are that it will regularly need to make ethical business choices; for example, how will it choose its suppliers? Will it simply be on the basis of cost and convenience, or will the purchasing company consider the potential supplier's reputation and behaviour, and the potential impact of choosing this supplier on its own longer term sustainability?

Legal duties

Whether your growing business is a company or a partnership, the company's appointed directors or partners will have legal duties to the business, to its customers and to its stakeholders.

For example, company directors have a legal duty to exercise a degree of skill and care, including:

- demonstrating the skill expected of a person with the director's knowledge and experience;
- acting as a reasonable person would do in looking after their own business.

Directors must also act in good faith in the interests of the company as a whole. Directors must, for example:

- treat all shareholders equally;
- avoid conflicts of interest;
- declare any conflicts of interest.

Ethics goes beyond the law

But beyond the law a growing company will need to consider how its behaviour will be perceived, not only by its employees, but also by its customers and all those who might reasonably be likely to be affected by the company's behaviour; ie those who may have a stake in how the company conducts its business.

Of course businesses can be tempted to make short-term gains by turning a blind eye to ethics. Despite codes of practice, regulatory oversight and ever-increasing public pressure, many firms routinely ignore ethical considerations. As has been suggested, some even claim that a business simply needs to abide by the law without concerning itself with broader ethical issues. Yet such disregard can undermine the wider economy and, in time, cause irreparable damage. Lessons must be learned from the corporate collapses of the past: myopic strategies can create massively profitable entities, yet impressive initial results may turn out to be unsustainable.

Ethics and reputation

If your growing business designs clothing to sell on the high street, will you consider the possible damage to your company if one of your suppliers makes your articles of clothing using illegal child labour, or in dangerous working conditions? In today's Internet world, companies cannot effectively protect their reputations as an ethical business simply by saying that they did not know such things were taking place. Global reputations can be irrevocably damaged in minutes at the click of a mouse.

A multinational supplier of consumer goods, for example, can replace a burnt-out factory more easily than it can restore a tarnished brand. In the 1970s Ford calculated that the cost of recalling all its Pinto cars, which were prone to fuel tank fires, would probably exceed that of handling all the accident victims' claims for damages, so it initially decided not to recall the model.

For the most part, corporate culture rejects such an approach today. Dealing swiftly and openly with problems can serve to establish a firm's credibility as trustworthy brands. Toyota management has recently discovered that it is judged just as much on its handling of the recall of millions of vehicles with suspected defects as on the specific engineering problems.

So what practical questions should our company be asking?

Do we have the best possible governance structure in place?

- Do we comply with best practice?
- Do we have effective collaboration between the board and the management team, with the latter guaranteeing the most relevant management information on which to base decisions?

How does risk affect our business?

- Do we understand our model for delivering projects and all the risks we are taking?
- What are the circumstances under which we would fail?
- Are we happy with the risk mitigation?
- Do we spend enough time discussing strategic issues?
- Do we have a workable process for overseeing strategy?
- Do we get the right information?
- Do we focus on long-term sustainability?
- Do we have a healthy, ethical and thoughtful culture that encourages constructive challenge?

How can I make sure my business behaves ethically?

Ethics should be embedded in business models, organizational strategy and decision-making processes.

Senior managers and business leaders should demonstrate an ethical approach by example. This will show that middle and junior managers will be rewarded for taking an ethical stance.

Middle managers need to be given explicit and implicit authority to speak up where they believe that the welfare of the organization and its employees is being threatened. They must be converts and evangelists for the corporate mission – including the ethical dimension. The leader who understands the value of ethical principles and practices will effect real change only if their zeal can be converted into a strong culture that pervades the whole organization.

Non-executive directors should act as custodians of sustainability, with the particular duty of ensuring that their executive colleagues are building a sustainable business.

Managers must be aware of the issues, looking at ways in which an organization can benefit from an ethical approach rather than one that relies narrowly on cost cutting or compliance.

Business leaders should use the skills of the finance team to evaluate and quantify reputational and other ethical risks.

Finance professionals must play an active role as ethical champions by challenging the assumptions upon which business decisions are made. But they must do so while upholding their valued reputation for impartiality and independence.

Management accountants can help ensure that businesses are measuring performance on an appropriate timescale that will deliver sustained and sustainable success.

Finance professionals need to take social, environmental and ethical factors into account when allocating capital, so that sustainable innovation is encouraged.

All CIMA members and students are bound to uphold the global IFAC (International Federation of Accountants) ethical code, which applies to all accounting bodies and is based on principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Investors are increasingly using environmental, social and governance criteria to inform their investment decisions.

So what's in it for the growing company?

Strong ethical policies that go beyond upholding the law can add great value to a brand, whereas a failure to do the right thing can cause social, economic and environmental damage, undermining a company's long-term reputation and prospects in the process.

Once they have adopted an ethical approach, companies will often find there are bottom-line benefits from demonstrating high ethical standards.

High-quality management information on social, environmental and ethical performance assists business strategy and is vital for monitoring the environmental and social impacts of a company and for compiling connected reports showing how effective its governance arrangements are.

Shareholders, directors and employees will benefit from increased brand value.

This chapter is based on a report by Victor Smart, Head of Profile and Communications at CIMA and Danielle Cohen.

CIMA, the Chartered Institute of Management Accountants, is the world's leading and largest professional body of management accountants, with 172,000 members and students operating at the heart of business in 168 countries. Chartered Management Accountants have broad ranging business and management skills to complement their financial training. They are able to offer strategic and practical advice; make and support key decisions; and manage risk. CIMA develops high quality professionals through a combination of skills, knowledge and the most relevant financial qualification for business – driving business success.

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