

RENTONS' BUSINESS TIPS



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TEN TRAITS OF AN ETHICAL BUSINESS

The new century has exposed any number of businesses which have not acted ethically. We have recently seen some of HIH's leaders being prosecuted after the collapse of this insurance company. In the United States, we have witnessed the extraordinary collapses of Enron and Worldcom. News headlines are regularly critical of banks, building companies, retail chains, hospitals and any number of large organisations. You rarely see a headline which praises a company for being ethical. However, recent generous corporate donations to the tsunami appeal have certainly placed a number of large corporations in a good light. Being ethical in business is about much more than avoiding unfavourable publicity and giving money to charity from time to time. I can come up with ten traits of an ethical business. How many of these characteristics does your business possess?

1. Profits and Cash

Perhaps, the most obvious but least recognised trait of an ethical business is that it should be profitable. As a business owner you have obligations to shareholders, customers, employees and suppliers. In order to fulfil these obligations, your business needs to be profitable and also have a positive cashflow. There are several cases of profitable businesses closing simply because they did not have enough cash to fund their growth or even cover their day-to-day running expenses. Being profitable is important for the long term, but in the short term, having adequate cash to meet your obligations is vital.

The Australian sharemarket experienced record growth in 2004. There were many companies recording profits in excess of \$1 billion. It is far better for companies to be making record profits than to be making losses or struggling to break even. When large companies make large profits, there are several winners. The shareholders generally see a good return on their investment. Employees are generally well paid as the large companies compete for the best staff. Suppliers to these large companies see opportunities for higher sales. Customers also benefit because the large companies are trying to outdo each other in order to woo new customers.

Obviously, not all parties benefit equally when large companies make large profits. Employees are often required to work long hours as sometimes insufficient staff are hired to meet the increasing demand. Suppliers are sometimes required to accept a lower profit margin. Some customers feel they do not receive the level of service or value for their money as they would like. However, if these companies were not making large profits then the situation for all parties would be much worse. Shareholders would usually be making negative returns. Suppliers will see less demand for their products and services. Employees will have less work, less choice of employment and most likely, less pay. Customers may also have less choice.

Clearly, it is better for all parties when large companies and indeed all businesses are making good profits and have plenty of cash. However, businesses need to do a lot more before they could be classified as ethical.

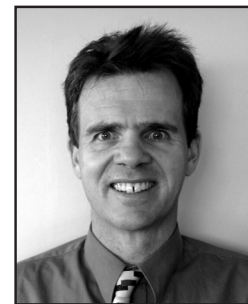
2. Helping Others

Why are you in business? Is it to make a good return on your investment? Is it to market your products and services? The primary goal of an owner or leader of an ethical business is to help others. If your sole purpose is to maximise the return for the owners of the business at the expense of other parties then this would be unethical.

The primary focus for all businesses should be the customer since without customers there are no shareholders, employees or suppliers. "What can I do to best serve the interests of my customer?" If this question is the focus of your business, then your products and services are designed to best meet the needs of your customer. Often, too much emphasis is placed on convincing the customer to buy your products and services rather than tailoring your products and services to meet the needs of your customers. There is a subtle difference. Having satisfied customers is an important characteristic of an ethical business.

Having happy employees is also important. It is rare for an ethical business to have a high turnover of staff. In today's environment of close to full employment, your employees have many choices. What can you do to convince your employees to remain with you? It is no longer enough to just provide minimum working conditions and award wages. The key is to exceed your employees' expectations. Studies have shown that money is not the main reason people leave their job. Ethical businesses pay their staff a fair wage and provide a safe and comfortable working environment. But they do a whole lot more. The staff of ethical businesses are motivated and challenged. They enjoy coming to work; they enjoy the company of their work mates and more importantly, they are praised and made to feel as if their job makes a valuable contribution to the business.

Suppliers are often the neglected component of the business chain. Ethical businesses seek win-win relationships with their suppliers. They care about the needs of their supplier as much as their own. It is easy to take advantage of suppliers, particularly if they rely heavily on your patronage for their profitability or in some cases, their very existence. Ethical businesses treat their suppliers as they would like to be treated. They pay their account on time or at the very least notify the supplier of any possible



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delay. They agree on a fair price and do not make unreasonable demands such as delivery in a time frame that is unrealistic.

3. *Obey the law*

Before you can obey the law, you need to know what the law is. Ethical businesses know the law and are rarely sued. Not only do they obey the law but they also abide by the spirit of the law. However, ethical businesses do not display a soft touch. They will pursue debtors for money if payment has not been forthcoming and all reasonable means of collection have been exhausted. Ethical businesses take legal action as a last resort, not as the first course of action.

Occasionally, it will be necessary to dismiss an employee. Ethical businesses do this in a way that is fair to everyone. The needs of the customers, other employees and the terminated employee should be considered. Only dismiss employees for their performance and do not discriminate against an employee based on race, sex or religion.

4. *Trust*

The cornerstone of any business transaction is trust. Whether you are buying a \$3 sandwich or a \$100 million jet, this principle will still apply. You have to trust that what you are receiving will be worth what you pay for it and that it will meet your expectations. It takes time and effort to build trust and often it can be completely undone with one untrustworthy act.

Ethical businesses establish trust by meeting and often exceeding expectations on a regular basis and by being consistent. We all have business relationships where we trust the company implicitly because they have been consistent. I am sure that this is the case with most of your regular customers. But in a new business relationship you have to create trust. A practical way to do this is to offer a strong money back guarantee. You are then creating a positive environment where trust can be more easily established.

5. *Integrity*

One of the most important qualities of an ethical business is integrity. Leaders with integrity are not greedy or selfish. They make decisions that are in the best interests of everyone – in some cases, what is in the best interests of the world. Business leaders with integrity focus on the long term benefits of shareholders, customers, employees and suppliers. Every decision is made with the goal of providing a win-win situation with all parties.

6. *Business Manners*

Ethical businesses have a sense of what is right and proper. At work, in our day-to-day activities, we have plenty of opportunities to do what is right. It can be something as simple as returning a phone call when you said you would even though you are busy. Or it can be admitting your mistake when you have done something wrong. It really is about living a life at work that is praiseworthy and encouraging others to do the same.

7. *Honour*

There is a school of thought in business that you need to be ruthless with suppliers, employees and even customers in order

to be successful. These people want the maximum win for themselves regardless of the consequences. There is no honour in a business transaction where one party wins and the other loses. The “winner” enjoys a hollow victory with a short term financial advantage but the loser feels cheated, resentful and demoralised.

Working with honour means creating an environment where the goal of every transaction is win-win. It can't be completely equal, of course, but win-win should always be the goal.

8. *Manage your risk*

All business by its very nature is risky. There is no guarantee that your customers will buy your products or services in the future. Customers, employees and suppliers will eventually move on so you need to continue to find more of these groups of people. Simple things such as adequately insuring your business reduces the risk of failure. Marketing can have the effect of spreading your risk over a number of different customers, different products and services and different regions – even different countries. Growing your business to compensate for customers leaving also reduces your risk. Setting up new accounts thoroughly, collecting your money quickly and providing adequate cash reserves are also important. Providing a safe working environment where all occupational health and safety standards are met also reduces the risk of operating your business.

9. *Consideration for external parties*

Caring for others not directly related to your business is a wonderful thing to do. In some cases, it is mandatory. If you are involved in manufacturing, you have environmental obligations. In particular, how are you disposing of your waste? Business leaders have a wonderful opportunity to set an example and help others. You could fund a worthwhile community project or make donations to specific charities. As well as providing your money, you could also give up your time or that of your employees for any number of worthwhile causes.

10. *Truth*

Truth is last in this list because it is possibly the most difficult attribute to develop. Even honourable people who rarely lie in their personal life often find themselves at work being “forced” to regularly tell little white lies. This may be to save face with a boss, to placate an angry customer or to present a favourable image to potential customers.

The trouble with lying is once you start it is difficult to stop. Ethical businesses present an environment where telling the truth is encouraged. We can build relationships more easily and don't have to sit down and wonder what that person really meant.

It is not easy to implement these ten traits into an organisation. While profit is imperative to the continuing operation of every business, it should not be the only goal. An ethical business is focused not only on profits, but on contributing in a positive way to the wellbeing of everyone. If every company implemented the principles outlined here, there would be no corporate scandals, and the world would be a better place to work and live.

FOR MORE INFORMATION



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QUOTES TO PONDER

"A life spent making mistakes is not only more honourable, but more useful than a life spent doing nothing."

- George Bernard Shaw

"A business that makes nothing but money is a poor kind of business."

- Henry Ford