



Analysis

Why Behaving Well in Your Business Community Matters

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Biography

Nick Hood is the Senior Business Adviser at the Opus Business Advisory Group (<https://www.opusllp.com>), the largest independent advisory, restructuring and insolvency firm in the UK.

Nick was a licensed Insolvency Practitioner, working in the business rescue market for 25 years. He is a committed internationalist, having created the largest global network of independent business rescue firms and having also worked overseas in Canada, Milan and Bahrain.

In his earlier career and after qualifying as a Chartered Accountant in 1970, Nick held senior executive positions in major companies in the construction, engineering and media sectors, as well as working for a boutique investment bank.

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Abstract

Being a good business citizen is a more productive strategy than acting like a predator. This means a different approach for each of the many different communities with which a business must interact to succeed. In this article, the author looks at the reason why these communities matter and the consequences of either not satisfying their expectations or actively alienating them.

Introduction

The business world in the UK continues to reel from a succession of major crises, which started with the pandemic in 2020. Even before that was over, the Ukraine conflict and the simultaneous price shock and supply chain distortion it created in 2022 threw all the commercial balls into the air all over again.

Anyone thinking enough was surely enough, was soon disabused of that optimistic notion as runaway inflation and soaring interest rates have piled more misery on both consumers and businesses alike since the second half of 2022. The worst of these problems might be behind us, but they have not gone away, and they have left a permanent legacy of financial damage right across the UK economy.



Analysis

This has been the most sustained period of pressure and disruption most businesses and their leaders will ever have experienced. How they conducted themselves and dealt with their many stakeholders may have added to their reputation, or it may have tarnished it for years to come or even permanently. In times of trouble, there is more to commercial life than maximizing profits and public opinion is moving towards this more sustainable, holistic approach as a guiding principle to be applied in good times as well.



The customer community

Transitioning from simply delivering a product or a service to creating a customer/user community, can unlock very real competitive advantages and create a superior business model. Specifically:

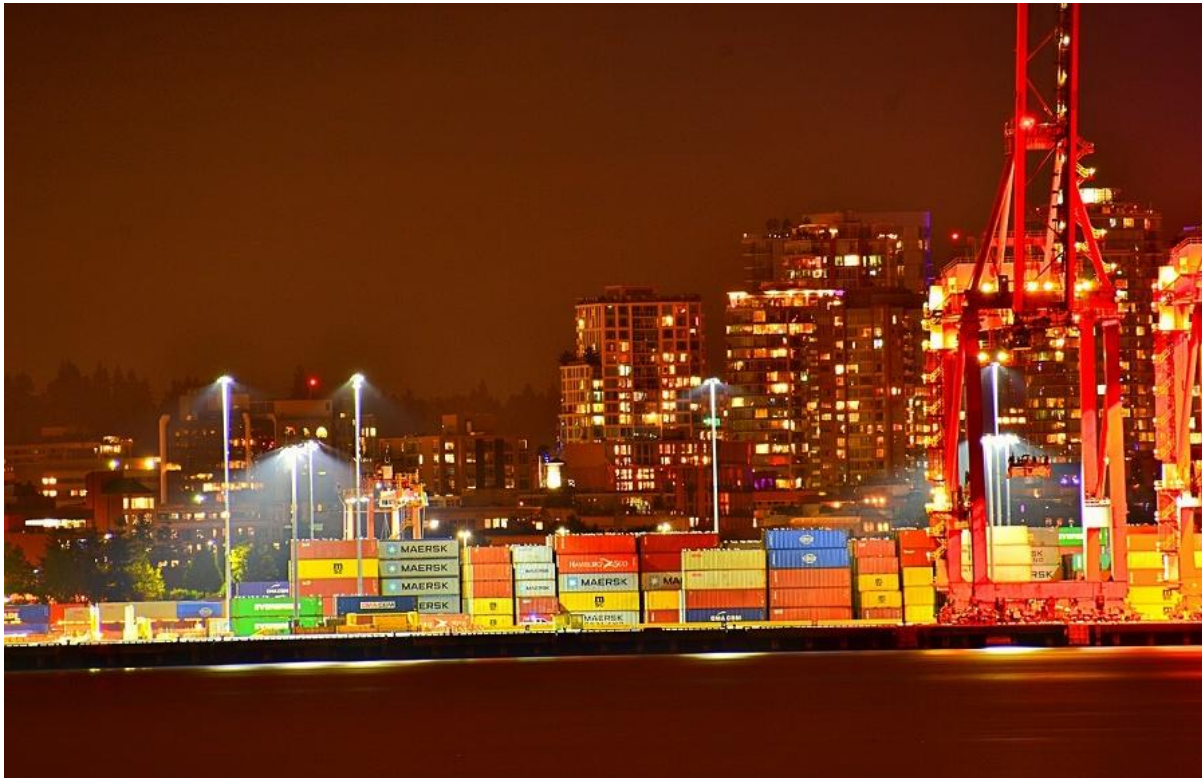
- Existing community members can help to attract new members, which means lower customer acquisition costs and the prospect of a tight viral growth loop.
- Members are loath to abandon the community, resulting in increased customer retention.

The result of this is to generate a very real network effect: as customer engagement grows, the community gets smarter, faster to respond, more globally available and generates more value for the business. Consumers today also expect different relationships with brands. They don't just want saturation marketing, a customer support email address, and a newsletter; they want deeper interaction with the company and with fellow buyers of the product or service.

Why is this happening and why is it unavoidable? One key reason is that technology-based communication platforms are more commoditized and accessible than ever before, creating a rapidly growing addressable audience. There are now multiple generations of people who have grown up with technology and especially mobile phones and social media as part of their day-to-day lives. According to the GSMA's annual State of Mobile Internet Connectivity Report 2023¹ 54% (4.3 billion) of the global population owned a smartphone in October 2023. This means that one in every two humans on the planet has the capacity to engage socially with others online. Unfortunately, it also increases the responsibility on management to



get things right. All those people can share their opinions instantly and often vociferously on a company's performance and behaviour, whether it is good, bad, or just plain ugly.



The supplier community

Supply chains are different beasts altogether to a customer base. They stand to lose much more from irresponsible or selfish behaviour by their customers than simply having a negative experience in terms of a product or the service that goes with it.

There are several sectors where supply chain abuse is endemic. These include retailers, some of whom tend to push profit margin pain back down to their suppliers when things are hard. Too many construction businesses seem to revel in treating their sub-contractors poorly.

The trouble is that news of bad behaviour tends to get round the relevant marketplace, no matter how global it might. It can negatively affect suppliers' willingness to do business at all or at least the terms on which they will trade, as well as reducing the efficiency and flexibility of deliveries. A reluctant supply chain can bring a business down far more quickly than a dip in sales revenue.

A supply chain should be like a new pet: for commercial life, not just as a short-term profit palliative. Just like with any other commercial relationship, it's always wise to leave something on the table for the other side.



Analysis

Trade insurers

These entities are a vital part of the business community, determining if suppliers can supply, credit limits, trading terms and much else that affects any company's business model. They are better informed about financial and commercial behaviour in a market than any individual player in it and have the power of life or death over businesses. Cutting limits or pulling cover altogether will cripple cash flow immediately and render a business unviable at a stroke.

The internal community

Most sectors have labour resource and labour cost issues of varying levels of intensity, so this is no time to treat the workforce badly or inconsiderately. The talk is all of recruitment challenges, but retention is every bit if not more important. Recognizing that staff have cost of living pressures and rewarding them adequately is key, even if it may mean a bottom line profit hit in the short term.



If staff are worrying about paying their energy bills, feeding their children, and now making their mortgage or rent payments, they aren't concentrating on their jobs and productivity will suffer. Far-sighted businesses have set up confidential 'hot lines' for staff to share their anxieties and are providing tangible financial and other support where necessary. Being kind to staff will always pay dividends, never more so than now.



But there are staff community issues beyond pay and staff welfare. Increasingly, younger workers in particular are concerned that the businesses they work for not only talk the talk of having values and objectives with which they can identify but walk the same walk in terms of how they actual operate.

The financial community

Traditional lenders such as the high street banks have always looked at more than the pure numbers in supporting businesses. Now, the rapid development of alternative finance through such routes as crowd funding has taken the issue of borrower reputation and behaviour to a whole new level.

The importance of Environmental, Sustainability and Governance (ESG) strategy is a prime example, with some lenders even offering lower interest rates on facilities in return for agreed levels of ESG compliance. Another aspect of a modern funding relationships can be the borrower's recognition of Diversity and Inclusion (D&I) considerations. There may be an active debate about these matters and accusations of 'wokery', but these are not topics, which will be going away any time soon.

Landlords

There tends to be little sympathy for commercial property owners among many of their tenants or the wider business community, as the result of centuries of long-term, inflexible leases with upward only rent reviews and potentially disastrous dilapidation clauses. Nevertheless, landlords have been the whipping boys for some time now, starting with abusive retail Company Voluntary Arrangements (CVAs) and then the draconian restrictions on their enforcement powers during the pandemic. Nevertheless, they too have finance obligations to meet and rent-to-value covenants to worry about.





Analysis

Tenants also need them to be not just sufficiently financially robust to share improvement and repurposing costs and give them rent free periods, but to want to lease their property to them in the first place. Landlords are acutely aware of the problems caused by having rogue occupiers with poor business ethics.

The investor community

In terms of fiduciary duty, management's first priority is to serve their shareholders and other investors. Here too there are many cases where the two sides have found themselves with different views of how a business should be run, with serious impacts on the success of the enterprise. It sometimes seems a surprise to management that investors can have objectives beyond maximizing income flow and capital growth. There are increasingly frequent public tussles over issues such as ESG and D&I. So, attention needs to be paid to understanding and managing any differences between the agendas of the parties.

Public opinion

The so-called 'Court of Public Opinion' is as much a factor in business as it is in politics, entertainment, or any other sphere of life, especially since the advent of social media. There have been many instances of household names falling foul of adverse public opinion – our utility companies are the most obvious example right now. But the need to satisfy a broader community than customers, staff, suppliers, lenders, investors, and others applies to smaller businesses as well.

Communication

The key to ticking these many boxes is good communication, both within a business and externally. It must also work both ways. Companies stuck in 'send' mode, that don't have a 'receive' button are destined to do little more than howl ineffectively into the void of misunderstanding. How else but through effective communication can management hope to keep so many different stakeholder constituencies satisfied?

The moral of this story?

Behaving well and making sure the world knows that you do will always pay dividends, much more so than obsessing about profits, growth or any other purely financial indicator and being seen not to care about who gets hurt in the process.

Reference

- ¹ The State of Mobile Internet Connectivity Report 2023 (October 2023). GSMA. Available at :<https://www.gsma.com/r/somic/>