

## THE IMPORTANCE OF ETHICS IN BUILDING THE COMPANY'S REPUTATION

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**Abstract:** Building the credibility of different businesses and organizations is currently a complex process, but a very effective tool in practice and hard competition. They are increasingly confronted with a challenging environment in which credibility is very perceived and strategically important. Not only business entities, but also public institutions, strive for good reputation. They care about it as politicians, athletes, universities, nonprofit artists, media, but also individuals who work in public or professional relationships. Credibility is understood not only as a complementary image, but also as a value preference, a significant market prestige, a socially important function that achieves greater success, recognition, moral credibility, appreciation of organizational effort or good service. Building and understanding the importance of the credibility of social subjects also becomes an expression of stability, integrity, or firm security.

**Keywords:** Applied Ethics, ethical credibility, reputation, indicators of credibility.

In the context of the ethical credibility we often encounter some kinds of its conceptual equivalents such as reputation, trustworthiness, good name, etc. In the broader sense of the word, these terms can be understood as identical because they indicate the moral credibility of the subject or organization achieving correct and socially acceptable behavior over some longer period. Traditionally, in the dichotomy the reputation is mentioned as good or bad or as a sum of specific characteristics of professional behavior. It is always the matter of linking certain characters to public opinion, a verbal feedback on someone's certain positive or negative activities. In principle, we can say that everyone has such a reputation he has created himself, knowingly or unknowingly. If the reputation is more of a personality dimension, it emphasizes the cultural-value aspect, the informal prestige, so it is associated with organizational behavior, responsibility or public interest. However, sociology associates each term with its role, it means, how it is perceived in various social contexts and situations, or how society perceives its activities. The degree of social acceptance forms an informal prestige of subjects. In this regard, ethicists accept inspirational sociological understanding of the reputation. According to sociologists, "good" or "bad" reputation is traditionally

associated with moral aspects, it is close to the concept of honor, but its criteria are different in terms of cultures and historical times" (Great Sociological Dictionary, 1996, p. 820). We do not see it like something only spontaneous but also targeted, we consider it to be organizational effort, specific activity, change in behavior, work with the public, etc.

Synonymic Dictionary of Slovak Language introduces also another synonym of the reputation–renown (Synonymic Dictionary of Slovak Language, 2000, p. 595) and explains its meaning as positive, appreciating opinions on someone with a good repute. Terminological meanings and equivalents support our ethical understanding of reputation, renown, repute and good name in accordance with their significant moral content.

Although they are polyvalent terms, have certain specificities in different fields of science (economics, sociology, psychology, ethics, political science, ethnology, etc.) and their meanings are synthesized altogether in a broad meaningful context. In sum, they can symbolize ethical credibility.

From our point of view, we will focus on the ethical aspect and the moral meaning of these expressions. Even in ethics itself, it is not a classic and a separate category, although the question of reputation, renown or trust was the subject of ethical considerations in ancient times. In ethics, reputation, trust, and repute are perceived as a way of ethical reflection, moral attitude and action, or as a qualitative parameter of modern, differentiated society in which we strive for a common goal - strengthening human dignity and mechanisms of good coexistence. Basically, on the application level, we also speak about building good life.

## **Creating credibility in the context of applied ethics**

Building the credibility of different businesses and organizations is currently a complex process, but it is a very effective tool both in practice and hard competition. Companies are increasingly confronted with a challenging environment where credibility is perceived very sensitively due to its strategical importance. Good reputation is not related only to business entities, but also to public institutions. It is the matter of interest of politicians, athletes, universities, nonprofit artists, media, but also individuals working in the public sector or professional environment. Credibility is understood not only as a complementary image but also as a value preference, a significant market prestige, a socially important function that helps to achieve greater success, recognition, or moral credibility, appreciation of organizational effort or good service. Building and understanding the importance of the credibility of social subjects also becomes an expression of stability, integrity, or firm security. As T. Parsons (1972, pp. 794-829) states in his work:

There are 4 conditions for generating trust – building:

1. All members must believe that the goals of action are common values.

2. Common values must be clearly applied to specific common goals.
3. Expectations of participants must be more or less in line with their solid engagement, each of them is more than just a recipient.
4. The trust of each member must be reasoned and verified on the basis of empirical information.

It is also a manifestation of higher humanity and respect for dignity. "Trust is one of the basic requirements of social coexistence in every society" (Great Sociological Dictionary, 1996, p. 231). In this aspect, it acquires a human and ethical dimension. It is also necessary to agree with the belief that credibility is not a simple spontaneous value but has rational parameters and can be formally shaped, credited, clarified. "Trust is a type of attitude and also an interpersonal relationship that creates a sense of certainty resulting from the belief that the communication partner (person, institution) will meet certain expectations" (The Great Sociological Dictionary, 1996, p. 231).

How do various companies and organizations build and maintain their trust? Institutionalized and reported corporate responsibility is currently seen as an effective tool for strategic business development, a tool for building trust and business identity, a fair player's reputation and an important brand. In the current atmosphere, it seems literally that successful companies of tomorrow will no longer be able to become institutions without their own faces. They have to realize that their goal is not only to sell the right product at the right price. They will have to be presented as if they were individuals – as an intelligent subject with an uncorrupted character who has a fair deal with treating his own staff and a wide environment. Positive initiatives that promote the cultivation and ethical mobilization of our practice include solutions related to the building responsible mechanisms and models of social responsibility (Fobel, 2011, pp. 11-21). However, how to build the real credibility? The answers to this question are unambiguous and even there is no a consistent view on the indicators of credibility measurement. Some companies, brand representatives, or individuals are trying to create and determine measurements of their good / bad reputation through some putative indicators based on a variety of motivational tools including recognition, admiration, quality brand etc. Although these indicators are essentially different in their approach and output, they have one common goal – to consider the perceptive level of business stakeholders. In this context, we emphasize the increasing importance of applied ethics and professional ethical guidance. Professional assistance in creating ethical policies is considered to be an important part of building the institution's credibility and reputation. As an expert on organizational ethics writes: "The professional ethical approach is based on the fact that the systematic implementation of ethics in an organizational environment should be based on thoughtful and sensitively elaborated ethical programs from the view of practice. The important contribution of ethical programs is to prevent unethical behavior and to form a positive reputation (credibility and good name) of the organization" (Fobel et al., 2013, p. 50).

## Indicators of credibility

One of the methods to measure the rate of credibility is a public survey that usually achieves significantly different results because the perception of the public is different. Managers, stock analysts, business media, or other experts, of course, have various opinions. People's views also vary according to other factors, for example, respondents' nationality, their financial ratios and many other demographic indicators. Even the company's internal reputation, presenting the opinions of employees, can not be the only indicator of credibility. Although external reputation is also important, we must realize that it can be significantly influenced by some other factors.

Differences between public surveys and other methods lead to different views on the guarantees of corporate credibility. The reputation of the company is sometimes mistakenly confused for reduced credibility related to the sole responsibility. However, some experts in this area consider this factor as a single indicator of overall credibility. Although greater socially responsible investment potentially increases the impact of the company's corporate performance on its financial effect, all the investors or credibility indicators do not place the same emphasis on corporate social responsibility and corporate credibility. The expert opinions on the distinctive factors making up the various indications of credibility are different, and they even differ in their typology. Certain factors focus primarily on financial success and efficiency, others on strategy and governance, corporate social responsibility and credibility, product innovation, brand and good name, or company results in managing their reputation (eg. communication, public relations, marketing or enterprise policy). Because reputation has its inherent value, all technical studies seek to find a parallel between the good reputation of the firm and its good financial effect.

Talking about credibility of companies and their high reputation, we should not forget accepting important contextual, cultural-value approaches. This is related not only to their regional impact, but also to globalization and dispositive demonstration of adapting to specific conditions, cultural differences.

It is said that the credibility of business management guarantees a good presentation on the market. However, the business market value is not only a matter of today's business. It also depends on investors's expectations in the future, so the reputation of management can be also distorted by the investors' differing views on the company's prospects for the future. From this point of view, management's credibility can be understood as an intangible or "shadowy" asset. When business is failing, risk managers consider reputation as a "goodwill reserve". However, its asset is not stable and the stock is not bottomless. Market perception can change and influence degree of credibility. Prominent reputation can be beneficial to wholesale, but retail can be at a disadvantage due to an increasing pressure on responsibility. The trustworthiness framework also depends on the extent of company's ability to deal with

issues beyond its control – external events, a competitor failure, or insufficient management of the supply network. All these factors adversely affect the perceived value of management's reputation. In this context, we can mention Warren Buffett's statement: "To build a reputation takes 20 years, and it can be destroyed even in 5 minutes" (<http://blogs.wsj.com/...>).

Buffett's "folk wisdom" also emphasizes the importance of ethical credibility in the negotiation process. Mutual trust between influential stakeholders and management plays a decisive role also in the situation where certain stakeholders (eg. shareholders) urge on management to be tougher in negotiating with other stakeholders (eg. employees and customers). Then trust in each of these representatives is a guarantee of worthy and fair negotiation. If the management's reputation is marked by dishonest behavior, its results are usually subsequent fines or penalties, and management loses the credibility of its cooperating shareholders and communities. Therefore, management experts emphasize the importance of business ethics and social responsibility, although there is no general consensus on the exact meaning of these two concepts in practice.

## **Perception versus reality**

From a historical point of view, we can open the debate about meaningfulness and the significance of credibility, or in other words, about the reputation of management in ancient times. Plato, who strictly separated the theory of ideas from the theory of their perception, has already spoken about the difference between perception and reality. We can follow on Bishop Berkley and his antimaterialist assertion that "to be – means to be perceived". The Descartes' theory on separation of mind from body as well as philosophical epistemology and relevant psychology also basically hold an opinion that human beings and animals are a joined world and they react to it by their perceptions. Kant explains that the version of reality, we can see, is undoubtedly shaded by our strong cognitive interconnection. Wittgenstein's and postmodern thinking claim that the very world, including us, reflects our perception. It can be said that all decisions in commercial and financial matters depend on perception, so their functional range corresponds to overlapping the scope of perception and reality. Management and society governance reform focusing on more complex disclosure of unfair financial performance or scandalous behavior in business does not incidentally affect the reputation of companies. However, the perception of management reputation is more distorted than the perception of the financial market. The level of credibility is generally considered to be a significant factor, and its dimension depends, among other things, on recognition or criticism. Criticism of management reputation is specific because it is deliberately manipulated by the stakeholders' perception. The quantitative dimension of reputation based on financial audit is unambiguous because it is determined by attitudes applying mainly the

accounting principles. To determine the scope of reputation for products, brands and companies is much more difficult, because the extent of their credibility depends on emotional attitudes. As an example, we can introduce the firm Johnson and Johnson. It is a reluctant pharmaceutical company that has long held a good position in many indicators of credibility. When faced overall credibility damage, it defended itself because many of the company's stakeholders are historically sentimental to its best-known branded products (baby powder and shampoo). Here again, this is also a simple and common method for assessing the management credibility which is worthy to learn. On the other hand, such procedures confirm the very difference between reality and perception.

The process of credibility management is evidence that it potentially generates a significant difference between two matters – what means to be a good company (to have good products and services, reliable financial performance, etc.) or to be a well-known prominent company. Moreover, if we say that a good company has a good ethical reputation, then we will confirm that there is also a significant difference between good ethics (to be socially responsible because it is morally correct) and good business (to be sometimes even socially responsible because it is perceived as strategically preferred).

This paper has been written within the framework of GU VEGA 1/0187/16.

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