

Zuzana BALÚNOVÁ
University of Matej Bel, Banská Bystrica

THE IMPORTANCE OF ETHICAL CREDIBILITY IN BUSINESS

Summary: Business activities are currently in a difficult environment. To win economic profile is accompanied by the struggle for values and maintaining a reputation. Ethical credibility today is an important factor of economic prestige and business success. In this article we will deal with the question of how they build ethical credibility in organizations with an emphasis on Slovak business environment.

Keywords: applied ethics, credibility, reputation, business ethics

ISTOTNOŚĆ ETYCZNEJ WIARYGODNOŚCI W BIZNESIE

Streszczenie: Współczesna działalność przedsiębiorstw znajduje się w skomplikowanym środowisku. Usiłowanie uzyskania prestiżu ekonomicznego łączy się z walką o wartości oraz o utrzymanie dobrej marki. Wiarygodność etyczna jest dzisiaj ważnym elementem prestiżu ekonomicznego oraz sukcesu przedsiębiorstw. W artykule uwagę poświęcimy temu, jak buduje się wiarygodność ekonomiczną w przedsiębiorstwach, z akcentem na słowackie środowisko przedsiębiorcze.

Słowa kluczowe: etyka stosowana, wiarygodność, reputacja, etyka biznesu

Building the credibility of companies and organisations is currently a complicated process but at the same time a very effective tool in practice and in fierce competition. These are facing a demanding environment ever more frequently where the importance of such credibility is sensitive and strategic. Both business entities as well as public institutions are aiming for good reputation. Such reputation is important to politicians, sportsmen, universities, artists as well as to concrete persons who are active within the public sector or in the professional sphere. Credibility is now being understood as complementary image as well as an important economic value, significant social function through which greater success is achieved, recognition, moral credibility, assessment of organisational effort or a good service. Building and understanding the importance of credibility of social entities is becoming the

manifestation of stability and corporate confidentiality. Moreover, it is a manifestation of greater humanity and respect for dignity. “Trust - is one of the basic requirements of social coexistence in any society”¹. It gains a humane as well as ethical dimension in the given aspect. One shall also agree with the opinion according to which the credibility is not a simple and spontaneous value but it also has rational parameters and it can be shaped, created and refined purposefully. “Trust – kind of an attitude and interpersonal relation which evokes the feelings of certainty resulting from the conviction that the communication partner (person, institution) meets certain expectations”².

How shall the companies and various organisations build and maintain their credibility? Institutionalised and manifested social responsibility is currently understood as an effective tool for strategic development of one's business organisation, a tool for building trust and corporate identity, reputation of a fair player and an important tool for building brand. Nowadays, it literally seems that tomorrow's successful companies will not be able to become the institutions without their own identity the goal of which solely lies in the sale of an appropriate product at the right price. They will have to present themselves as if they were individual persons – as an intelligent subject with untouched character who treats his own employees and wide surroundings fairly. Positive initiatives which aid the cultivation and ethical mobilisation of our practice in this regard encompass the solutions related to building responsibility mechanism and social responsibility models³. The answers to this question are not unequivocal and there even is not a consensual opinion on indicators for measuring the credibility.

Some companies, brand representatives or individuals attempt to establish their good /or bad/ reputation by means of certain indicators in a way that they somewhat seemingly determine the degree of their credibility by using a number of motivation tools, such as recognition, admiration, quality brand and other. In spite of the fact that these indicators actually differ in an approach and outcome, they have a common goal – to consider the degree of business stakeholders' perception.

In this connection, applied ethics, professional consultancy on ethics, is ever of greater importance as well. Professional assistance in creating the policy of ethics is regarded as an important part of building the institutions' credibility and good reputation. An expert on organisational ethics wrote: “Professional ethical approach stems from the fact that systemised implementation of ethics into organisational environment should be based on considered and sensitively elaborated ethical programmes as far as the practice is concerned.... A significant benefit of ethical programme is to help prevent unethical conduct and create a positive reputation (credibility and goodwill) of an organisation”⁴.

¹ Great Dictionary of Sociology I. Prague: Charles University KAROLÍNÍUM Publisher, 1996.

² Ibidem.

³ Fobel P. et al.: Cases, Application, Ethics. FHV UMB, Banská Bystrica 2011, p. 11-21.

⁴ Fobel P. et al.: Organisational Ethics and Professional Consultancy in Ethics. APRINT, Žiar nad Hronom – Banská Bystrica 2013, p. 50.

Public survey is one of the methods used for the identification of credibility degree through which significantly different results are obtained. Public perception differs. Credibility is perceived differently by managers, shareholding analysts, businessmen, or other specialists from among the population. The difference in opinion is also affected by other factors, such as respondent's nationality, his financial situation and many other demographical indicators. Neither the internal reputation of a company which presents employees' views may represent the only indicator of credibility. The external reputation is important, too, but it may be significantly affected by other factors.

Differences between a public survey and other methods result in different views on the guarantee of corporate credibility. Company's reputation is sometimes incorrectly confused with reduced credibility which is related exclusively to responsibility. However, according to the experts specialising in this area, this factor solely represents one indicator in respect of the entire credibility. Although the rise in the socially responsible investment is likely to increase the impact of the social performance of a company on its financial effect, not all investors /or the credibility indicators/ put the same emphasis on social responsibility and corporate credibility. Expert opinions contained in reports on characteristic factors which establish various indications of credibility are different and moreover they also differ from each other as far as the opinions on their typology are concerned. Certain factors are primarily aimed at financial achievements and efficiency; others are aimed at strategy and management, corporate social responsibility and credibility, products innovation, brand and company's goodwill or at company's results in managing its reputation (e.g. communication, public relations, marketing or company's policy). Since reputation is of a great importance, all studies attempt to find an analogy between company's good reputation and its good financial effect.

An interesting fact is that these studies are more or less related to well-functioning global corporations active in the area of e.g. car industry or which deal with life insurance. They can earn good reputation with a specific position on the market especially thanks to their stakeholders but some of them do not leave their shade and remain unknown (e.g. companies producing car parts or companies specialising in providing their clients with additional insurance). On the other hand, those companies which sell consumer goods are very sensitive about their reputation because they have to rely on the recognition by consumers who also often represent their investors. In some cases, the entire industrial field loses its credibility. This is very often caused by euphoria or criticism of some external factors which are beyond the control of respective companies. E.g. the boom seen in e-business at the end of the nineties resulted in the fact that the reputation of many internet business beginners was overrated and on the other hand, energy companies were losing their credibility at the time when the oil price regulated the gas price.

We will use the terms credibility and reputation as synonyms further in this paper. It is said that the credibility of business management guarantees a good presentation on the

market. Since the market value of business does not only express the current state of business but it also expresses what investors expect from it in the future, it is clear that the reputation of management may also be harmed by different opinions of investors on the company's prospects for the future. From this perspective, the credibility of management may be understood as an intangible or “shadow” asset. In situations where business does not do well, risking managers consider the reputation as the “good will reserve”. However, the value of this asset is not stable and its supplies can get exhausted. The perception of market may change and influence the degree of credibility. A prominent reputation may be beneficial to wholesalers, but retailers may find themselves at a disadvantage since the pressure on responsibility grows. The degree of credibility is also dependent on the extent to which the society is able to deal with matters which are beyond its control – external events, failure of competitor or insufficient management of supply network. All of these factors have an adverse effect on the value of the reputation of management and its perception. In this connection, we refer to a quote by Warren Buffet: “It takes up to 20 years to establish a reputation and it only takes 5 minutes to destroy it.”⁵

Buffet's “words of wisdom” also stress the importance of ethical credibility in negotiations. In situations when particular stakeholders (e.g. shareholders) put pressure on management to be tougher when negotiating with other stakeholders (e.g. employees and customers), the trust shown to every influential stakeholder guarantees a fair and just negotiation. On the condition that the reputation of management is marked with dishonest conduct, this usually leads to sanctions and penalties and the management loses the trust of its shareholders and communities with which the company cooperates. Therefore, experts on the credibility of management find the business ethics and social responsibility important. However, there is no general agreement on the exact meaning of these two concepts in practice.

Another factor which affects the credibility of management is an answer to a question – *what* causes *what*. Does a good reputation make the financial income higher or does a good financial performance make the reputation better? Or is not the relationship between them overrated? In case we follow the recent analyses, the credibility of management decreases in situations when the perception of stakeholders is deliberately afforded more space in the decision-making processes of business management. In the process of good management of company' reputation, it is necessary to treat each stakeholder in the same way; it is necessary to understand his or her attitude but one has to consider the significance of these and prioritise. One of the difficult tasks lies in affecting the perception of important and key stakeholders purposefully because they become the driving force behind the business to attract and to maintain human capital, to increase the attention paid to brand uniqueness and

⁵ Buffett W.: Break His Silence about Moody's, Wall Street Journal [online]. 1 July 2010 [cit. 2016-03-01]. available at: <<http://blogs.wsj.com/deals/2010/06/01/warren-buffett-to-break-his-silence-about-moodys/>>.

market share, to reduce the capital costs, to stimulate positive analyses and media coverage, etc.

In order to provide a satisfactory and fair assessment of a reputation, the knowledge of both the stakeholders and management is equally important. The prosperity of the credibility of management with a highly renowned name may not be separated from goodwill of business performance but it is rather an integral part of the management's ability to fulfil what is desired by many stakeholders – to increase the values of stakeholders, high-quality products and services, good employment, social benefits, make environment better, etc. In achieving the balance of interests, an important role is played by stakeholders' knowledge and abilities which are visible in their interests or in a dialogue. However, it is sometimes important to give preference to some interests even at the expense of the fact that there will be no full balance in the satisfaction of interests. Management is able to earn a credible reputation and make decisions after their careful consideration in situations when it is able to solve compromise between e.g. the quality of goods and price, production costs and improvement of environment quality.

“The reputation of a company and its management represents an important factor in situations when e.g. financial institutions make decisions about funding its projects or in situations when a company's comments in the process of creating the legislation which affects given business area shall be accepted. Moreover, highly rated reputation of a company is undoubtedly a competitive advantage in acquiring talented and high-quality people.”⁶

The importance of reputation is growing especially in the current business environment in which a good strategy or product alone is not enough in order to be successful. A positive reputation is becoming an effective and efficient weapon against competition and at the same time, it affects the market value of a company. The customer always decides for a company which has earned a good reputation. All of this affects decisions made by new or the already loyal customers. A moral reputation is an important part of every company provided that it wants to make long-term profit on the market and provide people with jobs and good products.

In today's modern world, no company is safe. This mainly refers to information technology environment, such as the internet which is accessible to anybody. Spreading false information can also result in damaging the long-term development of company's positive reputation or even in the destruction of a company. On the one hand, new information technology such as modern means of communication and the internet represent a benefit of today's world but on the other hand, there are also risks attendant on them. Rumours and untrue information can spread very quickly especially thanks to the internet. Slovak companies have already also experienced defamation on the internet whether in respect of the tabloids or various public discussions on social networks. The reputation of a company

⁶ Interel Public Relations, 2003, p. 1.

reflects especially the value of such company, the quality of its products, services and social activities it undertakes on the market. This is perceived and assessed mainly by: consumers, customers, business partners, employees, stakeholders, suppliers, government, investors, the public, authorities and different institutions.

In 2015, we could see how the company ALFA BIO, s.r.o. was defamed on the internet in Slovakia. There was an article published by the media claiming that the products of this company caused health problems to a customer. This message was spreading very quickly on social networks. People were expressing their anger on the internet and started to express their opinions as well by sharing them on social network or they made either positive or negative comments on this situation. Social networks spread information among people very quickly. This information is sometimes unfair, dishonest and false. It follows from the above that it is difficult to maintain a good reputation but, on the other hand, it is very easy to lose it.

Company's good reputation is based mainly on customers' trust. If a company is generally known as being a successful company where people make lots of money, which is in good condition with rules which are followed and where there is even time for fun besides work and good boss and interpersonal relations, then all of this is attractive to productive people. These will be the first ones who after leaving the company, whether satisfied or dissatisfied, will make their opinion about the company which they will spread in their surroundings. Therefore, for a company to be able to earn a good reputation, it has to work hard on its values and follow the right path to fulfil these values. A good reputation of a company is related to a moral reputation. The moral reputation may also be subject to criticism when companies receive a positive or a negative assessment e.g. in the media. A company can establish its moral reputation very easily through the media. We will focus on this in the second chapter where we will analyse the moral reputation in particular companies.

The reputation is also established by people from within the company's structure. The structure may be defined as all relationships which ensure the compactness and identity with oneself. The conduct of people within the company's structure should be moral in order to prevent possible complications, such as accusations, oppression and other in the workplace.

From our point of view, the reputation is lowered or eventually lost mainly due to negative information in situations such as:

- defamatory information has been published about a company or its products or immoral approach
- customer was deceived by a company and shared this experience with his or her surroundings
- company's directors or management is accused of fraud, theft or of not observing ethics or these were engaged in a criminal activity
- confidential information about the client has leaked out
- company's goals which are publicly known are not achieved

- company does not abide by the law
- company is not environmentally conscious and other.

In respect of the reputation of management, an emphasis is put on mutual dependence and potential inseparability of the company from industrial fields, communities and markets on which it is active. The impact of financial markets regulated by perception, real exchange of goods and services on the market proves that business is being integrated in social good and it does not solely represent an institution the reputation of which is a showcase closely observed by the society.

In conclusion, we could state that credibility may be managed with certain ethical tools and in a professional way. It depends on organisation's management whether it is perceived by it as an active part of its policy or whether it is only seen as a secondary and unimportant medium. Building reputation purposefully is the right path leading to success. Therefore, we have to pay purposeful and professional attention to it both in terms of getting to know its mechanisms as well as in terms of its implementation.

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

Bibliography

1. Buffett W.: Break His Silence about Moody's, Wall Street Journal [online]. 1 July 2010 [cit. 2016-03-01]. available at: <<http://blogs.wsj.com/deals/2010/06/01/warren-buffett-to-break-his-silence-about-moodys/>>.
2. Code of Business Ethics. Booklet for business ethics/ Proceedings from conference: Assistance in Preparing and Introducing the Code of Business Ethics in Slovakia. Bratislava: SFPA, 2003.
3. Credibility of companies [online]. 2006. [cit. 3.4.2016] available at: <http://www.beck.cz/budujeme-duveryhodnou-firmu>
4. Dubcová G.: New Trends in Doing Business in Slovakia Responsibly. Bratislava: University of Economics, 2013.
5. Fobel P.: 2011. Cases, Application, Ethics. Banská Bystrica: FHV UMB, 2011.
6. Fobel P.: 2013. Organisational Ethics and Professional Consultancy in Ethics. Žiar nad Hronom – Banská Bystrica: APRINT 2013.
7. Fobel P.: Currently Applied Ethics and Possibilities for Ethical Expertise. In: Fobelová D. (ed.): Applied Ethics and Professional Practice. Banská Bystrica: FHV UMB 2011.
8. Great Dictionary of Sociology I. 1996. Prague: Charles University Karolinum Publisher, 1996.
9. Reputation affects the value of a company [online]. 2003. [cit. 1.4.2016] available at: <http://www.etrend.sk/podnikanie/reputacia-ovplyvnuje-hodnotu-firmy.html>.

10. Tomancová L.: Ethics in Doing Business. Knihárstvo Georg, Žilina 2011.
11. Veber J. - Srpová J. et al.: Doing Business, Small and Middle-sized Companies. Grada, Prague 2012.

Omówienie

Współczesna działalność przedsiębiorstw znajduje się w skomplikowanym środowisku. Usiłowanie uzyskania prestiżu ekonomicznego łączy się z walką o wartości oraz o utrzymanie dobrej marki. Wiarygodność etyczna jest dzisiaj ważnym elementem prestiżu ekonomicznego oraz sukcesu przedsiębiorstw. W artykule tym uwagę poświęcimy temu, jak buduje się wiarygodność ekonomiczną w przedsiębiorstwach, z akcentem na słowackie środowisko przedsiębiorcze.