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# THE IMPACT OF BUSINESS REPUTATION ON ENSURING THE ECONOMIC SECURITY OF A COMPANY

# ВПЛИВ ДІЛОВОЇ РЕПУТАЦІЇ НА ЗАБЕЗПЕЧЕННЯ ЕКОНОМІЧНОЇ БЕЗПЕКИ КОМПАНІЇ

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The article offers a theoretical analysis of the influence of reputation on a company's economic stability and practical insights for businesses in monitoring and evaluating reputation to uphold economic security. For monitoring a company`s reputation, authors recommend applying the reputation dimensions (drivers) formulated by RepTrak Company. The article underscores the pivotal role of a resilient, positive reputation in attracting skilled employees, strengthening brand marketing efforts, and fostering long-term customer loyalty. It also highlights the dire consequences of a damaged reputation, which can negatively affect economic security – creating financial setbacks, hindering the company's advancement, and more. This underlines the pressing need for reputation management and the imperative for businesses to be proactive in this area for favorable market development.

**Keywords:** business reputation, economic security of a company, reputation audit, reputation dimensions, Global Reputation Score.

У статті всебічно проаналізовано проблеми впливу репутації на економічну стабільність компанії та запропоновано практичні поради для бізнесу щодо моніторингу та оцінки репутації для підтримки економічної безпеки компанії. Методи дослідження, які були використанні авторами, охоплюють аналіз і синтез, порівняльний аналіз і систематизацію, які в сукупності сприяли досягненню поставленої мети статі – теоретичному аналізу впливу репутації на забезпечення економічної безпеки компанії. Для моніторингу репутації компанії автори рекомендують використовувати репутаційні виміри (драйвери), розроблені експертами компанії RepTrak. У статті підкреслюється ключова роль стійкої, позитивної репутації в залученні та утриманні кваліфікованих працівників, зміцненні капіталу бренду та розвитку довгострокової лояльності клієнтів. У статті розглядаються наслідки негативної репутації та оцінюється її вплив на економічну безпеку компанії. Цей вплив проявляється у фінансових невдачах і перешкодах для розвитку компанії, що виникає через падіння довіри до неї серед зацікавлених сторін і зникнення інтересу до подальшої співпраці. Це підкреслює нагальну потребу в управлінні репутацією та обов'язкову активність компаній у цій сфері для сприятливого розвитку ринку. В статті проаналізовано досвід Lego Group в управлінні репутацією. З'ясовано, що успіх надійної репутації LEGO Group пояснюється його прихильністю до виробництва високоякісних іграшок, інноваціям, клієнтоорієнтованому підходу та корпоративній соціальній відповідальності. Також у статі відображено результати дослідження впливу репутації орендаря на рішення власника землі щодо укладення з ним договору оренди. Виявлено, що українські землевласники володіють навичками проведення репутаційного аудиту орендарів, що обумовлено численними випадками самовільного захоплення землі та несплати орендної плати. Землевласники вважають репутацію вирішальною для своєї економічної безпеки. Вони уникають орендарів із заборгованістю по сплаті податків та судовими спорами. Надійна репутація орендаря безпосередньо впливає на рішення землевласника укласти з ним довгостроковий договір оренди. У статті робиться висновок, що глобальна пандемія спонукала компанії прийняти більш відповідальний підхід до задоволення потреб стейкхолдерів в аспекті управління надійною репутацією для забезпечення економічної безпеки компанії.

**Ключові слова:** ділова репутація, економічна безпека компанії, репутаційний аудит, виміри репутації, рейтинг глобальної репутації.

**Problem statement.** A company's reputation is a critical intangible asset that can significantly impact its economic security and growth. A resilient, positive reputation has the potential to attract more talented and efficient employees, support, and bolster brand marketing initiatives, and foster enduring customer allegiance, which turns into reliable long-term loyalty. Furthermore, it can curtail transaction costs, entice investments and new technologies, and fortify investors' and other stakeholders' trust and confidence in developing relations with the company. However, a damaged reputation can result in financial losses, social and human capital depletion, and other adverse repercussions that impede the company's advancement. In the context of market competition, non-price strategies, such as spreading negative, often fake, news about a competitor through media and social networks, can be a powerful, dishonest means for rivals to increase their market share. In this way, it is essential to be aware of the potential risks of a damaged reputation, underscoring the importance of maintaining a fair company`s reputation for it is economic security and lasting prosperity.

**Literature review.** Vasyltsiv T., Mitsenko N., Mulska O. & Zaychenko V. [1] defined a company`s economic security as its ability to survive and ensure its viability and economic potential, which is a characteristic of rational formation and effective use of its resource provision, reserves, and opportunities.

Liashenko O. [2] theoretically substantiated the rationality of the chosen option of strategizing the economic security of the enterprise, which means either achieving a given level of security of the enterprise at minimum cost or achieving the maximum possible level of security at a given level of costs.

Ostapenko, A. & Golovchenko, T. [3] conducted a study on the influence of a company's business reputation on its financial development. Their research revealed that a business reputation contributes to a company's actual value, with market capitalization exceeding the assets' actual value or liquidation value.

Mihus I. & Korzhevskyi I. [4] systematized the main types of reputational risks: the company's direct actions and practices; the actions of employees, leaders, investors, or anyone directly representing the company's business or having a relationship with it; the actions of partners or suppliers; and risks resulting from external factors, such as customers.

Pushak Y. & Zaverbnyj A. [5] generalized the definition of reputation: the term “reputation” is commonly understood by economists, theorists, and practitioners as the prevailing opinion of a specific individual (particularly a legal entity) or entity (such as a brand or mark); this opinion is formed based on the public's evaluation of their qualities and characteristics.

Eccles R., Newquist S., & Schatz R. [6] argue that most companies do an inadequate job of managing their reputations in general and the risks to their reputations in particular. They often concentrate on addressing reputation threats that have already arisen rather than proactively managing risks. The authors suggest that this reactive approach is more akin to crisis management than risk management, focusing on minimizing damage after the fact [6, p. 106].

Brahmana R., You H. & Lau E. [7] discovered that reputation can significantly change market-based risk.

Pfister B., Schwaiger M., & Morath T. [8] demonstrated that reputation affects the cost of equity for German blue-chip firms, leading to a significant increase within six months.

**Highlighting previously unresolved parts of the overall issue.** As we have shown, developing the theoretical framework for managing a company's business reputation and economic security has benefitted from significant contributions by domestic and foreign scientists. Despite these contributions, the precise impact of business reputation on a company's economic security has not been fully elucidated, and further theoretical and methodological investigation is needed.

**The purpose of the article** is to theoretically analyze the impact of reputation on ensuring a company's economic security.

The research methods encompass analysis and synthesis, comparative analysis, and systematization, collectively contributing to realizing the article's intended aims.

**The research results.** Amidst dynamic climate change and the increasing transparency and openness in the business world, companies are now controlled and accountable to their shareholders and a broader range of stakeholders – employees, suppliers, intermediaries, the public community, customers, and society in general, including future generations. Notably, 79% of business leaders are at the mid-stage of discovering, activating, or expanding their understanding of reputation [9]. This is a testament to the positive outcomes of reputation management. Another compelling statistic is the benefit of an excellent reputation for a company – the ability to obtain 8 of 10 stakeholders will, and the cost of a poor reputation – 9 of 10 stakeholders will not [9].

According to the narrow approach, reputation measures reliability and trustworthiness. It encompasses the associations, emotions, and perceptions that a company elicits and the behaviors it incites among stakeholders. A positive reputation fosters trust among stakeholders, leading to a willingness to engage in cooperative endeavors. Conversely, a negative reputation instills apprehension about potential losses, prompting stakeholders to avoid involvement with the company.

According to a broader approach, the business reputation is a complex and multifaceted construct, encompassing internal and external components, each exerting substantial influence on the overall perception of a company in the market. Internally, the reputation of the owner and CEO, the effectiveness of management policies, product quality, employee commitment, and dedication to sustainable development are crucial in shaping its internal component. Externally, the longevity of ethical market conduct, strong brand equity, corporate social responsibility, positive customer perception of the company's brand, consumer loyalty, favorable company image and public opinion in mass media and social networks, and high expert evaluations of social influencers collectively contribute to the external component. When meticulously developed and managed, these components are pivotal in establishing and maintaining a resilient business reputation, directly impacting the company's economic security.

We share Mihus I. & Korzhevskyi I. [4, p. 92] point of view that a company's business reputation largely determines its economic security – its ability to attract funds, search for strategic investors and partners for R&D, create strong relations with the authorities, and increase consumer loyalty. That business reputation is one of the tools of strategic protection of a company against rivals in high market instability and uncertainty.

For instance, consider the LEGO Group. It was recognized as the most reputable company globally in 2023 and 2024 [10]. The LEGO company was established in 1934. Thanks to continuous innovation in Lego toys, rivals have been unable to overshadow the Lego Group in the eyes of consumers. Despite the rise of imitations and counterfeit Lego toys from China, consumer trust in LEGO has only strengthened over the past 90 years, solidifying the Lego Group's prominent position in the global toy market. Notably, LEGO has consistently ranked among the top 10 global leaders in business reputation since 2010 [11]. This company`s success can be attributed to LEGO's unwavering commitment to producing high-quality toys and building a powerful brand, pioneering innovation, a customer-centric approach, and strong corporate social responsibility.

Business reputation is an intangible asset for the company, and its valuation depends on goodwill. Goodwill denotes the surplus of the company's market value over the aggregate book value of its assets. It can be created through establishing a dominant market position, implementing effective management technologies, and maintaining conscientious and honest conduct within the market over an extended period.

A business reputation audit is necessary for managing the company's reputation and economic security. Its primary purpose is to promptly identify weaknesses and threats in the current status of reputation, for example, an increase in the number of defective products, corporate conflicts, and aggressive market policies of competitors, and to develop strategies for fortifying and advancing the reputation.

We recommend employing the reputation dimensions (drivers) formulated by RepTrak Company to conduct a company's reputation audit. Each of these dimensions plays a significant role in shaping how a company is perceived and valued by stakeholders in the market (see Figure 1):

1) product & services – encompasses the quality and value of a company's outcomes, customer experience, and client support;

2) innovation – evaluates a company's level of innovation, including its position as a first-mover and ability to adapt swiftly to change;

3) workplace – measures the extent to which a company prioritizes the health and well-being of its employees, as well as its capacity to provide equitable rewards and opportunities in the workplace;

4) leadership – pertains to a company's vision, the caliber of its leaders and managers, and their managerial efficacy;

5) conduct – appraises a company's ethical standards, encompassing fairness, transparency, and openness in business practices;

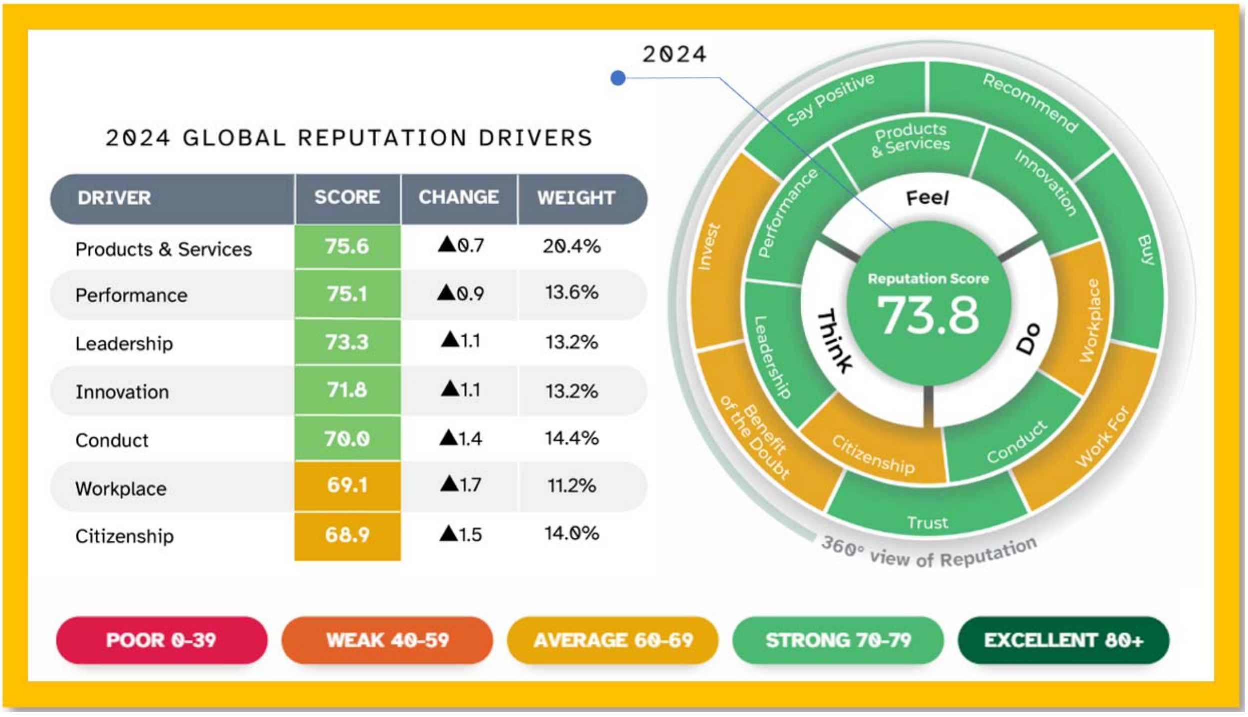
6) citizenship – gauges a company's environmental consciousness, support for philanthropic endeavors, and positive societal impact;

7) performance – assesses a company's financial outcomes, including profitability and growth prospects [9].

The Reputation Institute has been a trusted source of information for over a decade, releasing the Global RepTrak 100 report every year. This report, derived from a mix of international perspectives across 15 countries, offers a definitive ranking of the world's most reputable companies and a comprehensive analysis of the global reputation landscape with the Global Reputation Score [11]. The Reputation Institute's extensive use of data to understand global corporate trends and the corresponding public sentiment year after year underscores its credibility and stakeholders' trust in its findings.

The analysis of the Global Reputation Score for 2015–2024 showed that the Score reached the highest value in 2021 with a value of 74.9, and in 2015 – the lowest value was 71.0 [11; 12; 13]. The explanation for this situation is the adaptation of companies marked as having a highly positive reputation to the economic consequences of the pandemic and the restoration of consumer confidence in such companies due to the growth of social responsibility and sustainable development. Companies were able to cope with the extreme challenges of the pandemic and live up to the high expectations and requirements of consumers, which explains why global reputation scores were lower in the period 2015–2020 compared to the period 2021–2024.

For assessing these dimensions, RepTrak Company measures respondents' trust, admiration, esteem, and good feelings to form a single score – The RepTrak™ Pulse [15]. Companies with solid reputations receive, on



2024 GLOBAL REPUTATION DRIVERS

| DRIVER | SCORE | CHANGE | WEIGHT |
|---|---|---|---|
| Products & Services | 75.6 | ▲0.7 | 20.4% |
| Performance | 75.1 | ▲0.9 | 13.6% |
| Leadership | 73.3 | ▲1.1 | 13.2% |
| Innovation | 71.8 | ▲1.1 | 13.2% |
| Conduct | 70.0 | ▲1.4 | 14.4% |
| Workplace | 69.1 | ▲1.7 | 11.2% |
| Citizenship | 68.9 | ▲1.5 | 14.0% |



**Figure 1. Global Reputation Score 2024**

*Source: [11, p. 5]*

average, three times the support of their less reputable competition across the 15 largest countries in the world, according to a study conducted by the Reputation Institute [16]:

1) an increase of five points in a company's RepTrak™ Pulse score correlates with a 7% rise in public recommendations;

2) companies with higher ratings, such as those within the RepTrak™ 100, experience a 9% return on assets, whereas lesser-rated companies achieve a 6% ROA;

3) investors reward more reputable companies by inflating their share prices, as reflected in the higher price-earnings ratios and earnings per share of companies with superior RepTrak™ Pulse scores compared to the rivals with less powerful reputations [16].

The company's reputation is a vital asset for its economic security, and it's shaped by the beliefs and expectations of its stakeholders. Understanding how these are evolving is paramount. Regular surveys of employees, customers, and stakeholders can provide valuable insights into any shifts in perception of the company's reputation. It's crucial to be aware that a situation where the company's reputation is more favorable than its underlying reality can be a significant risk to economic security [6, p. 110].

Our survey of 19 Ukrainian landowners has revealed their valuable perception of reputation audits, particularly in the context of numerous cases in Ukraine involving illegal land grabbing by farms and non-payment of lease fees. Landowners view reputation in terms of its direct impact on their economic security. Suppose a tenant is found to be a fraudster. In that case, the landowner suffers financial losses, incurs moral damage, and must invest significant time and resources in legal battles to restore their economic rights. Landowners meticulously gather information about potential tenants' history from open public state registries before entering lease agreements to avoid such situations. They consider factors such as tax payment arrears, legal disputes, and instances of criminal prosecution or even traffic rule violations as grounds for refusing to negotiate with potential tenants. Moreover, landowners actively monitor tenants' activities and rely on online platforms such as YouControl, Clarity Project, and Vkursi as sources of information for assessing tenants' reputations. The study has revealed a strong correlation between a tenant's reliable reputation and a landowner's trust to enter into a lease agreement exceeding ten years with such a tenant.

The case of land lease agreements underscores the significance of reputation management and its consequential impact on the economic stability of market participants across industries. Reputation management is pivotal for the favorable progress of economic actors within the market.

**Conclusions**. If the company's reputation is reliable in the market, it can provide high economic security and retain significant value for stakeholders. The financial advantages of a company's reputation are directly intertwined with effective economic security management. A company with a solid positive reputation can swiftly and efficiently mitigate the impact of negative news about the company in social networks and mass media, thus ensuring its financial stability in the market. This aspect of reputation is critical in an era marked by prevalent external risks such as war, pandemics, cyber threats, political changes, and quick shifts in stakeholders' perceptions of trust in the company. The global pandemic has prompted companies to adopt a more responsible approach to meeting the needs of both their employees and consumers. Consequently, the companies have heightened their focus on safeguarding their reputation to provide solid economic security and are interested in reducing uncertainty in their stakeholder interactions.

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