Study shows corporate misconduct at home hurts sales overseas

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Research in the *Global Strategy Journal* has bad news for companies struggling with corruption, discrimination, or sweatshops in their supply chain: corporate misconduct demonstrably hurts international sales. Consumers and investors increasingly read about unethical business practices globally and demonstrate their displeasure locally.

"Socially irresponsible acts transcend geographic boundaries and negatively affect foreign subsidiary performance," said Nuruzzaman Nuruzzaman of the University of Manchester, one of the study's authors.

Nuruzzaman, along with co-authors Erin E. Makarius and Debmalya Mukherjee of the University of Akron and Ajai Gaur of Rutgers, monitored the sales growth of 335 subsidiaries in 109 countries over nine years. They charted the growth alongside the number of corporate social irresponsibility (CSI) incidents reported against parent companies. Social irresponsibility hurt subsidiaries' sales whether incidents occurred internationally or in the parent company's home country.

"We weren't looking at incidents that were local to the subsidiary," said Makarius. "We wanted to explore how much negative news spreads globally and how stakeholders react to incidents beyond their borders. The data shows the location of misconduct no longer seems to matter. There's still significant negative impact."

The study also explored whether creating distractions could buffer the consequences of a parent company's bad behavior. The researchers compared two methods of strategic noise: marketing campaigns and product innovations. Promotions, contests, and sales showed little ability to curb reputational damage, but introducing two or more product or service innovations could flip sales growth in a positive direction despite CSI incidents.

"Perhaps consumers perceive marketing campaigns as hollow responses," Mukherjee said. "Because innovation is more costly, it may create a stronger positive impact."

While the study demonstrates that subsidiaries do have agency against negative media coverage of their parents' activities, the authors emphasize that the larger takeaway concerns the potential fallout from CSI. Managers at parent companies and their subsidiaries abroad should be aware that misconduct even in distant locations can quickly impact international sales performance.

"Given the adverse impact of CSI on global performance that this study shows, global corporations should strive to uphold and implement strong ethical and social responsibility standards throughout their global operations," Gaur said. "Moreover, they should prioritize transparent communications with subsidiaries so they can quickly mitigate the negative impact of socially irresponsible activities."

More information: N. Nuruzzaman et al, MNCs' corporate social irresponsibility and foreign subsidiary performance, *Global Strategy Journal* (2024). DOI: 10.1002/gsj.1502

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