

"We are nice too": How Firms Deal With Problems

That positive press release trumpeting a company's good deeds could signal trouble behind the scenes.

A famous firm has a business built on the principles of a good natural environment, community development and affordable housing, and engagement and philanthropy in society. It is the sponsor of cultural, scientific, and sports events. Its people (those who would have been called employees in many other firms) are its most valuable assets, and it treasures diversity and nourishes strong values among its people. All of this is on its web site. I suppose you have probably already guessed that the firm is J.P. Morgan, the bank that just reached a deal to pay the US government \$13 billion to settle government civil claims related to J.P. Morgan not being sufficiently truthful in its marketing of mortgages ahead of the 2008 financial crisis. The deal limits the financial repercussions of the government investigation, but the bank was unable to convince the US that it should also stop criminal investigations against its employees (sorry, people) that are apparently ongoing. So what is going on with the difference between all these good things in the first paragraph and the problems in the second? Well, for many firms they might be unrelated, because it is easy to make neat web sites that trumpet various virtues; especially because the makers of those web sites are likely to be totally unaware of dirtier activities elsewhere in the firm. But actually, critiques and bragging could be related. The case for linking them is from research by Mary-Hunter McDonnell and Brayden King in *Administrative Science Quarterly*. They did not look at civil and criminal investigations, but rather announced boycotts of firms by social movements. Boycotts are less burdensome than fines and imprisonment, but are still enough of a problem that firms respond. In fact, a common response is to talk about all the good they do for society, and this is a stronger response among firms that have a past record of making such claims of helping society. So if you have heard a lot of talk from a firm about good deeds recently, one reason might be good deeds, the other reason might be the opposite. The research shows clearly that some firms really like to talk about their good deeds, and those firms will talk more if others expose them to critiques. Will the firms also fix the

problems that trigger critiques? Well, that is another question. There is also evidence that firms do this, but it takes solid press coverage for a firm to respond to a social critique. As the \$13 billion payment suggests, investigations of criminal acts get a lot more attention. So, talk seems to be pretty reliable; responses to investigations quite solid; but the fixing of problems raised by social movements a little less so. King, B.G. 2008. A political mediation model of corporate response to social movement activism. *Administrative Science Quarterly* 53(3) 395-421. McDonnell, M.-H., B. King. 2013. Keeping up Appearances: Reputational Threat and Impression Management after Social Movement Boycotts. *Administrative Science Quarterly* 58(3)387-419. Henrich's blog Follow INSEAD Knowledge on Twitter and Facebook

Find article at

<https://knowledge.insead.edu/blog/insead-blog/we-are-nice-too-how-firms-deal-with-problems-2927>

Download the Knowledge app for free

