

How to combat parasitic businesses

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Introducing new rules may not be very effective at stopping parasitic businesses making money by damaging your institution's reputation long term, finds research from Aalto University School of Business.

These are businesses whose survival is tied to that of more established institutions, yet they profit from activities that undermine the institutions' reputations, says Assistant Professor Jukka Rintamäki.

For example, essay mills that complete students' course assignments for them, or a human rights auditor that promises its clients they will pass all audits awaiting them.

Rintamäki and his co-authors developed a model to help identify how these "institutional parasites" form and spread, and how they can be dismantled, based on a comprehensive analysis of the existing research and a range of case studies.

They find these firms or individuals thrive in sectors where rules are complex, making it easier to operate undetected.

As such, introducing more rules and making bureaucratic processes more stringent may be ineffective in dealing with the threat they pose long term.

Among other factors, Rintamäki says this tends to divert attention and resources away from core activities to administrative tasks, making the institution less efficient and inadvertently contributing to its reputational damage.

However, this is still preferable to leaving the threat unattended. This scenario leads to adherence to the rules breaking down as policing bodies lose capacity or interest in enforcing them, a scenario the researchers call "drift".

Ideally, they recommend industry watchdogs make changes to the way the institution or sector operates to make it harder for parasitic businesses to avoid detection. This is the most effective path to genuine reform, they find.

"A leech that visibly sucks blood from a body tends to be removed quickly. However, hidden internal parasites like roundworms may go unnoticed for long periods. But, if they move to other areas, or if they proliferate too much, they become life-threatening. Hiding in the shadows is key to institutional parasites' success too," says Rintamäki.

This study was published in the journal *Academy of Management Review*.

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