STRATEGIC ACTIVISM AND NONMARKET STRATEGY

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1. Introduction

Political and social activists are an increasingly important component of the environment of business. The goal of activism typically is to influence firm and industry practices, often motivated by social or ethical concerns. To change the practices of potential target firms, activists engage in private and public politics. In choosing public politics strategies activist try to advance their agenda in public institutions such as legislatures, executive agencies, or courts. Many activists have concluded that public politics is too easily stopped and have turned to private politics instead. Private politics refers to actions by interest groups that target private agents, often in the institution of public sentiment.\footnote{Baron (2003a) introduces the concept of private politics.} Michael Brune, executive director of the Rainforest Action Network (RAN) observed that “Companies were more responsive to public opinion than certain legislatures were. We felt we could create more democracy in the marketplace than in the government.”\footnote{Baron and Yurday (2004a).} Democracy in the marketplace means that citizen consumers express in markets their assessment of firm and industry practices. If they object to logging in old growth forests, they can impose their will on timber companies by refusing to buy old growth products. Commenting on the boycott campaign against Exxon Mobil for its stance on climate change, Paul Gilding, former head of Greenpeace, said, “The smart activists are now saying, ‘OK, you want to play markets-let’s play.’ [Lobbying government] takes forever and can easily be counter-lobbied by corporations. No, no, no. They start with consumers at the pump, get them to pressure the gas stations, get the station owners to pressure the companies and the companies to pressure governments. After all, consumers do have choices where they buy their gas, and there are differences now. Shell and BPAmoco (which is also the world’s biggest solar company) both withdrew from the oil industry lobby that has been dismissing climate change.”\footnote{The New York Times, June 2, 2001.}

Although many activist organizations such as the Sierra Club engage in both private and public politics, the focus in this paper is on private politics. The paper presents foundations of nonmarket
strategy for issues characterized by private politics. The foundations are developed from a formal theory that focuses on an encounter between an activist organization and a target. The objective is to examine strategies for lessening the chance of being a target and for addressing an activist challenge once it has been occurred. To develop such an understanding of nonmarket strategy in private politics, the encounter is viewed as competition. At the heart of that competition is an activist campaign. A campaign consists of an issue such as environmental protection, a target, which could be a firm or an industry, and a strategy for success. A campaign can have effects at two levels. At one level a campaign can affect the practices of the target to which the activist objects. This threat requires a responsive strategy as well as a proactive strategy by a potential target to reduce the likelihood of being targeted. At the other level a campaign can affect supply in an industry. A successful activist campaign reduces the returns in an industry by increasing costs and reducing demand. Activist campaigns opposing the use of old growth timber and supporting stringent forest stewardship programs increase the cost of timber and products made with timber. These effects can reduce investment in the industry.

Even if the activist’s goal is to affect an entire industry, the campaign may still be targeted at a specific company for strategic reasons. First, by targeting one company rather than many, activists lower the participation costs for citizen consumers. For example, the cost to motorists of not buying gasoline from one particular oil company is low but the cost is very high not to buy gasoline altogether. Second, a successful campaign against one firm may lead to a domino effect as competing firms attempt to avoid being targeted next by proactively meeting the activist’s demands. Activists may also ratchet up their demands, demanding greater concessions from their second target than their first. The industry-wide changes resulting from an activist campaign may be characterized as a form of industry self-regulation, which can be viewed as an alternative to or substitute for government regulation. Activist-driven private politics that motivates proactive self-regulation by potential targets is sometimes labeled as corporate social performance.

A campaign also can affect the supply of activism. The public as consumers may participate in a campaign by harming or rewarding the target. To succeed, campaigns must draw support from the public whether as participants, donors, or volunteers. To influence industry practice, citizens will direct their contributions to effective activist groups. This creates competition among activist groups in the market for donors and volunteers. A campaign may be viewed as a local public good for those citizens sympathetic to the activist’s cause. The support provided by sympathetic citizens depends on both the accomplishments of the activists, the willingness of individuals to
contribute, and the severity of the free-rider problem. Public support and the supply of activism thus is endogenous to campaign strategies.

Operating in an activist-rich environment requires three types of strategies for potential targets. A potential target may be able to use a proactive strategy to reduce the likelihood or severity of a campaign. Such strategies could involve reputation building or concessions in the form of changes in practices. An actual target also needs a strategy for dealing with the campaign. The third type of nonmarket strategy is directed at the supply of activism. That supply depends on the public support for the activists’ agenda and the costs of conducting a campaign. Strategies focus on reducing the support from the public and raising the cost of activism or restraining activists’ actions.

2. The Campaign

2.1 The Basic Paradigm

The paradigm of private politics is the campaign against a firm and its value chain. Activists conduct two types of campaigns. In direct or corporate campaigns activists target the firm whose practices they want changed. In indirect or market campaigns activists target an element of the firm’s value chain such as a customer or supplier. For example, the cost of directly harming an industrial products firm may be very high, since it is difficult to enlist the participation of the public. But even an industrial products firm can be vulnerable through its value chain. In its campaign to stop logging in old growth forests, RAN did not initially target the timber companies but instead targeted their customers. Those companies had brands and a public face that the timber companies did not have. RAN targeted Kinko’s, which quickly concluded that RAN’s demands were consistent with its own environmental policies, and it pledged to stop purchasing products made from old growth timber. RAN also went after home improvement companies, targeting first Home Depot because it was the largest and fastest growing company in the industry. In contrast to a timber company such as Boise Cascade, Home Depot had a strong brand. Once Home Depot had agreed to phase out its use of old growth lumber, RAN turned its attention to Lowe’s. RAN knew that women were more sympathetic to its cause than men, and it had data indicating that women make most of the home remodeling decisions. RAN also knew that Lowe’s caters to women, whereas Home Depot does not. For example, Lowe’s has wider aisles and brighter lighting than does Home Depot. RAN then tailored its advertisements and campaign materials for Lowe’s clientele. Lowe’s agreed to RAN’s demands before any of the advertisements had been run or any campaign materials distributed.
With both Home Depot and Lowe’s committed to stop selling old growth timber, Boise Cascade faced the loss of a share of its market for old growth timber. Boise Cascade agreed to stop logging in old growth forests, and RAN turned its attention to the rest of the timber industry with Weyerhaeuser as the next target. RAN targeted Trader Joe’s, which agreed to stop purchasing paper products from Weyerhaeuser.

Market campaigns can operate “upstream” as well as “downstream” from the ultimate target. While campaigns against brand name customers, such as Home Depot and Lowes, are more familiar, activists also conduct upstream campaigns. In its global finance campaign, RAN targeted banks as suppliers of capital to natural extraction projects in the developing world. An extreme example is the radical animal rights group SHAC (Stop Huntingdon Animal Cruelty) that in its campaign against the animal testing company Huntingdon Life Sciences not only targeted Huntingdon’s bank, insurance broker, and auditor but also the local taxi companies (Diermeier 2003).

The threat and actuality of harm to the target are at the center of a campaign. Harm could result from a boycott organized by the activist.\(^4\) RAN, however, does not use the term boycott, since it has concluded that it is too difficult to demonstrate to targets that sales have been hurt by a campaign. Instead, RAN attempts to harm the target’s reputation and the brand equity it has built. Harm can take a variety of forms. It could be public criticism, a boycott, the staging of events such as demonstrations to attract the media, mobilizing students to impede the target’s hiring, damage to the target’s reputation, and violence. For example, in its campaigns RAN organizes Days of Action in which up to 100 demonstrations against a target take place across the United States and in other countries. The harm could also be less direct by generating regulatory risk by attracting politicians and public politics or creating uncertainty that can raise the cost of attracting capital.

This section presents a simple model of a campaign to explain the level of activism and its effect on a target. Consider an activist that seeks to change the practices of a target firm. The practices could be workplace conditions in overseas factories, pollution, or aggressive marketing as in the case of subprime lending. Suppose the activist makes a demand and can both reward and harm the target. The demand, for example, could be to meet higher workplace standards. The reward could be public praise from the activist if the target changes its practices, inclusion of the target in a list of those who have changed their practices, the grant of a seal, or a credible

promise of no subsequent targeting. Let the demand be denoted by \( x_D \), the reward by \( r \), and the harm by \( h \). A campaign strategy consists of a triple \((x_D, r, h)\), which may be interpreted as a take-it-or-leave-it offer of the form, “If you meet our demand \( x_D \), you will receive a reward \( r \). If you do not, you will incur harm \( h \).”

Although the model represents a single period, the activist is assumed to have reputational concerns that cause it to follow through with the harm if the target rejects its demand. The activist may be able to develop a reputation for following through on the harm component of its campaign by harming any target that does not concede to its demand. The activist may have the opportunity to develop a reputation through campaigns against many targets, so repetition with the same target is not required. An aggressive campaign may also have benefits to the activist by attracting the news media, which can be beneficial in raising funds for future campaigns. Initially, the activist is assumed to have sufficient funds for the campaign. The activist also must be able to commit to end the campaign if the target accepts the demand.

In the model the activist moves first by choosing a campaign \((x_D, r, h)\) to which it credibly commits. The target then either accepts the demand \( x_D \), receiving the reward \( r \), or rejects it, maintaining its current practices and incurring the harm \( h \). In Section 3, a prior stage is introduced in which the target can make ex ante concessions or develop a reputation that influences the activist’s campaign choice.

Let the profits of the target be \( \pi(x_0) \) if the current practices \( x_0 \) are continued and \( \pi(x_D) \) if the activist’s demand is accepted, where \( \pi(x_0) > \pi(x_D) \), \( \pi'(\cdot) < 0 \), and \( \pi(\cdot) \) is concave. For example, \( x_0 \) could be paying the market wage, whereas the demand \( x_D \) could be paying a living wage. The cost \( \pi(x_D) - \pi(x_0) \) to the target of conceding to the activist demands includes any strategic effects resulting from the target’s competitors, as considered in Section 2.3. Although the activist and the target could bargain over resolving the issue, to simplify the model the demand is assumed either

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6 Padro i Miquel (2004) provides a model of harm made credible by repetition and ethnic division.
7 The target may not have the same opportunity to develop a reputation for being tough in encounters with activists.
8 Fundraising is considered in Section 4.
9 As discussed above, the activist also chooses a cause and a target. These issues will be considered qualitatively in a later section.
to be accepted or rejected. The target will concede if only if

\[ \pi(x_D) + r \geq \pi(x_0) - h. \]  

(1)

To simplify the exposition, assume that the target can be one of two types. One type is recalcitrant and will not change its practices when confronted with a campaign. The other type is strategic and hence responsive to the campaign and will accept the demand if (1) is satisfied. The probability is \( p, p \in [0, 1) \), that the target is responsive, and \( 1 - p \) that it is recalcitrant. For example, with probability \( 1 - p \) the target, on principle, refuses to concede to the coercion of the campaign. The responsive target concedes if (1) is satisfied and otherwise continues its current practice. McDonald’s, for example, has been responsive to demands for the humane treatment of food animals.

Let the utility of the activist be \( v(x_D) \) if the target concedes to the demand and \( v(x_0) \) if it does not, where \( v(x_D) \) is strictly increasing and concave in \( x_D \). The activist’s preferences may be given a number of interpretations. A cynical interpretation is that the difference \( v(x_D) - v(x_0) \) is the funds raised as a result of the campaign. An alternative interpretation is based on moral concerns such as a gain from a desirable redistribution or the elimination of a negative externality. The expected utility \( U(x_D, r, h) \) from a campaign is

\[ U(x_D, r, h) = p(v(x_D) - c(r)) + (1 - p)(v(x_0) - g(h)), \]  

(2)

where \( c(r) \) is the cost of rewarding the target and \( g(h) \) is the cost of imposing the harm. The functions \( c(\cdot) \) and \( g(\cdot) \) are assumed to be strictly increasing, continuously differentiable, and strictly convex with \( c'(0) = g'(0) = 0 \). The cost of providing rewards is likely to be higher than the cost of fulfilling threats. For example, a seal of approval may need to be continuously monitored or audited. This suggests that \( c(y) > g(y), \forall y \geq 0 \).

The model in (1) and (2) is specific to a particular target; i.e., the costs of providing rewards and harm could depend on the target. The costs of rewarding and harming an industrial products firm are likely higher than for a consumer products firm, and the costs of harm can differ among targets in the same industry as well as between corporate and market campaigns. The probability \( p \) also depends on the identity of the target and its reputation in the nonmarket environment. In Section 3.2 the reputation of the potential target will be made endogenous. The selection of a target is considered in Section 7.1.

\[ ^{10} \] This aspect of the model is related to that in Dal Bo, Dal Bo, and Di Tella (2003). Konrad and Skaperdas (1998) provide a model of extortion.
Given the selection of a target, the activist chooses its campaign strategy to maximize (2) subject to (1). The inequality in (1) holds as an equality when \( r \) and \( h \) are costly to provide. So, substitute \( r = \pi(x_0) - \pi(x_D) - h \) into (2) and differentiate to obtain the first-order conditions for the optimal \((x_D^*, h^*)\):

\[
p(v'(x_D^*) + c'(\pi(x_0) - \pi(x_D^*) - h^*)\pi'(x_D^*)) = 0 \tag{3}
\]

\[
pe'(\pi(x_0) - \pi(x_D^*) - h^*) - (1 - p)g'(h^*) = 0. \tag{4}
\]

It is straightforward to show that the second-order conditions are satisfied.\(^{11}\)

The optimal campaign \((x_D^*, r^*, h^*)\) satisfies (3), (4), and \( r^* = \pi(x_0) - \pi(x_D^*) - h^* \), provided that \( U(x_D^*, r^*, h^*) \geq v(x_0) \) or

\[
U(x_D^*, r^*, h^*) - v(x_0) = p(v(x_D^*) - c(r^*)) + (1 - p)(v(x_0) - g(h^*)) - v(x_0)
\]

\[
= p(v(x_D^*) - v(x_0) - c(r^*)) - (1 - p)g(h^*) \geq 0. \tag{5}
\]

If this condition is not satisfied, the activist does not conduct a campaign and the target does not change its practice.

The campaign is responsive to the specifics of the target selected. Each campaign is successful with a probability \( p \) corresponding to the particular target. Two campaigns against targets with the same \( p \), however, can have different demands depending on the issue of concern to the activist as reflected in \( v(\cdot) \), the current practices of the target, and the costs of conducting the campaigns.

The campaign \((x_D^*, r^*, h^*)\) becomes more aggressive the higher the probability \( p \) the target is responsive. The campaign also becomes more negative, since the activist increases the harm, whereas the effect on rewards is ambiguous. That is, \( \frac{dh^*}{dp} \) and \( \frac{d^2h^*}{dp^2} \) are positive.\(^{12}\) The greater is \( p \)

\(^{11}\) The Hessian can be shown to be negative definite using

\[
\frac{\partial^2 U}{\partial x_D^2} = p(v''(x_D^*) + c'(\pi(x_0) - \pi(x_D^*) - h^*)\pi'(x_D^*)) - c''(\pi(x_0) - \pi(x_D^*) - h^*)(\pi'(x_D^*))^2 < 0,
\]

\[
\frac{\partial^2 U}{\partial h^2} = -pc''(\pi(x_0) - \pi(x_D^*) - h^*) - (1 - p)g''(h^*) < 0,
\]

and

\[
\frac{\partial^2 U}{\partial x_D \partial h} = -pc''(\pi(x_0) - \pi(x_D^*) - h^*)\pi'(x_D^*) > 0.
\]

\(^{12}\) The derivatives are

\[
\frac{dh^*}{dp} = -\frac{\frac{\partial^2 U}{\partial x_D^2} \frac{\partial^2 U}{\partial h^2} \frac{\partial^2 U}{\partial x_D \partial h}}{|H|} > 0
\]
the weaker is the target, and the activist responds with a more aggressive campaign. Consequently, responsive targets face more aggressive campaigns than do less responsive firms. This results because a greater probability that the target will be responsive to the campaign, the lower is the expected cost \((1 - p)h\) of harm and the greater is the expected gain from a campaign. The effect of a change in the current practices \(x_0\) cannot be signed in general.

To make more specific predictions about campaigns, an example will be considered. Let \(v(x) = \gamma x\), \(\pi(x_D) = \pi(x_0) - \eta x_D\), \(c(r) = \alpha r^2\), and \(g(h) = \beta h^2\), where the parameter \(\eta\) is the marginal cost to the target of conceding to the activist’s demand and \(\gamma\) is the activist’s marginal valuation of the target’s practices. When rewards are difficult to provide, \(\alpha\) is high. For this example, the campaign demand is \(x_D^*\) is proportional to the harm \(h^*\); i.e.,

\[
x_D^* = \frac{p\alpha + (1 - p)\beta}{p\alpha \eta} h^*. \tag{13}
\]

The optimal campaign is

\[
x_D^* = \frac{\gamma (p\alpha + (1 - p)\beta)}{2\eta^2 \alpha \beta (1 - p)} \tag{6}
\]

\[
r^* = \frac{\gamma}{2\eta \alpha} \tag{7}
\]

\[
h^* = \frac{p\gamma}{2\eta \beta (1 - p)}. \tag{8}
\]

The incentive \(r^* + h^*\) presented to the target is

\[
r^* + h^* = \frac{\gamma (p\alpha + (1 - p)\beta)}{2\eta \alpha \beta (1 - p)}. \tag{14}
\]

The demand \(x_D^*\) is strictly increasing in \(\gamma\) and \(p\) and strictly decreasing in \(\alpha\), \(\beta\), and \(\eta\). The example includes three cost parameters: \(\alpha\) and \(\beta\) in the activist’s cost function and \(\eta\) indexing the target’s cost of conceding. Higher costs of conducting a campaign, including the cost of conceding,

\[
\frac{dx_D^*}{dp} = -\frac{\frac{\partial^2 U}{\partial x_D \partial h}}{\frac{\partial^2 U}{\partial x_D}} dh^* > 0,
\]

where \(H\) is the Hessian. Then,

\[
\frac{dr^*}{dp} = -\pi' (x_D) \frac{dx_D^*}{dp} - \frac{dh^*}{dp}.
\]

\[13\) If \(p = 1\), the activist knows that the target will concede and hence makes an unlimited demand and backs it with an unlimited threat.

\[14\) If the activist cannot provide rewards, the harm is that in (8) and \(x_D^* = \frac{p\gamma}{2\eta (1 - p)}.\)
lead the activist to demand less, whereas the greater the marginal benefit $\gamma$ to the activist and the more likely is the target to be responsive the higher is the demand. The reward is also increasing in the marginal value $\gamma$ to the activist and decreasing in the cost parameter $\alpha$ and the cost to the firm of conceding. The harm is strictly increasing in $\gamma$ and $p$ and strictly decreasing in $\eta$ and $\beta$. The ratio of the reward to the harm is

$$r^* = \frac{(1 - p)\beta}{p\alpha},$$

so if rewards are ineffective, i.e., expensive to deliver (high $\alpha$), the campaign will emphasize harm. Similarly, if the firm is believed to be responsive, harm will be emphasized.

An example of rewards is a certification systems. Certification is a form of reward that is an alternative, and sometimes a complement, to a campaign. The Fair Trade movement certifies products that conform to specific environmental and human rights standards. Fair Trade certification began with coffee and has been extended to a variety of products. NGOs in the fair trade movement have provided a seal to identify products to consumers, but they also have threatened firms. Global Exchange targeted Starbucks to sell fair trade coffee. Oxfam America successfully targeted Dunkin Donuts and Procter & Gamble to sell fair trade coffee, and the Fair Trade Organization (FTO) pressured supermarkets in Europe not to change a high premium for fair trade coffee. Ultimately, as the FTO stated, “The impact of Fair Trade in the end always depends on the goodwill and loyalty of the consumer.”

Paul Rice, founder and chief executive of TransFair USA, said, “It is guilt free coffee, but I would not call it that. I would call it feel-good coffee.” Bill Conerly of the National Center for Policy Analysis commented, “It’s a feel-good program. I don’t expect it to be a broad trend because people don’t like to spend more money. I expect the impact to be trivial.” This suggests that $\alpha$ is high.

The expected utility from (2) of the activist for the example is

$$U(x^*_D, r^*, h^*) = \frac{1}{2}p\gamma x^*_D + (1 - p)\gamma x_0$$

$$= \frac{p\gamma^2(p\alpha + (1 - p)\beta)}{4\eta^2\alpha\beta(1 - p)} + (1 - p)\gamma x_0.$$ 

The utility in (10) is higher the higher the value $\gamma$ of an improvement in the practice as evaluated by the activist and the more responsive is the target. The utility is lower the higher the costs ($\alpha, \beta, \eta$) of the campaign. The utility is also increasing in the current practices.

15 www.fairtrade.net
The activist will conduct a campaign if and only if its gain \( G = U(x_D^*, r^*, h^*) - v(x_0) \) in (5) is nonnegative or

\[
G = U(x_D^*, r^*, h^*) - v(x_0) = \frac{1}{2}p\gamma(x_D^* - 2x_0) = p\gamma\left(\frac{\gamma(p\alpha + (1 - p)\beta)}{4\eta^2\alpha\beta(1 - p)} - x_0\right) \geq 0. \tag{11}
\]

This implies a bound \( p^* \) on the probability of responsiveness. The activist will conduct a campaign if and only if

\[
p \geq p^* \equiv 1 - \frac{\alpha\gamma}{\gamma(\alpha - \beta) + 4\eta^2\alpha\beta x_0}. \tag{12}
\]

The bound is increasing in \( x_0 \), so better initial practices increase the threshold for a campaign. Targets with better current practices thus are less attractive targets. The greater is the marginal gain \( \gamma \) to the activist the lower is the bound \( p^* \), and the greater is the marginal loss \( \eta \) to the target the higher is the bound. The bound is increasing in the cost parameter \( \alpha \) and increasing in \( \beta \) if \( \gamma < 4\eta^2\alpha x_0 \).

2.2 Why Are Threats Used More Than Rewards in Campaigns?

In his overview of the history of boycotts Friedman (1999) observes that campaigns usually rely on threats and negative tactics. There are many more attacks on companies than endorsements. To examine why threats may be preferred to rewards, consider the implications for an industry in which firms are targeted individually. The profit \( \pi^* \) of the target, whether it concedes or refuses to concede, is reduced by a campaign, since

\[
\pi^* = \pi(x_D) + r^* = \pi(x_0) - h^* < \pi(x_0).
\]

For the example

\[
\pi^* = \pi(x_0) - \frac{p\gamma}{2\eta\beta(1 - p)}. \tag{13}
\]

Rewards alone \( (h = 0) \) would (weakly) increase the profit of the target, but with threats profits are reduced because threats allow the activist to make a higher demand. Harm thus reduces the profit of the target and discourages investment in the industry. This reduces the scale of the practices in the industry to which the activist objects. Also, for this example, the profit \( \pi^* \) is independent of the cost \( \alpha \) of rewarding the target for conceding.

This implies cross-industry variation in the reward-to-harm ratio in (9). In industries where activists are opposed to the product itself, e.g. oil exploration, mining, or logging, rewards cannot
be used, so threats should almost exclusively be observed. In other industries, e.g., coffee or health-related products, some rewards could be used depending on the relative costs of imposing harm or providing rewards.

2.3 Activist Reputation

In Section 2.1 the target was assumed to view the campaign as credible. Formally, a campaign is equivalent to a proposed extortion contract between an activist and a firm. But such contracts in general cannot be enforced in a court of law. Moreover, campaign rewards are difficult to demonstrate, and the threat of harm must be backed by the capacity to deliver it. Campaigns rely on the reputations of firms and activists. Credibility depends largely on the reputation of the activist organization, and reputations are built on past actions. Reputation has a number of facets. One is that the activist must be able to raise the funds to cover the cost of carrying out the campaign. Before launching a campaign, RAN anticipates that a campaign will last three to five years and cost $1 million a year. RAN also plans on no more than three campaigns at a time, given its budget of between $2 and $2.5 million.

A second facet of activist reputation is the ability to choose campaigns that will attract sufficient public interest to deliver the rewards or harm. As indicated in Section 5, one aspect of this is the extent (θ) of public support for the issue on which the campaign is based. Some issues, such as air pollution, have been supported by public sentiment, whereas others, such as costly measures to address global climate change, have drawn little public support in the United States.

A third facet of activist reputation is how committed the individual activists are. RAN has proven to be quite committed, as evidenced by its 8-year campaign against Mitsubishi Electric and Mitsubishi Motors on the issue of the harvesting of tropical rainforests, even though it was evident early in the campaign that the prospects of significant change were slight. The union UNITE demonstrated commitment in the campaign to improve working conditions and wages in factories supplying the apparel and footwear industries. Activist groups that are unable to demonstrate credible commitment are likely to disappear.

An important asymmetry between activists and firms is that in most cases activists are engaged in many more campaigns than firms. This suggests that it is easier for activists to maintain reputations for being tough compared to firms that are only rarely targeted. Firms that operate in industries, e.g., tobacco or alcohol, with high levels of activism, however, may find it advantageous to develop reputations for toughness. Modeling the dynamics of campaigns is beyond the scope of this paper, but they may have direct implications, e.g., for the duration of a campaign.
2.4 Target Selection and Strategic Considerations among Potential Targets

The activist chooses both a cause (or issue) and a target. RAN chose as its causes old growth forests, global finance, and global climate change. Its first targets in the three causes were Boise Cascade, Citigroup, and Ford, respectively. An activist prefers causes that are important (high $v(x_D) - v(x_0)$) and where it would make a difference; i.e., a high demand $x_D^*$ in its campaign. From (11) a good target for the activist is one with high valuation $\gamma$, bad current practices (low $x_0$), a high probability $p$ of responsiveness, and low costs $(\eta, \alpha, \beta)$ of a campaign. If the first target, however, anticipates that its rivals will also be targeted, then its competitive disadvantage will be short-lived.

The model is not capable of addressing several questions about targeting. For example, will an activist focus on a single firm or an entire industry, and if it targets an industry, will it target firms sequentially or simultaneously? Targeting one firm in a duopoly, for example, raises competitive issues. A firm has a higher cost of conceding to the extent that a concession would raise its costs giving its rival a competitive advantage.\(^{18}\)

These strategic considerations among targets can affect the cost of conceding to the activist’s demands and hence also affect the campaign itself. Consider the first target selected in an industry. If the target concedes, its costs are increased, and its competitive situation is weakened compared to other firms in the industry. It will then lose profits not only because of its higher costs but also because its market rivals will be more aggressive.\(^{19}\) This strategic effect would be included in the cost $\pi(x_D) - \pi(x_0)$, which makes it more costly to concede.

Offsetting this competitive effect is the effect of concession by the first target on the campaign launched against the second target. As considered explicitly in Section 4, campaigns must be financed and success with one target can generate more contributions for the activist organization. The increased funding then allows the activist to mount a more aggressive campaign, which then can impose higher costs of concession on the second target. When RAN targets an industry, it challenges each successive target to do more than those previously targeted. The strategic disadvantage of the first target then can be offset or even reversed to a strategic advantage.

If the target fights and defeats the activist campaign, the defeat may reduce the contributions to the activist organization.\(^{20}\) The campaign against the next target in the industry, if there is one,

\(^{18}\) See Innes (2004) for a model of activist targeting with two firms competing with differentiated products.

\(^{19}\) This reasoning is based on a Cournot model. Innes considers strategic interactions among firms and target selection in an industry in a quite different model.

\(^{20}\) Fighting a campaign is considered in Section 5.
then will be less aggressive. This effect reduces the strategic gain to the first target from fighting the campaign. The first target thus has less to gain from fighting.

2.5 Industry Considerations

The model has implications for the level of economic activity in an industry. The profit of the target given by the right side of (13) for the example is strictly decreasing in the probability \( p \) and the activist’s marginal valuation \( \gamma \) and is strictly increasing in \( \beta \) and \( \eta \). Activism that utilizes threats thus results in less participation in the targeted industry. That is, if the opportunity cost of the resources committed to this activity is \( \pi \), then some targets with \( \pi(x_0) - h^* < \tilde{\pi} \) will withdraw resources from the industry. In addition, the threat of harm lowers the profits of those firms that remain in the industry, thus making the industry less attractive to new entrants. Michael Klein, a board member of the RAN said, “RAN is not out to hurt corporations. If the playing field is leveled across an industry, then corporations can still thrive and be successful.”\(^21\) A level, but higher cost, playing field, however, means less investment and fewer firms in the industry.

As an application of the comparative statics of the model, consider a technological advance that alters the costs of conducting a campaign. The Internet has lowered campaign costs by reducing the cost of alerting citizens to issues and mobilizing them for individual and collective action against targets. Suppose the technological advance allows the activist to execute its threat more efficiently and effectively. This can be represented by a decrease in the cost parameter \( \beta \). The technological advance increases the supply of activism and decreases the investment in the industry. Technological change may be one explanation for the growth of activism and for its increased impact.

Another perspective on participation in the industry faced with activist campaigns is in terms of the “quality” of the firms in the industry. Suppose that firms have different organizational qualifications or management quality.\(^22\) Alternatively, firms may differ in their corporate social responsibility (CSR) policies, and those policies can be costly, so firms with generous policies have lower returns.\(^23\) Suppose there is a market that matches firms to opportunities in the same

\(^{21}\) Baron and Yurday (2004b).

\(^{22}\) These differences among firms are possible to the extent that there are imperfections in the market for control. These imperfections could be due to the transactions costs associated with a change in control or incomplete information about the type or true performance of the firm. These imperfections are illustrated by the Enron debacle. Fraud at Enron was exposed not be the analysts or capital markets but by journalists who became suspicious of the company’s finances. Moreover, a moral hazard problem was present as financial services companies looked the other way or abetted the fraud in the hope of obtaining future business from Enron. In the absence of imperfections in the market for control, the opportunity costs of all firms would be the same.

\(^{23}\) The empirical literature on CSR is inconclusive, in part because of the ambiguity of what
sense that the labor market matches individuals with different abilities to jobs. In labor market matching the wage is an increasing function of ability, and similarly firms with better organizational qualifications, higher quality management, or less generous CSR policies command higher returns. They thus require higher returns to participate in an industry. In such a matching world an industry facing activist challenges would attract less capable firms and firms with lower CSR. The quality of an industry thus can be reduced by activism. Moreover, if the activist values higher CSR, a campaign creates a form of a moral hazard problem. That is, the return from a campaign, as valued by the activist, is diminished because lower quality or lower CSR firms will populate the industry.

3. Proactive Measures by Potential Targets

3.1 Self-Regulation

A potential target can determine from (11) how attractive it is. A potential target then can take two types of measures in anticipation of a campaign. One is proactively to change its practices so that the activist will not mount a campaign. This will be referred to as self-regulation. Maxwell, Lyon, and Hackett (2000) found that firms reduced their toxic emissions beyond that required by public regulation, and the reductions were greater the greater the number of environmentalists in the state in which their plants were located. The second is to increase the activist’s belief that the target is recalcitrant. Consider first a proactive concession intended to preclude a campaign. Suppose that making a concession does not reveal the target’s type. The attractiveness of a proactive concession then depends on whether the activist can or cannot commit to conduct a campaign when the target makes a concession.

First, suppose that the activist can commit not to conduct a campaign if the target makes an observable change in its practices. Such a commitment could be credible because of the reputation of the activist. In the example, the activist will not conduct a campaign if the practices $\hat{x}$ satisfy $v(\hat{x}) \geq U(x^*_D, r^*, h^*)$ or for the example in (10)

$$\hat{x} \geq \frac{p}{2}x^*_D + (1 - p)x_0.$$  (14)

The proactive practice $\hat{x}$ thus must be greater than the expected practices from a campaign less $\frac{p}{2}x^*_D$, which is the expected cost of the campaign relative to the marginal gain $\gamma$ from better constitutes CSR and because the methods used do not identify the direction of causality between CSR and economic performance.
practices. The activist thus will not conduct a campaign if the proactive changes provide benefits that exceed the cost of the campaign. The target is willing to adopt the practices \( \hat{x} \) provided that

\[
\pi(\hat{x}) \geq \pi(x_0) - h^* \]

or for the example

\[
h^* \geq \eta \hat{x}. \tag{15}\]

The potential target thus will take proactive measures only if they are less costly than the harm from the campaign. The condition in (15) is

\[
\frac{p\alpha}{p\alpha + (1-p)\beta}x_D^* \geq \hat{x},
\]

so \( \hat{x} < x_D^* \). Any proactive measure to avoid a campaign is more moderate than a campaign demand.

Combining (14) and (15) yields necessary and sufficient conditions for a proactive strategy to be adopted and a campaign forestalled

\[
\frac{h^*}{\eta} \geq \hat{x} \geq \frac{p}{2}x_D^* + (1-p)x_0 \tag{16}
\]

or

\[
h^* \geq \eta \hat{x} \geq \frac{\eta}{\gamma}U^*.
\]

For the condition in (16) to be satisfied, it is necessary that

\[
\frac{p\gamma(\alpha + (\alpha - \beta)(1-p))}{4\eta^2(1-p)^2\alpha\beta} \geq x_0, \tag{17}
\]

and a necessary condition is thus \((\alpha + (\alpha - \beta)(1-p)) > 0 \). The left side of (17) is increasing in \( p \) and \( \gamma \), so the more likely a campaign is to be successful and the more the activist values a change the greater is the set of practices that can forestall a campaign. This may seem counterintuitive, but higher \( p \) and \( \gamma \) also imply a stronger threat and hence a more costly campaign. The left side of (17) is decreasing in \( \eta \) and \( \beta \), so the more costly are concessions by the target and the more costly is delivering harm the smaller is the set of practices forestalling a campaign. The left side is increasing in \( \alpha \), so from (9) the more a campaign emphasizes harm relative to rewards the larger is the set of proactive practices with which a potential target can forestall a campaign.

If proactive measures are given the label corporate social performance, this analysis identifies conditions under which corporate social performance substitutes for an activist campaign. Activism
and proactive corporate social performance are positively related. In this sense, corporate social
performance is a form of self-regulation—self-regulation induced by the threat of activism.

In a model of incomplete information, however, taking a proactive measure \( \hat{x} \), could reveal
the target’s type. A responsive type has an incentive to take a proactive measure satisfying (16).
Suppose that a recalcitrant type is such that it will not concede to the direct coercion of a campaign
but is not opposed to taking proactive measures that would increase its profits. Then, it will also
do so when (16) is satisfied. Consequently, in this model the types will pool and be revealed.

If the activist cannot commit to forego a campaign against a target that makes proactive
changes, a potential target faces a hold-up problem. If the target adopts \( \hat{x} \) and the activist launches
a campaign, the strategic target concede to \( x_D^* \) and a recalcitrant target leaves \( \hat{x} \) in place. That
is, the target is assumed not to rescind \( \hat{x} \) out of spite. For the example, the incentives \( (r^*, h^*) \)
and the demand \( x_D^* \) are unchanged and given in (6)-(8) and thus independent of the proactive
measures taken by the target. The profit of the target if it concedes to the activist’s demand is
\( \pi(x_D^*) + r^* \) and if it does not concede is \( \pi(\hat{x}) - h^* < \pi(x_D^*) + r^* \). The target thus has no incentive
to take proactive measures.

Proactive measures by potential targets thus require commitment by the activist. A reputation
earned by the activist can provide that commitment. An activist gains from proactive measures,
so an activist has an incentive to develop a reputation for not exploiting those potential targets
that take substantial proactive measures (satisfying (14)).

If the activist cannot commit but multiple targets are available, proactive measures could
cause the activist to switch to another target that would yield a greater gain in utility. If this were
the case, a potential target could in the absence of commitment avoid being a target by taking
proactive measures. Suppose that an alternative target would yield utility \( \hat{U} < U(x_D^*, r^*, h^*) \) in (10).
Consider a potential target that adopts a proactive measure \( \hat{x} \), and assume that the activist has
the capacity or resources to conduct a campaign against only one target. The activist can choose
the alternative target and obtain \( v(\hat{x}) + \hat{U} \) or launch a campaign against the proactive target and
obtain \( U(x_D^*, r^*, h^*) \). As above, if the target concedes, it concedes only to \( x_D^* \), and if it does not
concede, it leaves \( \hat{x} \) in place. The utility of the activist is then \( U(x_D^*, r^*, h^*) + (1 - p)(v(\hat{x}) - v(x_0)) \).
The activist will not conduct a campaign against the proactive target if and only if
\[
v(\hat{x}) + \hat{U} \geq U(x_D^*, r^*, h^*) + (1 - p)(v(\hat{x}) - v(x_0))
\geq \frac{1}{2} p \gamma x_D^* + (1 - p) \gamma \hat{x},
\]
or

\[ \bar{U} \geq \frac{1}{2} p \gamma x_D^* - p \gamma \hat{\gamma} = U(x_D^*, r^*, h^*) - v(\hat{x}). \]  

(18)

The activist thus chooses the alternative target if

\[ U(x_D^*, r^*, h^*) \geq \bar{U} \geq U(x_D^*, r^*, h^*) - v(\hat{x}). \]

The condition in (18) simplifies to

\[ \hat{x} \geq \frac{1}{2} x_D^* - \frac{1}{p \gamma} \bar{U}. \]  

(19)

The activist thus will not conduct a campaign if the proactive measures are at least half the demand less an amount that depends on how attractive the alternative target is. The more attractive the alternative target, the smaller is the proactive measure required to deflect the activist.

The target will proactively choose \( \hat{x} \) satisfying (19) if

\[ \pi(\hat{x}) \geq \pi(x_0) - h^*, \]

which for the example is

\[ \hat{x} \leq \frac{1}{h^*} h^* = \frac{\alpha \rho}{\alpha \rho + (1 - p) \beta} x_D^*. \]  

(20)

Combining (19) and (20) yields

\[ \frac{\alpha \rho}{\alpha \rho + (1 - p) \beta} x_D^* \geq \hat{x} \geq \frac{1}{2} x_D^* - \frac{1}{p \gamma} \bar{U}. \]

This condition can be satisfied only if

\[ \frac{\alpha \rho}{\alpha \rho + (1 - p) \beta} \geq \frac{1}{2} - \frac{1}{p \gamma x_D^*} \bar{U}. \]  

(21)

A sufficient condition for this to be satisfied for all \( \bar{U} \geq 0 \) is

\[ \frac{p}{1 - p} \geq \frac{\beta}{\alpha}. \]  

(22)

The left-side is the odds ratio in favor of the target being strategic and the right side is the ratio of the cost parameters of reward to harm. If the alternative target is attractive, the condition in (21) is easily satisfied. From (9) the condition in (22) is satisfied if and only if the harm from the campaign exceeds the rewards. From the perspective of the activist, campaigns emphasizing harm result in more potential targets making changes in their current practices than if rewards are emphasized. Consequently, when the activist cannot credibly commit, the presence of alternative targets can induce proactive measures.
3.2 Target Reputation

The campaign depends on the beliefs about whether the target will concede to the activist’s demand. A potential target may be able to influence those beliefs through its actions. For example, the potential target may establish a reputation for not responding to coercion, challenging government regulations, and fighting lawsuits rather than settling. These actions may have different costs for different potential targets, so the strategies chosen by potential targets can reveal information about their type. This also means that one potential target can emulate another, albeit at a different cost.

To consider reputation-building strategies in the context of the model, suppose that a potential target can be either hard (H) or soft (S). A target of type j has a probability \( p_j, j = H, S \), of being responsive to a campaign, where \( 0 < p_H < p_S < 1 \). Suppose that the prior probability that the potential target is \( H \) is \( \rho_o \), so the \textit{ex ante} probability \( p_o \) that the target will concede is

\[
p_o = \rho_o p_H + (1 - \rho_o)p_L.
\]

The probability \( p_o \) is assumed to be greater than \( p^* \) in (12), so that the activist will campaign given its prior beliefs.

Reputations are built from actions. A reputation for being hard, for example, could be built from signals such as aggressively fighting shareholder resolutions, filing a lawsuit against the EPA on a regulatory matter, and challenging activists. In the oil industry, signals could include actively supporting energy legislation that benefits the industry and by not withdrawing from the Global Climate Coalition or Arctic Power, which opposes strong action against global warming and supports opening the Arctic National Wildlife Refuge for oil exploration, respectively. In contrast, BP withdrew from both organizations.

Suppose that the potential target can send one of two public signals \( m_j, j = H, S \), that are consistent with a hard- and soft-type target, respectively. Let \( \sigma_H(j), j = H, S \), be the probability that type \( j \) sends the signal \( m_H \), where \( 1 - \sigma_H(j) \) is the probability that \( m_S \) is sent. Suppose that type \( H \) has a low cost of sending \( m_H \), so \( \sigma_H(H) = 1 \), whereas type \( S \) has a high cost. The posterior probability \( \rho \) that the target is \( H \) is

\[
\rho = \frac{\rho_o}{\rho_o + (1 - \rho_o)\sigma_H(S)}.
\]

The activist’s belief \( p \) about whether the target will concede is then

\[
p = \rho p_H + (1 - \rho)p_S.
\]
Type $S$ will send $m_H$ if the activist will not launch a campaign. That is, if $p \leq p^*$ in (12), the campaign is forestalled. If $p_S \leq p^*$, a campaign is forestalled without signaling, and if $p_H > p^*$, a campaign cannot be forestalled. For $p^* \in [p_H, p_S)$ the strategy $\sigma^*_H(S)$ that will forestall a campaign is given by $p = p^*$ or

$$\sigma^*_H(S) = \frac{\rho_o(p^* - p_H)}{(1 - \rho_o)(p_S - p^*)}.$$  

If this is greater than one, a campaign cannot be forestalled, or

$$\rho_0 > \frac{p_S - p^*}{p_S - p_H} < 1.$$ 

The campaign cannot be forestalled if $\rho_0$ is high, so if he prior belief that the target is hard is low, a campaign will result.

If the type $S$ does not send $m_H$, it reveals itself as soft and hence faces a campaign $(x^*_D, r^*_S, h^*_S)$ corresponding to $p_S$. Since the harm from a campaign is increasing in $p$, the campaign against the soft type is more aggressive than a campaign against the pooled types; i.e., $h^*_S > h^*$ where the latter corresponds to $p$. The potential target of type $S$ forestalls a campaign if

$$\pi(x_0) - h^*_S \leq \pi(x_0) - c_S(\sigma^*_H(S))$$

or

$$c_S(\sigma^*_H(S)) \leq h^*_S,$$  

(23)

where $c_S(\sigma_H(S))$ is the cost to $S$ of sending $m_H$. The equilibrium is then that type $H$ sends $m_H$ with probability 1, type $S$ send $m_H$ with probability $\sigma^*_H(S)$, and the activist conducts no campaign if $m_H$ is received and conducts a campaign corresponding to $p_S$ if $m_S$ is sent. In (23) the cost of signaling by the soft type is compared to the harm from a campaign for a soft type. This moral hazard problem results from the opportunity of the hard type to signal it is hard. If the condition in (22) is not satisfied and the hard type did not signal, the activist’s beliefs would be $p_o$, and a campaign would be launched. The hard type then must signal with positive probability. It will do so if

$$c_H(1) \leq h^o,$$

where $h^o$ is the harm in a campaign corresponding to $p_o$, $c_H(\cdot)$ is $H$’s cost of signaling, and $\sigma_H(H) = 1$.

This analysis identifies a perverse effect of activism—potential targets may aggressively oppose threats from both private and public politics so as to signal that they are hard.
4. The Supply of Activism

4.1 The Supply of Activists

The supply of activism is based on two primary inputs—activists and funding. The model identifies several characteristics \((v, p, c, g)\) relevant to the supply of activists. First, they value the potential accomplishments of the activist organization; i.e., \(v(x_D) - v(x_0)\) is high. Second, they may have optimistic beliefs about the probability \(p\) of responsiveness, or simply like confrontation. This would mean that the cost \(g(h)\) of producing harm is low for these individuals. For example, they may not mind being arrested or may see arrest a badge of courage. Activists may also be those who are willing to work for low wages, at least in their youth. In this sense activism may be one of many alternatives for expressing or pursuing certain values, just as the Peace Corp was for an earlier generation and volunteerism is currently. The result of these factors is that activist organizations are typically staffed by committed individuals.

Most activists are young, and many burn out quickly. Turnover at RAN is high, wages are low, and rewards come from its successes. The following excerpt (Baron and Yurday (2004b, p. 15)) characterizes the situation at RAN.

Brune said, “Turnover is high at RAN, but has been better in the last year. Still, half of our staff will be gone by the time the Ford campaign is done.” The high turnover is not unique to RAN. Staff members at cause-related NGOs tended to work hard and immerse themselves emotionally in their work, which often resulted in burnout and required breaks from work. Turnover was also a function of demographics-NGO staff members tended to be young, in their 20s or early 30s, and life changes such as marriage or graduate school often led to resignations or movements from one NGO to another. In addition, Brune said, “NGOs tend to pay barely enough money for staff to afford beer, pizza, and a couch in a friend’s apartment.” RAN tried to improve the lifestyle of its employees and reduce turnover by raising wages, improving health care, and instituting family leaves, among other practices.

Potential activists with varying degrees of these characteristics sort among activist organizations, and new organizations are founded to take advantage of the supply of activists. Entry into the activist industry is easy, but entrants as well as existing organizations must be sustained by both accomplishments and funding.

4.2. Financing the Campaign
Some individuals have strong preferences for supporting activist organizations. Some have an aversion to the tactics of radical activists and are willing to support, for example, the Nature Conservancy but not RAN or Greenpeace. Activists communicate with potential contributors through the news media through its coverage of campaign activities and increasingly via the Internet. Little is known about the market for contributions in private politics, but what is evident is that contributions to these groups are substantial. The analysis in this section thus proceeds in two steps. The first is to model the activist as budget constrained with the budget provided by contributions that depend on the campaign chosen. The second is to consider the potential free-rider problems.

Suppose there are \( n \) individuals who want to support the activist’s cause, and suppose that the willingness to contribute of each is increasing in the activist’s prospects for accomplishment, where those prospects are represented by \( px_D \). Let the willingness to contribute be \( w(px_D) \), so in the absence of a free-rider problem, the budget \( B \) of the activist equals the total contributions \( B = nw(px_D) \). The activist cannot spend any more than the budget, which implies two constraints. First, if the target concedes, the reward \( r \) must satisfy \( c(r) \leq B \). Second, if the target rejects the demand, the harm must satisfy \( g(h) \leq B \), since otherwise the treat would not be credible. The activist must respect both constraints when choosing its campaign.

The activist’s campaign choice is

\[
(x_D^*, r^*, h^*) \in \arg \max_{(x_D, r, h)} p(v(x_D) - c(r)) + (1 - p)(v(x_0) - g(h))
\]

\[
s.t. \pi(x_D) + r \geq \pi(x_0) - h
\]

\[
c(r) \leq nw(px_D)
\]

\[
g(h) \leq nw(px_D).
\]

The solution to this program is straightforward and will be presented for an example. Let \( w(px_D) = pw\gamma x_D \), where \( w \) represents the contributors’ proportional willingness to contribute relative to the activist’s valuation \( \gamma \). Since activists always seem to be in need of funds, the funding constraints are assumed to be binding.\(^{25}\)

\(^{24}\) The cost of raising funds is assumed to be zero to simplify the model.

\(^{25}\) Letting \( \lambda_1 \) and \( \lambda_2 \) be the Lagrangian multipliers on the second and third constraints, respectively, the multipliers are

\[
\lambda_1 = \max\left\{ \frac{1 - nw}{nw(1 + (\frac{r}{\beta})^2)} - p, 0 \right\}
\]

\[
\lambda_2 = \max\left\{ \frac{1 - nw}{nw(1 + (\frac{h}{\delta})^2)} - (1 - p), 0 \right\}.
\]
The equilibrium campaign for the example is

\[ h^* = \frac{p \gamma n w \left(1 + \left(\frac{\beta}{\alpha}\right)^{\frac{1}{2}}\right)}{\eta \beta} \]

\[ x_D^* = \frac{p \gamma n w \left(\alpha^{\frac{1}{2}} + \beta^{\frac{1}{2}}\right)^2}{\eta^2 \alpha \beta} \]

\[ r^* = \frac{p \gamma n w \left(1 + \left(\frac{\alpha}{\beta}\right)^{\frac{1}{2}}\right)}{\eta \alpha}. \]

Since \( w(p x_D) = p w \gamma x_D \) represents the contributions received by the activist to fund the campaign, the more sympathetic \( w \) the public is to the activist’s cause and the greater the number \( n \) with those feelings the greater is the quantity of activism. Activism is thus a normal good in the sense that its supply increases with the willingness of the public to contribute.

4.3 Free-Rider Problems

Public support for a campaign depends on the number of people sympathetic to the issue underlying the campaign and the seriousness of the free-rider problems. Free-rider problems are present on both the resources side and the campaign side. Potential donors may free ride on other donors, and supporters may fail to participate in the reward or harm components of the campaign.

The analysis of the free-rider problem for resources is straightforward. Let the budget \( B \) of the activist be given by \( B = \sum_{i=1}^{n} b_i \), where \( b_i \) is the contribution of individual \( i \) and \( n \) is the total number of individuals sympathetic to the activist’s cause. The activist’s campaign is a function of \( B \), and if both the reward and the harm would exhaust the budget, the campaign demand \( x_D(B) \) is

\[ x_D(B) = \frac{B^\frac{1}{\eta}}{\eta} \left( \alpha^{-\frac{1}{2}} + \beta^{-\frac{1}{2}} \right). \]

If \( n w \) is large (e.g., larger than 1), the contributions are sufficient to finance the activist’s optimal campaign. If \( n w \) is small, the multipliers will be positive. A necessary and sufficient condition for \( \lambda_1 > 0 \) is

\[ w < w_1 \equiv \left( n \left(1 + p \left(1 + \left(\frac{\alpha}{\beta}\right)^{\frac{1}{2}}\right)\right) \right)^{-1}, \]

and a necessary and sufficient condition for \( \lambda_2 > 0 \) is

\[ w < w_2 \equiv \left( n \left(1 + (1 - p) \left(1 + \left(\frac{\beta}{\alpha}\right)^{\frac{1}{2}}\right)\right) \right)^{-1}. \]

26 If the funding constraint is not binding, the equilibrium is as characterized in (6)-(8).

27 The comparative statics of the equilibrium are the same as those in Section 2.1, except that \( h^* \) and \( r^* \) are decreasing in both \( \alpha \) and \( \beta \) and \( r^* \) is increasing in \( p \).
The campaign demand is a strictly increasing and strictly concave function of $B$.

A sympathetic individual will contribute $b_i^*$ satisfying

$$b_i^* \in \arg \max \ p w_i \gamma x_D(B) - b_i,$$

where $w_i(p x_D) = \omega_i p r x_D, \omega_i > 0$, is the utility of $i$ and $w(x_0)$ is normalized to 0. The campaign itself represents a local public good for the sympathetic individuals, so a free-rider problem is present. The first-order condition implies that the aggregate contributions $B^*$ satisfy

$$B^* = \left(\frac{p w_i \gamma}{2 \eta}\right)^2 \left(\alpha^{-\frac{1}{2}} + \beta^{-\frac{1}{2}}\right)^2,$$

and

$$x_D(B^*) = \frac{p w_i \gamma}{2 \eta^2 \alpha \beta} \left(\alpha^{\frac{1}{2}} + \beta^{\frac{1}{2}}\right)^2.$$

Since $B^*$ is independent of $i$, all contributors free-ride on the individual with the highest $w_i$. If all sympathetic individuals have $w_i = w$, the individual contributions $b_i^* = b^*$ are

$$b^* = \frac{1}{n} \left(\frac{p w \gamma}{2 \eta}\right)^2 \left(\alpha^{-\frac{1}{2}} + \beta^{-\frac{1}{2}}\right)^2.$$

The collectively optimal contributions $B^o$ for the $n$ sympathetic individuals maximize

$$V = \sum_{i=1}^{n} (w p r x_D(B) - b_i),$$

which yields

$$B^o = \left(\frac{p n w \gamma}{2 \eta}\right)^2 \left(\alpha^{-\frac{1}{2}} + \beta^{-\frac{1}{2}}\right)^2.$$

This free-rider resources problem thus results in a budget that is a $\frac{1}{n^2}$ fraction of the collectively optimal budget. From the perspective of sympathetic individuals, activism is under supplied.

Activists may also face a free-rider problem in terms of citizen participation in the campaign. Citizens can participate in rewarding a target through increased purchases of its products. If there is a cost of switching, sympathetic consumers, however, may fail to reward a target that changes its practices. Citizens can also participate in the harm by reducing their purchases or lowering their expectations of the firm, which can harm the firm directly or through reputational concerns. If the campaign involves a boycott, its success depends on the participation of consumers. Boycott success depends on the availability of close substitutes for the target’s products, but consumers may free-ride on the switching by others. Similarly, if the campaign is directed at damaging the brand equity or the public face of a target, the public must be responsive. The next section considers
uncertainty about the success of a campaign, where that uncertainty could be due to the uncertain participation by the public.  

5. Contesting the Campaign

In the basic model the activist chooses a campaign such that the responsive target concedes. The target has no reason to resist because the harm will be delivered with certainty. Not all campaigns, however, draw sufficient attention and support to be successful, and a target may gain from delaying action to determine whether the campaign will be successful. Moreover, the target may be able to counter the campaign and reduce its likelihood of success. A target may, for example, provide information to the public or manage its reputation with its stakeholders. When targeted by RAN, Weyerhaeuser used its internal newsletter to employees to discuss the campaign and the company’s forest stewardship programs. The objectives were to address morale and solidify employee support. A target may also communicate with customers or other elements of its value chain to shore up their support. This section considers a variation of the basic model in which the success of the campaign is endogenous to the strategies of the activist and the target.

The activist moves first by choosing its campaign as in the basic model. The target then can concede immediately or resist the campaign. Resisting the campaign could take a number of forms such as information provision and reputation management, but instead of modeling each, resistance will simply be represented by the intensity $f \geq 0$ of the resistance or fighting. Let $k(f)$ be the cost of fighting, where the cost function is assumed to be increasing and convex. The success of the campaign depends on the harm $h$ and the fight $f$, and the probability $q$ of success is assumed to be given by

$$q = \frac{\theta h}{\theta h + f},$$

where $\theta \in (0, \infty)$ indexes the appeal of or public responsiveness to the campaign by the public. For example, if the campaign includes a boycott, $\theta$ could depend on the switching costs for consumers. The appeal $\theta$ thus could be correlated with the cost of delivering harm; e.g., $\theta$ and $\beta$ could be negatively correlated. If the target chooses not to fight ($f = 0$), the campaign is successful in delivering harm with probability $q = 1$. If the target fights ($f > 0$), the campaign is assumed to fail with probability $1 - q$. A failed campaign is assumed to impose no harm on the target. A}

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28 Diermeier (2003) models participation in a campaign as a discrete public goods problem under incomplete information. He shows that campaigns will succeed if and only if the collective benefit (from the point of view of citizen consumers) is larger than the collective cost of participation. The uncertainty over participation thus could be derived from uncertainty over the consumers true costs of participating.
successful campaign imposes harm $h$, which then can be avoided only by conceding. During a fight the harm is $h$, and a fight is assumed to last for a time $\delta$ after which the target can concede or the campaign fail. If the target does not concede at that point, the remaining harm $(1-\delta)h$ is incurred. If the target concedes, the remaining harm is avoided, and the reward is $(1-\delta)r$.

The target will concede when the campaign succeeds if

$$(1-\delta)(\pi(x_D) + r) \geq (1-\delta)(\pi(x_0) - h),$$

which is equivalent to (1) since the harm $\delta h$ incurred during the fight and the foregone reward $\delta r$ are sunk. Assume initially that the campaign is chosen such that the target will concede if the campaign is successful. The strategic target will fight according to

$$f^* \in \arg \max \hat{\pi} = q[(1-\delta)(\pi(x_D) + r) + \delta(\pi(x_0) - h)] + (1-q)\pi(x_0) - k(f)$$

$$= \pi(x_0) - qh - k(f),$$

where (24) has been used for the second line. The first-order condition is

$$\frac{\theta h^2}{(\theta h + f^*)^2} - k'(f^*) = 0.$$  

(26)

The fight $f^*$ is chosen in response only to the harm $h$ component of the campaign, and the response function is increasing in $h$; i.e.,

$$\frac{df^*}{dh} = -\frac{2\theta h f^*}{(\theta h + f^*)^2} - \frac{2\theta^2 h^2}{(\theta h + f^*)^3} - k''(f^*) > 0.$$ 

The response $f^*$ also depends on the public’s responsiveness $\theta$ to the campaign, and

$$\frac{df^*}{d\theta} = \frac{h^2}{(\theta h + f)^2}(1 - 2q).$$

The fight $f^*$ is increasing (decreasing) in $\theta$ as $f^* > (\leq) h\theta$ or equivalently as $q < (>) \frac{1}{2}$. If the campaign is more likely to fail than to succeed, the target fights more intensely as the public is more responsive to the campaign, but if the campaign is likely to succeed, the target fights less intensely. Consequently, if the activist can choose its issue or cause in response to its public responsiveness, the subsequent dynamics of the campaign are affected.

In lieu of fighting the target can concede at the time the campaign is launched. The target will concede rather than fight if

$$\pi(x_D) + r \geq \pi(x_0) - q^* h - k(f^*),$$

(27)
where the right side is from (25) and \( q^* = \frac{\theta h}{\theta h + f} \). Using (24) as an equality on the left side of (27) yields
\[
k(f^*) \geq (1 - q^*)h. \tag{28}
\]
If the cost of fighting is less than the avoided harm \((1 - q^*)h\), the firm will not concede initially and will fight the activist campaign. Some campaigns thus result in an immediate concession, whereas others result in fighting and a subsequent concession only if the campaign succeeds with the public.

As an example, let \( k(f) = kf \) in which case
\[
f^* = \theta h((\theta k) - \frac{1}{2} - 1),
\]
provided that \( \theta k < 1 \). The fight \( f^* \) is increasing in \( h \) and \( \theta \) and decreasing in the marginal cost \( k \). The target will fight if (28) is not satisfied, which is equivalent to \( \theta k < 1 \). Then, the target will not concede initially. The probability \( q^* \) that the campaign succeeds is then given by
\[
q^* = (\theta k)^{\frac{1}{2}} < 1.
\]
This is independent of \( h \) because \( f^* \) is linear in \( h \) in the example. As expected, an increase in the marginal cost of fighting or an increase in the public responsiveness \( \theta \) increases the probability of a successful campaign.

The activist’s expected utility \( U_A \) is
\[
U_A = p[q^*(v(x_D) - c(r)) + (1 - q^*)(v(x_0) - g(h))] + (1 - p)(\pi(x_0) - g(h))
= pq^*(v(x_D) - c(r)) + (1 - pq^*)(v(x_0) - g(h)). \tag{29}
\]
When (24) is binding, the campaign satisfies first-order conditions corresponding to (3) and (4):
\[
pq^*(v'(x_D^*) + c'(\pi(x_0) - \pi(x_D^*) - h^*)\pi'(x_D^*)) = 0 \tag{30}
\]
\[
pq^*c'(\pi(x_0) - \pi(x_D^*) - h^*) - (1 - pq^*)g'(h^*)
+ \frac{dq^*}{dh} p[v(x_D^*) - c(\pi(x_0) - \pi(x_D^*) - h^*) - v(x_0) + g(h^*)]\]
\[
= 0. \tag{31}
\]
If the probability of success \( q^* \) were exogenous, (30) and (31) would be identical to (3) and (4) with \( pq^* \) replacing \( p \). Consequently, \( q^* < 1 \) implies that the demand and the harm are lower than in (3) and (4), so a positive probability of campaign failure results in a less aggressive campaign.

When the probability \( q^* \) is endogenous, it is strictly increasing in \( h \) if \( k(\cdot) \) is strictly convex and constant if \( k(\cdot) \) is linear. To show this, the first-order condition in (26) can be rewritten as
\[
q^* = \theta^{\frac{1}{2}}(k'(f^*))^{\frac{1}{2}}.
\]
Differentiating yields
\[
\frac{dq^*}{dh} = \frac{\theta f^*}{2(k'(f^*)) - \frac{1}{2} k''(f^*)} \frac{df^*}{dh} \geq 0
\]  
(32)
and for \(k(\cdot)\) linear, \(q^*\) is constant in \(h\). The result in (32) can be used to characterize the elasticity \(\epsilon_f\) of the response function \(f^*\). Differentiating \(q^* = \frac{\theta h}{\theta h + f^*}\) yields
\[
\frac{dq^*}{dh} = \frac{\theta f^*}{(\theta h + f^*)^2}(1 - \epsilon_f^*),
\]  
(33)
where \(\epsilon_f^* \equiv \frac{h \cdot df^*}{dh}\). From (32), \(\epsilon_f^* < 1\) if \(k(\cdot)\) is strictly convex, and if \(k(\cdot)\) is linear as in the example, \(\epsilon_f^* = 1\). Consequently, the target’s response is inelastic when it contests the campaign.

The term in brackets in (31) is positive if the activist conducts a campaign. Since \(q^*\) is nondecreasing in \(h\), the term on the second line of (31) is nonnegative. This implies that at the optimal campaign
\[
pq^* c'(\pi(x_0) - \pi(x_D^*) - h^*) \leq (1 - pq^*)g'(h^*).
\]
The marginal expected cost of harm is at least as great as the marginal expected cost of the reward, and since \(q(\cdot)\) is strictly convex, the harm \(h^*\) is (weakly) higher when \(q\) is endogenous than it is for \(q\) exogenous at \(q = q^*\). From (30) then \(x^*(x_D)\) is higher, so the campaign is (weakly) more aggressive. The prospect of losing a fight thus makes the campaign more aggressive than if \(q = q^*\) were exogenous. For the example with \(k(f)\) linear, \(q^*\) is constant in \(h\), and the equilibrium is the same as that for an exogenous probability \(q = q^*\) of success. Nevertheless, if the target can fight and possibly win, the target’s utility in (25) is greater than if it cannot fight, and the activist from (29) is worse off.

6. Summary of Results

This section summarizes the principal results from the preceding sections.

1. An activist prefers an issue with high social value and a target with bad current practices that is responsive to a campaign and for which the cost of a campaign is low.

2. An activist’s choice of a campaign \((x_D^*, r^*, h^*)\) depends on the issue \((\gamma)\), the cost \((c(\cdot)\) and \(g(\cdot)\)) of the campaign, and the target, its strategy, and the cost \((\pi(x_D^*) - \pi(x_0))\) of changing its practices. The campaign is more aggressive the weaker (more responsive) the target. For the example, the activist’s demand is more aggressive the more important is the issue, the more responsive is the target, and the lower the marginal costs of conducting the campaign.
3. Campaigns are costly, and an activist will launch a campaign only if the responsiveness $p$ of the target is sufficiently high ($p \geq p^*$). The threshold of responsiveness by the target for launching a campaign is higher the better the current practices $x_o$.

4. An activist prefers harm to reward because harm decreases investment in the targeted activity, whereas rewards alone can increase investment.

5. Activism reduces the investment in the targeted activity, so if selection into an industry is determined by matching quality to opportunity, activism results in lower quality firms in the targeted industry.

6. An activist has an incentive to develop a reputation for following through on its threat of harm and for not exploiting targets that accept its demands.

7. A potential target may be able to forestall a campaign through self-regulation by changing its practices proactively and will do so only if the activist can commit not to subsequently launch a campaign or the proactive change shifts the activist to an alternative target.

8. A potential target may develop a reputation for toughness to forestall a campaign, and the incentive to do so is strengthened by a moral hazard problem associated with revelation of its type. Conversely, a potential target that reveals itself as responsive or soft will be a more attractive target and campaigns will be more aggressive in their demands and threats. Potential targets thus have an incentive to develop a reputation for being hard by aggressively opposing threats from both public and private politics.

9. Activism produces a local public good that faces free-rider problems on the resources and the campaign sides. Activism is thus undersupplied compared to the supply collectively preferred by sympathetic individuals.

10. If a campaign may fail, the activist chooses a less aggressive campaign. If a campaign can be contested, the target’s response depends only on the harm and is inelastic in the harm. At the margin the campaign is more aggressive than with an equivalent exogenous probability of success, but the possibility of a failed campaign reduces the utility of the activist.

7. A Qualitative Analysis of Campaigns

7.1 Target Selection

Targets are selected based on how objectionable $\gamma$ their practices are, how susceptible they are to the tactics available to the activists; e.g., how costly it is to deliver the harm, their reputation
(1 – p) for recalcitrance, how capable they are of combating the activist’s strategy (the cost of fighting), and whether a victory over them will lead others to change their practices. When concerned about practices that are pervasive in an industry, activists frequently begin with a single firm as their initial target. The advantage of targeting one firm is that it reduces participation costs, since if switching costs are low, consumers can easily switch from the target to another firm; i.e., θ is higher. If only one oil company is boycotted, consumers can easily buy their gasoline from a competitor. The threat and actuality of harm thus can be stronger with a single firm as the target. Once the initial target concedes, the next can be targeted. Targeting firms sequentially thus can be advantageous. RAN goes further and challenges its next target in an industry to go beyond the practices adopted by its first target.

If an activist uses a sequential targeting strategy, optimal target selection becomes critical. Targeting is largely driven by strategic calculations, and activists frequently do not target an offending firm directly but instead use a market campaign against companies in its value chain, i.e., its suppliers or customers.

Target selection strategies appear to vary widely. Activists sometimes target “worst offenders.” For example, environmental activists concluded that ExxonMobil was the most obstinate opponent of measures to address global climate change. As a result, European activists led a boycott of Esso products. Hoping that they will be quickly responsive, activists sometimes target firms, such as BP and Starbucks, that have positioned themselves as socially responsible and environmentally friendly. Sometimes activists target the most well-known company or largest company in an industry. In the campaign against alleged slave labor in overseas apparel and footwear plants, activists targeted Nike. Activists may also target the most combative company in an industry, which in the alleged slave labor campaign was also Nike.

Attractive targets for RAN have a well-known brand and a “public face.” RAN chose Citigroup as the first target in its global finance campaign not only because it was the industry leader and the “worst offender” but also because it had a large consumer banking business that could be damaged. Citigroup also had an extensive advertising campaign under the slogan “live richly.” Ilyse Hogue, RAN’s campaign manager for the Global Finance Campaign, said, “Citigroup had poured $100 million into its brand image, most recently on its ‘Live Richly’ marketing campaign, which was predicated on the notion that ‘there is more to life than money.’ We saw a company that was investing a lot in making the public believe that they operated in line with common social values. Part of Citi’s vulnerability was the juxtaposition of what it articulated to the public with what we
saw on the ground from Citi’s finance activities.”

After reaching an agreement with Citigroup, RAN targeted Bank of America and JP Morgan Chase, both of which had mergers pending with regulators.

In its global climate change campaign RAN decided to target a U.S. automaker. For several reasons RAN chose as its target Ford rather than General Motors, which had shown greater opposition to measures to address global climate change: (1) Ford had a primary and prominent brand in the United States, whereas GM sold vehicles under a larger number of domestic brands (Chevrolet, Buick, Oldsmobile, Pontiac, Cadillac, GMC, Hummer, Saturn, and Saab). Thus, Ford’s brand equity was a clearer target than GM’s brands. 2) CEO and Chairman Bill Ford had been a supporter of the environment and was thought to be sympathetic to environmental causes. Ford, for example, had pledged to increase the fuel economy for its SUVs by 25 percent by 2005. A campaign would provide Bill Ford with an opportunity to go further in embracing higher fuel economy. 3) Ford had broken its promise by announcing that it would not meet its fuel economy goal for SUVs because of surging demand for large SUVs. 4) Ford had been targeted by other environmental activist groups, including the Bluewater Network, Global Exchange, and the Sierra Club, and RAN’s campaign would add to the pressure. Multiple activist groups with the same target increased the pressure. 5) Ford had the lowest fleet fuel economy of the U.S. automakers. Ford, however, was in a somewhat weaker financial position than GM, so it could be harder to raise the capital to achieve a major technological change in its fleet.

Activists also choose individuals as targets. NOW targeted Domino’s Pizza because its founder, principal shareholder, and CEO had personally contributed to Catholic pro-life organizations. RAN targeted Citigroup CEO Sandy Weill by putting his picture on “Wanted” posters and distributing them to stores, including some in his home town. School children sent cards to Weill urging him to help the environment.30 SHAC picketed the homes of Chiron executives, including sending a hearse to the house of a Chiron executive to pick up her very-alive body.31 Chiron was targeted because it used Huntingdon Life Sciences for animal testing.

Activists may target worst offenders because that may lead more consumers to participate. Or, companies that position themselves as socially responsible can make good targets for some issues because they may be the most responsive. That is, they have revealed themselves as soft

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29 Baron and Yurday (2004a).
30 Spar and La Mure (2003) argue that targets’ responses to campaigns depend on the “personal beliefs and preferences of top management.”
31 Environmental extremists also bombed Chiron’s facilities. In May 2004 the FBI arrested seven people for violence against Huntingdon and Chiron.
and responsive. Starbucks agreement to sell Fair Trade coffee may be an example.\textsuperscript{32}

The firm’s market position and the structure of the industry may be critically important to predicting activists’ strategies. For example, campaign success depends on the extent of the harm that can be done to a target’s brand or reputation. In addition, boycott success depends on the availability of close substitutes for the target’s products. This makes oil companies more attractive targets than pharmaceutical companies. The costs of giving in to activist demands are also important. These costs may be lower for high margin companies that compete on non-price dimensions such as brand or quality, especially when a company’s branding strategy already contains a social responsibility component as in the case of Starbucks. Finally, if activists target members of the value chain such as retailers they also need to understand the company’s cost of altering its distribution or supply change and the consequences for its competitive position. RAN has learned that firms are reluctant to criticize their suppliers or customers.

Targets are more attractive the more vulnerable they are to harm to their brand equity, public face, and reputation. RAN targeted Home Depot and Lowe’s in it old growth campaign because they had brand equity. Similarly, Global Exchange targeted Starbucks because its brand is on every store and it had promoted an image of social responsibility.

Exogenous events can also affect strategies and outcomes. Two years after it launched its Citigroup campaign, RAN was aided by events that made Citigroup more vulnerable. In July 2002 Citigroup’s involvement in the Enron scandal became public. The next day questions were raised about star analyst Jack Grubman’s favorable reports on AT&T. Citigroup was accused of favoring AT&T in an attempt to obtain its underwriting business. Citigroup’s market value fell by over 25% on those two days, as the company reeled from the adverse publicity. RAN then intensified its campaign against what it viewed as a more vulnerable target. In the context of the model the probability $p$ of responsiveness increased as a result of events exogenous to the campaign.

\section*{7.2 Private and Public Politics}

The activist’s mix between private and public politics strategies depends on whether those strategies are strategic complements or substitutes. Two strategies are strategic complements if one (either public or private) lowers the cost or increases the likelihood of success of the other (public or private) strategy. As an example, activists frequently file lawsuits against private parties or against government officials to force them to enforce the law as the activists see it. Lawsuits may be filed because they can be won, but even if a lawsuit has little chance of succeeding, it may

\textsuperscript{32} Argenti (2004).
attract the media and provide free publicity for the activist’s cause. A lawsuit can also strengthen a bargaining position by threatening to impose litigation costs on the defendant. A public politics strategy of filing a lawsuit thus can be a complement to a private politics strategy of attracting media coverage to strengthen a campaign.

Private and public politics strategies are also strategic complements when private politics can be used to mobilize citizens both to take action against a target and engage in grassroots public politics. For example, the issue of obesity is currently the focus of both private and public politics, and there may be synergies between the two. Activists have targeted fast food companies such as McDonald’s over their menu items, trial lawyers have filed lawsuits on behalf of obese clients, and legislation has been introduced to require information provision about menu items. Similarly, the Bluewater Networks’ public and private politics strategies for influencing fuel economy, as considered below, are strategic complements. The attention attracted by the activists’ campaigns strengthens the legislative effort and perhaps its position in the courts, and its public politics actions have attracted public attention that strengthens its private politics strategy.

Private and public politics strategies are strategic substitutes if one raises the cost or reduces the effectiveness of the other. In its campaigns RAN engages in non-violent civil disobedience, which includes breaking laws. This private politics style may make RAN less effective in public politics. Similarly, RAN views itself as a radical organization because of the demands it makes on its targets as well as its civil disobedience. This makes it more difficult, if not impossible, to form coalitions with more moderate activist groups, precludes it from raising funds from some donors and foundations, and may make negotiations with targets more difficult. These actions are then strategic substitutes with radicalism and civil disobedience. Similarly, a strategy involving litigation can be a strategic substitute to a strategy of engaging in a public debate with a target on an issue, since targets typically refuse to speak in public on an issue when a lawsuit on that issue is pending. In response to the Karsky lawsuit Nike stopped issuing its corporate social responsibility report and limited its public statements in California.

To address the issue of fuel economy the Bluewater Network launched both public politics and private politics campaigns. In private politics Bluewater targeted the Ford Motor Company using advertisements, demonstrations, public criticism, and a consumer boycott. In commenting on Ford’s planned introduction of its hybrid Escape SUV, executive director Russell Long said, “It’s ridiculous for Bill Ford to portray his company as an environmental leader because of the hybrid Escape. Ford’s new vehicles create more global warming pollution than any other major
auto company.” Its public politics campaign focused on legislation in California that would force automakers to improve their fuel economy. Under federal law California is able to set more stringent pollution standards than those governing other states. The Bluewater Network drafted legislation calling for sharp reductions in pollutants, including carbon dioxide. The only way to appreciably reduce carbon dioxide emissions is to reduce the consumption of fossil fuels, and a major reduction can only be accomplished by reducing the fuel burned in automobiles and trucks. The legislation was enacted and signed into law by the governor.

The innovation in the California law was to classify carbon dioxide as a pollutant, allowing the state to claim regulatory jurisdiction. Carbon dioxide, however, has never been classified as a pollutant under federal law, and the EPA had explicitly rejected listing it as a pollutant. The auto industry saw the California law as back door regulation of fuel economy, which only the federal government has the authority to do. Earlier in a court case on California’s zero-emissions vehicles requirement, the Department of Justice had filed a brief stating, “The Energy Policy and Conservation Act provides that when a federal fuel economy standard is in effect, a state or a political subdivision of a state may not act nor adopt or enforce a law or regulation related to fuel economy standards.” Elisa Lynch of the Bluewater Network said, “We wrote a bill that will stand up well in court. This is not related to fuel economy.” The Alliance of Automobile Manufacturers (AAM) filed a lawsuit challenging the California law, and both Honda and Nissan, which are not AAM members, joined the lawsuit.

7.3 Resolving Campaigns

Campaigns can be resolved by the target conceding to the demand, the activist abandoning the campaign, or bargaining between the activist and the target to resolve the issue. Agreements resolving a campaign are seldom enforceable by a third party, such as a court. RAN has as an objective reaching an enforceable agreement, but no target has been willing to accept such an agreement. Failing to get an enforceable agreement, RAN would like to obtain a commitment by officers of the target. In resolving the campaign with Citigroup, RAN hoped, but failed, to have the agreement approved by Citigroup’s board of directors.

Agreements to resolve a campaign must be self-enforcing so that the target does not shirk on its promises and the activist does not make further demands. The principal private enforcement measure of the activist is to resume the campaign. RAN’s only instrument for enforcing an agree-

33 *Los Angeles Times*, no date.
35 *Automotive News*, July 8, 2002.
ment is to resume campaign activity, and to date it has not had to do so. The target’s enforcement measure is to resume the practices it changed. Enforcement requires that the parties observe each other’s behavior.

To know whether a target is complying with an agreement, an activist must obtain information on the target’s practices and actions. RAN uses a variety of monitoring mechanisms. If the agreement pertains to activities in a developing country, it may rely on reports from local activist groups. In the Home Depot case RAN used local volunteers. With some training it is possible to distinguish lumber from old growth trees from lumber from younger trees. Volunteers walk through Home Depot aisles visually checking the lumber and reporting to RAN. In its Global Finance campaign Citigroup agreed to publish an annual corporate social responsibility report and to report quarterly to RAN confidential data on its implementation of the agreement. Citigroup and RAN also agreed to a “no surprises” arrangement under which RAN would not criticize Citigroup without telling it in advance and Citigroup would not violate its environmental policies without telling RAN in advance. This was intended to avoid misunderstandings that could undermine the agreement that ended the campaign.

7.4 Private Governance

To resolve a campaign, activists and their targets may create private governance arrangements to which they agree to be subjected. These private institutions may be created to generate information on compliance, address free-rider or other collective action problems, or resolve private politics conflicts. Such institutions govern Internet privacy, working standards in overseas apparel and footwear factories, conflict diamonds, Pacific tuna fishing, and a variety of other practices. These institutions are intended to govern multiple parties, often when monitoring is needed to assess compliance with, or cheating on, an agreement. The following example illustrates one of these institutions.

In the early 1990s U.S. labor unions and activist groups launched a private politics campaign targeting Nike with the objective of improving the working conditions in overseas factories supplying apparel and footwear to the U.S. market. Factory owners and host governments had recognized an opportunity to attract contractors though low costs, and low costs in some cases meant violating wage, labor, and safety laws. Apparel and footwear companies saw lower cost supplies as a source of competitive advantage and put pressure on existing suppliers for lower costs. Low wage countries recognized their advantage and worked to attract companies. Activists viewed this as a race to the bottom, and U.S. unions saw it eroding what little remaining advantage they had
in domestic manufacturing. Activists led a campaign targeting Nike, using allegations of “slave labor.”

After nearly 8 years of protests and small steps by the apparel and footwear industries, the Clinton administration convened the interested parties, but they failed to reach an agreement because of an impasse centering on the unions’ demands for a living wage. A subset of the firms and activist groups, not including the unions, established a private institution, or private government, the Fair Labor Association (FLA), to establish standards, monitor compliance, and report to the public. The participants are 12 companies (six board seats), 31 NGOs (six seats), and 175 college and university affiliates (three seats), with the chair holding one seat. Some 982 university licensees had applied to be FLA affiliates. The FLA participants agreed on a code governing workplace practices (e.g., 60 hour week; minimum wage/market wage (no living wage); child workers at least 15 years of age unless host government allowed 14; the right to form independent unions; etc.). The FLA also established legislative procedures requiring a supermajority to change the code and to select the chair. Independent monitoring and inspection of factories was required with companies selecting a monitor from an FLA accredited list. A plan was required to correct any deficiencies identified, and results of inspections were reported publicly if approved by a majority of the board. The FLA also established a judiciary, the Third Party Complaint Procedure, that accepted complaints from any person, similar to the citizen petition procedures of some government agencies. The FLA then attempted to resolve the complaint.

8. Target Strategies

8.1 Categories of Strategies

The counterparts to activist strategies are target strategies. Strategies can be proactive or ex post. Proactive strategies are intended to reduce the likelihood of being a target. Ex post strategies are intended to deal with a campaign once it has begun.

Potential targets also choose private and public politics strategies. To preempt private and public politics, they may position themselves to avoid selection as a target, make ex ante changes in their policies, or develop a reputation. A firm can choose its economic activities, such as in which countries to source products, and the posture to take with the public. It could make commitments backed by reputation, such as a commitment to maintain the same environmental standards in all countries. Preemption may also include steps such as going beyond environmental standards, offering healthy lifestyle meals as in the case of McDonald’s, and improving workplace conditions.
beyond that required by law. If, however, activists cannot commit not to launch a campaign, a preemption campaign will be unsuccessful unless it shifts the activist to another target, as indicated in Section 3.1. Once a campaign has been launched, targets may resist, fight, or negotiate.

8.2 Assessing A Firm’s Position

A basic framework for characterizing the nonmarket environment is provided in Baron (2006, Chs. 1, 2), and this section specializes that framework to assess potential activist challenges to a firm’s practices. The objective is to assess the exposure and vulnerability of a firm to strategic activism.

The first step is to identify the set of nonmarket issues relevant to the firm, highlighting those on the agendas of activist organizations. Such issues include the environment, health and safety, human and animal rights, social justice, and responsibilities to stakeholders. Some firms, such as consultancies, may have few relevant issues, whereas others, such as oil and pharmaceutical firms, may be involved in many issues.

The second step is to assess for each nonmarket issue what is demanded of the firm by the public. This includes assessing the demands on customers and suppliers, since activists could attempt to reach them through a market campaign. This assessment is to be combined with an assessment of what is required to be successful in the markets in which the firm operates. Identifying and evaluating the demands of the public does not mean simply listing the demands of the activist community, but instead requires assessing the actual and potential public support for those demands. Many activist demands have little actual support beyond “sounds-good” support. Identifying and evaluating demands is difficult in isolation, and some firms regularly meet with activists and NGOs and have formed advisory groups to obtain information. BP regularly interacts with a set of NGOs.

In addition to assessing actual and potential demands from the public, a potential target must assess its exposure and vulnerability to an activist campaign. Exposure involves evaluating the potential target’s own value and rent chains as well as the value and rent chains of any other firms that include the potential target. This assessment includes not only its vulnerability to a corporate campaign but also the vulnerability of its value chain to a market campaign. Moreover, a firm may be in the value chain of other firms and, as in the case of Home Depot and Lowe’s, could become a target because of issues involving those firms. Assessing vulnerability also involves considering whether the activist’s cause involves issues that could attract media coverage or the

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36 Baron (2006, Ch. 7, 1995) identifies the rent chain and its role in nonmarket strategy.
attention of government officeholders. The objective is to identify \( v(x_D) - v(x_0) \), or in the notation of the example \( \gamma \). This requires assessing the firm’s current practices \( x_0 \), and the costs \( \pi(x) - \pi(x_0) \) of changing those practices from \( x_0 \) to \( x \).

8.3 Forestalling Activist Challenges

8.3.1 Proactive Strategies

As considered in Section 3, a potential target may be able to avoid being chosen as a target by changing its practices. This can cause the activist to choose another cause or another target. A firm, however, that demonstrates that it is responsive to activist pressure may reveal itself as responsive and become a better target for future campaigns, as Starbucks has learned. Moreover, a target that reveals that it is soft will, if chosen as a target in the future, face a more aggressive campaign with stronger demands and threats. Proactive strategies thus have both benefits and costs for the present and the future.

The desirability of concessions depends on how credibly the activist can commit not to demand more from the firm. Assessing the extent to which the activists most likely to target the firm can commit not to make further demands is essential, which requires assessing the past record of the activists and the likely public support for their causes.

It is also important to recognize that making concessions to avoid a campaign by one activist may not satisfy a more aggressive or radical activist. A proactive strategy intended to shift an activist’s focus to another potential target may instead shift the firm from being targeted by a moderate activist to a more radical activist.

Proactive strategies should not only focus on possible changes in the firm’s practices, but also preparing a firm’s value chain. Solidifying a potential target’s value chain can be important, since those firms could become a target of a market campaign.

8.3.2 Constructive Collaborations

Potential and actual targets may choose to work proactively with NGOs to develop policies to preempt or weaken activist campaigns. This may involve developing proactive measures as considered in Section 3.1. Activist organizations, however, may be viewed as arrayed on a continuum, which in the simplest case can be unidimensional. Developing a proactive policy with a moderate activist organization may not deter a radical activist. Prior to RAN’s global finance campaign, the project finance banks had been under pressure from the International Finance Corporation (IFC), the private finance arm of the World Bank, to develop environmental standards for project
finance. While being targeted by RAN, Citigroup and three other banks worked with the IFC, Conservation International, and the World Wildlife Fund to develop environmental standards for project finance. The result was the Equator Principles, which among other requirements required an Environmental Assessment for any projects of over $50 million in endangered ecosystems.\textsuperscript{37} The Equator Principles, however, were quickly criticized by activists as not going far enough and having loopholes. Ilyse Hogue, the global finance director of RAN said, “We’re glad to see banks responding to pressure that’s been brought on them. But I think that you’ll find broad consensus around the NGO (nongovernmental organization) community that the Equator Principles don’t go far enough. The loopholes are wide enough for bulldozers to move through.”\textsuperscript{38} RAN continued its campaign targeting Citigroup for another year until an agreement was reached that went significantly beyond the Equator Principles.

If there is some identified risk of being targeted, the firm should consider the possibility of forestalling a campaign. As in Section 3.1 a potential target could exercise self-regulation by making concessions or developing a reputation for toughness. ExxonMobil developed a reputation for toughness, whereas BP has been a leader in self-regulation. McDonalds attempted to deal with the health claims about fast food and obesity by starting the Healthy Lifestyles (goactive.com) program.\textsuperscript{39}

When adopting a self-regulation strategy, firms often seek advice and expertise. Firms prefer to work with NGOs such as Environmental Defense and Conservation International that are science-based or have special expertise, do not engage in civil disobedience or violence, and have a reputation for working in a trustworthy manner with firms. Conservation International has worked with the timber industry, Office Depot, and Starbucks among others, and Environmental Defense has worked with BP and McDonald’s among others. Such efforts are more likely to be successful if they focus on real problems and feasible solutions. Developing programs with responsible NGOs may not be sufficient to forestall more radical activists, however. Despite the Equator Principles RAN continued its campaign against Citigroup and then targeted Bank of America and JP Morgan Chase.\textsuperscript{40}

Some firms have established new organizations or formed alliances in an attempt to fore-

\textsuperscript{37} As of March 2005, 28 banks had subscribed to the Equator Principles.
\textsuperscript{39} Argenti (2004) discusses Starbucks’ decision to sell Fair Trade coffee under the pressure of a campaign by Global Exchange and subsequently to collaborate with activists.
\textsuperscript{40} Bank of America quickly agreed to environmental lending standards that went beyond those agreed to by Citigroup. The campaign against JP Morgan Chase is currently underway.
stall activist challenges. The Equator Principles is one example. Staples joined with NatureServe, Conservation International, and the Nature Conservancy to form the Forest & Biodiversity Conservation Alliance to address forest and biodiversity issue. Staples referred to them as “science-driven conservation organizations.” Such an approach, however, may not stop activist organizations such as RAN. Even if potential targets are unable to prevent a campaign, collaboration could improve the target’s reputation and image with the public and investors.

**8.3.3 Positioning Strategies**

Potential targets may position themselves to avoid being selected as a target. Potential targets may do so by selecting the economic activities, such as in which countries to source products, and the posture to take with the public. BP has positioned itself as a green oil company. To do so, BP rebranded itself under the banner of *Beyond Petroleum*, but its message was confusing. Activists strategically interpreted the banner as proclaiming that BP planned to reduce its involvement in the oil industry. BP was forced to explain in public what its banner meant and did not mean. One purpose of positioning strategies is to preempt private and public politics.

Starbucks Coffee has cultivated a particular market segment and established a nonmarket image of social awareness, concern, and action. It stated that “contributing positively to our communities and environment” is “a guiding principle of the company’s mission.” This positioning was appealing to a clientele of socially aware, higher-income consumers, and contributed to its cachet. Starbucks backed this image with action. For example, in conjunction with Conservation International it financed Mexican farmers to grow coffee beans in the forest shade so that land would not be cleared for agricultural purposes.

The timber industry has attempted to position itself as a responsible steward of forests. Forest products are certified by independent third parties to have come from forests managed with at least certain minimum social, environmental, and conservation practices. Two principal certification systems have been established. The timber industry established the Sustainable Forest Initiative (SFI) to implement forest management standards that were more practical and less costly than those of the activist-backed Forest Stewardship Council (FSC). The FSC was supported by RAN, Greenpeace, the Sierra Club, and other NGOs. Advisors to the SFI included Conservation International and The Nature Conservancy. The activist groups backing the FSC criticized the SFI as letting the fox guard the henhouse. In some cases, a firm may change the boundaries of the organization, as considered in Section 8.6. Boise Cascade eventually agreed to RAN’s demands, but doing so was not costly to Boise because it was in the process of selling its entire timber
operations to a private equity group and becoming a consumer products company.

Positioning by a firm as environmentally friendly or socially responsible can create a moral hazard problem; i.e., there are perils of positioning. Such positioning could attract activists or additional demands. “The more accountable you are, the more vulnerable to being attacked,” says Richard Sandbrook, a moderate British green who conducted a review of the mining industry’s environmental record that was boycotted by most green groups who lobby against mining. ‘Attacking those who take the lead strengthens the hand of doubters in companies,’ argues Tom Burke, an ex-head of Friends of the Earth who advises Rio Tinto, a mining firm, on environmental policy.”

“Moreover, when companies make concessions, NGOs often come back for more. BP, which has worked hard to build a regular dialogue with a dozen or so large NGOs, is now arguing about the construction of a pipeline between Azerbaijan and Turkey that environmentalists and human-rights groups think will breed conflict, corruption and other horrors. Andre Madec, who managed Exxon’s relations with local NGOs in Chad, designed an initiative on transparency with the government to discourage the corrupt use of oil revenues. He was aghast when big global NGOs publicly rubbished his scheme rather than trying to help improve it, thus ensuring that other African governments would not contemplate one.”

Starbucks’s experience is an example.

Starbucks’ positioning created expectations about its business practices, and activists demanded more of the company than it was willing to do. In conjunction with demonstrations at the Republican national convention in 2004 several hundred demonstrators protested Starbucks’ business practices including its opposition to unionization and also used Starbucks stores as a site for anti-globalization protests.

In addition, its positioning attracted activists who sought to promote causes with no connection to Starbucks. Local activist groups in Seattle targeted Starbucks to attract attention and media coverage to their causes with the hope that the company would take up their cause. Opponents of recombinant bovine growth hormone picketed Starbucks to pressure it to stop using milk produced from cows treated with the hormone. Starbucks agreed to stop using such milk, but the protests resumed the following year to try to force Starbucks to be more aggressive in promoting the cause.

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41 The Economist, August 9, 2003.
42 The Economist, August 9, 2003.
43 Baron (2006, Ch. 2).
44 Baron (2006, Ch. 2).
In response to a boycott intended to force Starbucks to demand reform of the Seattle police department, a Starbucks spokesperson commented, “We are not an activist or a political organization. When people say that we should do more than take money from the community, we do give back. What we are willing to do is to help invigorate the community by providing jobs, supporting educational and philanthropic programs for youth, and it hurts us when a small group of people decide that we need to be doing something else, which happens to be on their agenda.”\(^{45}\)

Another strategy is reputation management. Reputation management has both external and internal components. The external component involves not only public education but also direct communication with specific individuals and groups in the nonmarket environment. This may involve communicating with opinion leaders, regulators, and legislators. This activity is typically behind the scenes. The internal component is to address the morale and attitudes of potential employee and other stakeholders. The Home Depot intercom example below illustrates the risk from employees sympathetic with the activist’s cause. Weyerhaeuser’s communication on the RAN campaign is an effective step.

8.4 Campaign Strategies

Many targets choose to contest an activist campaign. There appears to be little systematic evidence on the choices of strategies by targets. One reason for this is that many firms, and particularly actual targets, are reluctant to talk about their strategies.

One guiding analogy might appear to be the strategies firms use to oppose unionization of their workers. Firms, such as Wal-Mart, have become quite effective in opposing unionization, and an industry has developed to support firms in contesting a unionization campaign.\(^{46}\) Such an industry has not developed to address activist campaigns, and the strategies used in opposing unions are less likely to be effective against activists. One possible explanation for the absence of an industry is that unions are costly to firms, whereas activist demands might not be as costly. There is little evidence, however, about the cost to firms of reaching an accord with an activist organization. Both unions and activists attempt to build public support for their campaigns, using, for example, media strategies. In contesting a union’s campaign, everyone, including the public, knows that the union is largely self-interested and that there are few if any public benefits from the union campaign. In contrast, activists appear to be less self-interested and more altruistic and more credibly can claim that their actions benefit the public.

\(^{45}\) Baron (2006, Ch. 2).

\(^{46}\) The percentage of private sector employees belonging to a union has decreased dramatically in the past 40 year, reaching 7.9% in 2003.
Another difference is that unions, because they have a long-term relationship with a firm, are likely to be better informed about the firm than are activists. Activists campaigning for forest stewardship as certified by the FSC know little about the sourcing of lumber by Home Depot and Lowe’s. Moreover, the activists may be unrealistic about the availability of FSC timber or about consumer demand for Fair Trade certified products. Argenti (2004) describes Starbucks’ reluctance to use Fair Trade coffee because of its limited supply and uncertain quality.

One strategy is to negotiate with the activist to reach an acceptable outcome less extreme than the activist’s demand. In its campaign against Citigroup, RAN was willing to accept less than its demands but more than contained in the Equator Principles. When Global Exchange targeted Starbucks demanding that the company sell Fair Trade coffee, they reached an agreement in which Starbucks would sell the coffee in its company-owned stores for one year and then evaluate whether to continue, expand, or discontinue its sale of Fair Trade coffee.\footnote{Argenti (2004, p. 104).}

Another strategy for addressing a campaign is simply to stonewall with the hope that the activist will turn to other issues or targets. A variant of this strategy is simply to delay. For two years Citigroup conducted discussions with RAN without making concessions or agreeing to negotiate. As indicated in Section 5, stonewalling can reveal information about effectively the activist can deliver harm.

Another strategy is to attempt to make the campaign an industry matter rather than one involving a single target firm. Firms in an industry know that they will be subsequently targeted if the first target concedes to the activist’s demands. Most firms in an industry, however, seem not to come to the assistance of a targeted firm, perhaps because they want to avoid the heat of a campaign as long as they can. It is also possible that they benefit from a weakened target or a target that concedes to costly demands.

Often the demands made in a campaign are unreasonable or too costly to meet, and firms resist or fight back. Some firms decide that they will agree to disagree with the activist and bear whatever heat the activist can muster. A target may also fight back. One measure is to file a lawsuit against the activist organization. BP, for example, filed a lawsuit against Greenpeace as a result of its boarding a drilling rig under tow to an exploration location. Greenpeace backed down, in part because the lawsuit was also filed against Greenpeace leaders as individuals. Similarly, Ford filed a lawsuit against Global Exchange for its campaign tactics. A lawsuit, however, carries the risk of creating a second media story.
Counterattacking can be hazardous for two reasons. First, it could strengthen the resolve of the activist. Second, it could reflect badly on the target, particularly if the media takes an interest in the campaign. Boise Cascade wrote to all of RAN’s major contributors and also filed a complaint with IRS to withdraw RANs 501(c)(3) status. A website RANamuck.com also appeared at that time. None of these actions improved Boise Cascade’s position. A target attacking an activist group in public can be portrayed as the big company picking on the little guy, and public sentiment can flow to the underdog.

Many firms when opposing an activist campaign choose not to attack the activist but instead to provide information to the media and the public about the issues in question in the hope of weakening public support for the campaign. Information and facts do not resolve an activist contest, however, but they can help strengthen a target’s position and influence the media’s coverage of the campaign. Targets, however, may overestimate the effect of public education on the resolution of the campaign or an issue.

Similarly, lawsuits against an activist pose risks. They may attract media attention, which can keep the issue before the public. Some lawsuits, such as that filed by BP against Greenpeace, can be effective by adversely affecting the activist’s position, in addition to imposing a financial burden on the activist.

A target may invest in reputation management by providing positive information about its record and making sure that employees are on board. Some employees may agree with the activist and provide information to the activist. A Home Depot employee gave RAN the intercom code used in all its stores. Michael Brune and others went into stores, entered the intercom code, and recorded messages such as “Lumber from old growth forests is on sale on Aisle 3.” “Mahogany from the habitat of the orangutan and Sumatran tiger on sale on Aisle 4.” The intercom system provided an opportunity to review a message before it is broadcast. Brune and his shopping cart thus could be in another aisle recording another message before the first message was broadcast. This made it difficult for Home Depot personnel to find him. When they located him and escorted him from the store, they said they would call the police and he said please do. When the police arrived and the store manager told them what had happened, they laughed.

Weyerhaeuser was targeted by RAN after Boise Cascade had agreed to stop harvesting in old growth forests. After an initial demonstration in Seattle and speaking at Weyerhaeuser’s annual meeting, RAN presented a set of demands to the company. RAN then paused its campaign as it prepared for a series of actions against the company in the second half of 2004. During the
pause Weyerhaeuser published in its employee newsletter a lengthy interview with the executive responsible for sustainable forestry and for meeting with RAN. In the interview she explained the company’s position and also warned of the actions that might be taken against the company. The objective was to protect employee morale by explaining the extensive steps the company already was taking to protect forests and manage them in an environmentally sound manner.

A final strategy is to develop a thick skin and prepare to take the heat of the campaign.

### 8.5 Resolving Campaigns

A responsive target typically seeks to resolve an activist campaign through bargaining. In a model more general than the one presented here, the threat points can be identified and bargaining theory used to predict outcomes. Bargaining with activists, however, can be hampered by language and hostility barriers, since a firm may have difficulty understanding the activist and its demands. To help it understand RAN and facilitate its discussions, Citigroup hired a former Greenpeace member who had subsequently earned an MBA. Similarly, Weyerhaeuser hired a facilitator to help in its discussions with RAN. A target may be able to go further and develop a degree of trust with the activist, but the target should be realistic about the difficulty in doing so.

Alternative resolutions of a campaign can be evaluated as with any business decision, but a few caveats are in order. One is that an agreement will extend over time and must be monitored, since trust between the target and the activist may not be present, one component of an agreement thus should be a monitoring mechanism. RAN and Citigroup developed a monitoring mechanism and subsequently met to work out additional details of the mechanism. One component of a mechanism is information exchange to avoid misunderstandings that could threaten the agreement. The second is assessing whether more will be asked of the target by the activist. That is, once the target has revealed itself as responsive, the activist has an incentive to demand more, as considered in Section 3. The third is to assess whether competitors will also be targeted and whether they will do more or less than the current target may agree to do. A target contemplating an agreement to resolve a campaign may assist in bring competitors or others along. After reaching the agreement with RAN, Citigroup CEO Chuck Prince offered to call Bank of America and JP Morgan Chase to encourage them to reach an agreement with RAN. During the old growth campaign the CEO of Lowe’s called the CEO of Boise Cascade and invited him to dinner with the executive director of RAN.

### 8.6 Changing the Boundaries of the Organization

One strategy for dealing with a campaign is to change the boundaries of the organization.
Boise Cascade was the first timber company targeted in RAN’s old growth campaign, and for the first two years it fought back. It then changed its strategy and reached an agreement with RAN, which RAN hailed as a victory. The inside story is not known, but Boise Cascade decided to exit the timber industry by selling all its timber assets to a private equity firm. Boise Cascade then renamed itself OfficeMax, which it had purchased two years earlier. The sale was consummated in 2004, and RAN anticipated that the private equity firm would honor the agreement.

A number of cosmetics and pharmaceutical companies stopped animal testing of their products because of protests and violence by PETA and other animal rights organizations. Some of those companies have outsourced their testing to independent companies, such as Huntingdon Life Sciences, which has become the subject of an intense and at times violent campaign by activists opposed to animal testing. As mentioned above, SHAC has targeted pharmaceutical companies, including Chiron, that use Huntingdon.

8.7 Reducing the Supply of Activism

Strategies are also directed at activism itself, or at least its radical segment, as well as at specific campaigns. The objective is to raise the cost of activism by increasing the costs of campaigns and decreasing the public support for activism. Private politics strategies can be used, but public politics is also an arena in which many of the strategies for reducing the supply of activism are deployed.

Private politics attacks on activists by individual firms or even industries could backfire by creating public sympathy for the causes advanced by activists. Firms often prefer to have associations or sympathetic NGOs mount such attacks. The Center for the Defense of Free Enterprise and the Frontiers of Freedom Institute, for example, portrayed RAN as an anti-capitalist attack group that used intimidation, force, and unlawful actions and should therefore have its tax status revoked. The House Ways and Means Committee decided to hold a hearing on whether organizations that intentionally break laws should have their tax-free status withdrawn. The Committee subpoenaed RAN’s records.

Government officeholders can also use this approach. In a congressional hearing on January 26, 2005, the Bush administration’s Clear Skies environmental initiative was sharply criticized by two organizations, the State and Territorial Air Pollution Program Administrators and the Association of Local Air Pollution Control Officials, representing state and local environmental regulators. Chairman of the Environment and Public Works Committee Senator James Inhofe

48 Baron and Yurday (2004b).
sharply criticized the testimony of the two groups and asked them in a written request to turn over their tax, financial, and membership records to the committee within 10 days. The staff director for the committee explained that the intention was to determine if the groups were speaking for themselves or were subsidized by foundations or environmental groups. Representative Henry Waxman called the request “a blatant attempt at intimidation and bullying.”

The private politics opponents of activism have also sought to shed light on activists and their practices. Taking a page from the activists’ book, opponents have begun to provide information on those who fund groups such as RAN. This strategy centers on public disclosure. The American Enterprise Institute (AEI) held a conference on NGO activism and started a website ngowatch.org to monitor NGO activity. Danielle Pletka, of the AEI, said, “It is in all of our interests to have NGOs, even NGOs we agree with, be accountable and transparent and have a role in international institutions that is clear to everybody. I don’t think there’s any disagreement from the left or the right.”

Activists and NGOs have been criticized for both being “un-elected” and unaccountable. They do not stand for reelection to allow the public to express its evaluation of their performance. They do not have to abide by governance requirements, such as Sarbanes-Oxley, that apply to firms. Some opponents of activism seek to apply Sarbanes-Oxley to NGOs and non-profits. Independently of Sarbanes-Oxley many corporations issue public reports on their social activities, and those reports increasingly discuss shortcomings as well as accomplishments. For example, in 2004 the Gap released its first corporate social responsibility report, which revealed shortcomings in the practices of some of its overseas suppliers’ facilities. NGOs typically do not report on their shortcomings.


Another possibility is to use existing laws such as slander, antitrust, and the Racketeer Influenced and Corrupt Organizations Act (RICO) against activists. A San Diego businessman filed a lawsuit against three Forest Service employees and a environmental activist under RICO. RICO has been held to be applicable to certain business activities, and if the courts allow it to be applied to activists, business could have another instrument to reduce the supply of activism.

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49 The committee had the right to request the information because the two groups had received grants from the EPA.
9. Activism, Markets, and the Conduct of Firms

Activism targeting firms and markets has increased substantially and has become an important component of the nonmarket environment of many firms and industries. Activists are strategic, typically deploying well-focused strategies centering on a particular issue, target, and practice. Entry into the activism industry is easy and technological change such as the Internet has shifted outward the supply curve of activism. The success of activists depends on the quality of their organization, leaders, and strategy. The market for activism has many niches, so the breadth of activism is considerable. Activist organizations range from those that emphasize working with firms and through markets to achieve their objectives to radical organizations that emphasize civil disobedience, disruption, harm, and in some cases violence. Activists have had many successes both as a direct result of their campaigns and by inducing potential targets to exercise self-regulation and take proactive measures to address the activists’ concerns. Activism thus can be viewed as a specific instrument through which society expresses its preferences over the conduct of both markets and individual firms. In this sense, activism is an instrument of social accountability to those with preferences aligned with those of the activists. Activism, however, can border on intimidation, coercion, and at times extortion.

By funding and supporting activist organizations, the public generates competition in the nonmarket environment. This competition increasingly takes the form of private politics rather than public politics, as activists have concluded that firms are more responsive than governments in addressing certain social issues. Moreover, private politics competition in the nonmarket environment can often move more rapidly than can the processes of government. The distinguishing feature of the private politics strategies of activists is that they typically include the threat, and in many cases, the reality of harm to a firm’s brand equity, reputation, and public image.

The market for activism and the competition it generates in the nonmarket environment are ultimately limited by the extent of participation by the public or at least elements of the public. Participation of two types is required. The first is funding, and the second is participation in the harm or reward. Both are plagued by free-rider problems than limit the supply of activism. With respect to funding an activist campaign represents a local public good for those sympathetic with the activist’s cause, and the free-rider problem is apparent. With respect to participation, harm requires that consumers and the public changes their actions as a result of a campaign, but to the extent that they bear individual costs, many will free-ride. Many others will reveal that they place only a low value on the objectives of the campaign. The ultimate success of the Fair Trade
movement may be revealing.

Activist-driven private politics can result in changes in firm and industry practices. The changes resulting from an activist campaign may be characterized as self-regulation, which can be viewed as an alternative to government regulation. Activist-driven private politics that motivates proactive measures by potential targets is also a form of self-regulation and often is labeled as corporate social performance. Self-regulation must be sustained, and private governance arrangements may be established as a result of the resolution of an activist campaign.

The presence of activism also means that many product and service markets are shaped by private politics as well as public politics. Just as public regulation shapes markets, self-regulation and concessions made as a result of activist campaigns shape markets. Self-regulation and concessions raise costs, and whether the public will reward firms for their self-regulation is unclear. Consumers in particular have little ability to commit to reward firms for their conduct.

Nonmarket strategies to address the challenge of activism include both private and public politics strategies. Targets must deal with the actuality of activist campaigns through private politics. Potential targets may take proactive measures to reduce the activist’s incentive to choose them as targets. Proactive firms, however, face a hold-up problem because proactive measures may reveal that the firm is responsive and soft and hence a good target for additional demands. Revealing the firm’s type can also have an associated negative externality in that other activists may view it as a more attractive target. Firms thus have an incentive to develop a reputation for being hard or recalcitrant. The supply of activism thus includes a moral hazard problem. To the extent that activism imposes costs, firms have an incentive to develop reputations for not being soft, and this may include not adopting a policy of social responsibility.
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