STRATEGIC ACTIVISM AND NONMARKET STRATEGY

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ABSTRACT

Activist NGOs have increasingly foregone public politics and turned to private politics to change the practices of firms and industries. This paper focuses on private politics, activist strategies, and nonmarket strategies of targets. A formal theory of an encounter between an activist organization and a target is presented to examine strategies for lessening the chance of being a target and for addressing an activist challenge once it has occurred. The encounter between the activist and the target is viewed as competition. At the heart of that competition is an activist campaign, which is represented by a demand, a promised reward if the target meets the demand, and a threat of harm if the target rejects the demand. The model incorporates target selection by the activist, proactive measures and reputation building by a potential target to reduce the likelihood of being selected as a target, and fighting a campaign. The supply of activism and the inherent free-rider problems are considered, as are target strategies to reduce that supply.

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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. Public politics strategies focus on advancing the activist's agenda in public institutions such as legislatures, executive agencies, or courts. Many activists have concluded that public politics is too easily blocked and have turned to private politics instead. Private politics refers to actions by private interests such as activists that target private agents, often in the institution of public sentiment.[2] Michael Brune, executive director of the Rainforest Action Network (RAN) commented 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."[3] 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."[4] After it failed to get the Senate to increase fuel economy standards, executive director Carl Pope of the Sierra Club announced, "we're going now to the customers."[5]

[1] We would like to thank for their helpful comments Steve Callander, the participants in the Business and Social Environment Conference at Northwestern University, and seminar participants at New York University and Stanford University.

[2] Baron (2003a) introduces the concept of private politics.

[3] Baron and Yurday (2004a).

[4] *The New York Times*, June 2, 2001.

[5] *The Wall Street Journal*, August 20, 2002.

Although many activist organizations such as the Sierra Club engage in both private and public politics, this paper focuses on private politics, activist strategies, and nonmarket strategies of targets. The paper presents foundations of nonmarket strategy 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 occurred. To develop nonmarket strategy foundations for 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. Such threats require a responsive strategy as well as a proactive strategy by potential targets to reduce the likelihood of being targeted. At the other level a campaign can affect supply in an industry. A successful activist campaign can reduce 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 goal is to affect an entire industry, an activist campaign may be targeted at a specific firm for strategic reasons. First, by targeting one firm 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 anticipating the activist's demands. Activists may also ratchet up their demands, demanding greater concessions from their second target than their first. Industry-wide changes resulting from an activist campaign may be characterized as private regulation, which can be viewed as an alternative to or substitute for government regulation. Proactive measures by potential targets represent self-regulation albeit self-regulation induced by the threat of strategic activism. The self-regulation and private regulation resulting from activist pressure are sometimes labeled as corporate social performance.

A campaign also can affect the supply of activism. The public as consumers may join 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 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. One is a proactive strategy to reduce the likelihood or severity of a campaign. Such strategies could involve reputation building or proactive changes in practices. Second, an actual target 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, raising the cost of activism, and restraining activists' actions.

2. The Basic Paradigm: The Campaign

2.1 Types of Campaigns

The basic paradigm of activist-driven private politics is the campaign. 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. 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, such as Boise Cascade, 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 concluded that RAN's demands were consistent with its own environmental policies and quickly pledged to stop purchasing products made from old growth timber. RAN also targeted the home improvement companies, beginning with Home Depot because it was the largest and fastest growing company in the industry and 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 home remodeling decisions. (RAN also knew that Lowe's caters to women, whereas Home Depot does not.) Compared to Home Depot, Lowe's has wider aisles and brighter lighting. RAN 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 Kinko's, Home Depot, and Lowe's committed to stop selling old growth products, 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 its next target. Consistent with its previous strategy, RAN targeted Trader Joe's, which eventually agreed to stop purchasing paper products from Weyerhaeuser.

Market campaigns can operate "upstream" as well as "downstream" from the ultimate target. While campaigns targeting brand name customers, such as Home Depot and Lowe's, are more familiar, activists also conduct upstream campaigns. In its global finance campaign, RAN targeted the banks that finance environmentally damaging 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 even 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.[6] 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. 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 raising capital.

2.2 A Model of a Campaign

This section presents a basic model of a campaign to explain the locus of activism and its effect on a target. Consider an activist that seeks to change the practices of a target firm. These could be workplace practices in overseas factories, emissions of pollutants, or aggressive marketing practices 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.[7] Harm can take a variety of forms. It could be a boycott,

[6] See Friedman (1999) for studies of boycotts. Baron (2003b), Diermeier (2003), and Innes (2004) provide theories of boycotts.

[7] See Feddersen and Gilligan (2001).

public criticism, disruption of operations, 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, criticizing individual executives, and violence. 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 and the reward if the target concedes. 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 could develop this reputation through campaigns against many targets, so repetition with the same target is not required.[8] Delivering harm may also have benefits to the activist by attracting the news media, which can be beneficial in raising funds for future campaigns. The activist, however, must be able to commit to forego the campaign and deliver the rewards if the target accepts the demand.

In the model the activist moves first by choosing a campaign (x_D, r, h).[9] 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 strategy.

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's demand includes any strategic effects resulting from the target's competitors, as considered in Section 2.5. Although the activist and the target could bargain over resolving the issue, to simplify the model the demand is assumed either to be accepted or rejected. The target will concede if only if

$$\pi(x_D) + r \geq \pi(x_0) - h. \tag{1}$$

In contrast to contracting between parties with property rights, an activist campaign makes the

[8] Activist reputation is considered in Section 2.6.

[9] As discussed above, the activist also chooses a cause and a target. These issues will be considered in Section 2.4.

target worse off. An activist campaign thus is similar to extortion.[10]

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 targeted in a campaign. The other type is strategic and hence responsive to the campaign and will accept the demand if (1) is satisfied. Let the probability that the target is responsive be $p, p \in [0, 1)$, 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 the campaign satisfies (1) and otherwise continues its current practice. McDonald's, for example, has been responsive to demands for the humane treatment of food animals. In this section p is taken as exogenous, and in Section 3.2 it is made endogenous. The probability p can also be interpreted as the probability that the campaign succeeds when the target fights back, as considered in Section 4.

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

$$U(x_D, r, h) = p(v(x_D) - c(r)) + (1 - p)(v(x_0) - g(h)), \tag{2}$$

where $c(r)$ is the cost of rewarding the target and $g(h)$ is the cost of imposing the harm.[11] 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 high relative to the cost of harm. For example, a seal of approval may need to be continuously monitored or audited.

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

[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.

[11] Donors are assumed to provide $c(r)$ if the campaign succeeds and $g(h)$ if it fails. Funding is considered in more detail in Section 5. Uncertainty about the ability of the activist to raise the funds can be incorporated into the model. Suppose the activist can raise $c(r)$ or $g(h)$ with probability s and zero with probability $1 - s$. Then, the condition in (1) becomes

$$\pi(x_D) + sr \geq \pi(x_0) - sh.$$

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. Reputations in the nonmarket environment can change quickly. Alan Murray, writing in *The Wall Street Journal*, explained the responsiveness of the large banks to RAN's global finance campaign: "the real secret of RAN's success is that the big banks have neither the courage nor the credibility to stand up to the group. That is the price paid for three years of scandal."[12] Moreover, two campaigns against targets with the same p 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.

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, since for given r and h the activist has an incentive to increase its demand to the point at which the target is indifferent between conceding and not. Substituting $r = \pi(x_0) - \pi(x_D) - h$ from (1) into (2) and differentiating yields the first-order conditions for the optimal (x_D^*, h^*):

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

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

It is straight-forward to show that the second-order conditions are satisfied.[13]

The optimal campaign (x_D^*, r^*, h^*) satisfies (3), (4), and $r^* = \pi(x_0) - \pi(x_D^*) - h^*$, provided that the gain $G \equiv U(x_D^*, r^*, h^*) - v(x_0) \geq 0$ or

$$\begin{aligned} G &= p(v(x_D^*) - c(r^*)) + (1-p)(v(x_0) - g(h^*)) - v(x_0) \\ &= p(v(x_D^*) - v(x_0) - c(r^*)) - (1-p)g(h^*) \geq 0. \end{aligned} \tag{5}$$

[12] *The Wall Street Journal*, April 13, 2005. RAN had begun its campaign two years before the scandals became public.

[13] 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

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

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

From the perspective of a responsive target, once it has conceded to an activist's demand and changed its practices, its profit $\pi(x_D^*) + r^* = \pi(x_0) - h^*$ is below that of its competitors, assuming otherwise identical firms. Moreover, if there are strategic effects, such as higher marginal costs, the target has a competitive disadvantage. The target then has an incentive to urge its competitors to change their practices. After Citigroup conceded to RAN's demands, CEO Charles Prince offered to call Bank of America and JP Morgan Chase, RAN's next two targets, and urge them to make similar changes in their practices. RAN accepted the offer.

The campaign (x_D^*, r^*, h^*) is 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 the rewards is ambiguous. That is, $\frac{dh^*}{dp}$ and $\frac{dx_D^*}{dp}$ are positive.[14] The greater is p the weaker is the target, and weaker targets face more aggressive campaigns. This results because the higher the probability the target is 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 activist's utility $U(x_D^*, r^*, h^*)$ is strictly increasing in the current practices x_0 of the target, but the effect on the gain G is ambiguous. The campaign demand x_D^* is strictly increasing in x_0, so better current practices result in a higher demand. The effect on the harm depends on the properties of $v(\cdot)$ and $\pi(\cdot)$. If both are linear, h^* is constant in x_0, whereas if $\pi(\cdot)$ or $v(\cdot)$ is strictly concave, h^* is decreasing in x_0.[15] The effect of x_0 on r^* is ambiguous.

To make more specific predictions about campaigns, an example will be used. Let $v(x) = \gamma x$, $\pi(x) = \bar{\pi} - \eta x$, $c(r) = \alpha r^2$, and $g(h) = \beta h^2$, where the parameter η is the marginal cost to

[14] The derivatives are

$$\frac{dh^*}{dp} = -\frac{\frac{\partial^2 U}{\partial h \partial p}\frac{\partial^2 U}{\partial x_D^2}}{\mid H \mid} > 0$$

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

where H is the Hessian. Then,

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

[15] If $v(\cdot)$ is linear and $\pi(\cdot)$ strictly convex (and the second-order conditions are satisfied), h^* is increasing in x_0.

the target of conceding to the activist's demand and γ is the activist's marginal valuation of the target's practices. When rewards are difficult to provide, α is high. For this example, the campaign demand x_D^* is linear and increasing in the harm h^*; i.e.,

$$x_D^* = x_0 + \frac{p\alpha + (1-p)\beta}{p\alpha\eta} h^*.$$

The optimal campaign is given by[16]

$$x_D^* = x_0 + \frac{\gamma(p\alpha + (1-p)\beta)}{2\eta^2\alpha\beta(1-p)} \tag{6}$$

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

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

The demand x_D^* is strictly increasing in γ, p, and x_0 and strictly decreasing in α, β, and η.[17] The example includes three cost parameters: α and β in the activist's cost function and η indexing the target's cost of conceding. Higher costs of conducting a campaign, including the cost of conceding, lead the activist to demand less, whereas the greater the marginal benefit γ 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 γ to the activist and decreasing in the cost parameter α and the cost to the firm of conceding. The harm is strictly increasing in γ and p and strictly decreasing in η and β. The ratio of the reward to the harm is

$$\frac{r^*}{h^*} = \frac{(1-p)\beta}{p\alpha}, \tag{9}$$

so if rewards are costly to deliver (high α), the campaign will emphasize harm. Similarly, if the firm is believed to be responsive, harm will be emphasized.

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, mobilizing them for individual and collective action against targets, and improving the coordination of dispersed actions against a target. Suppose the

[16] If the activist cannot provide rewards, the harm is given by (8) and $x_D^* = \frac{p\gamma}{2\eta^2\beta(1-p)}$. If $p = 1$, the activist knows that the target will concede and hence makes an unlimited demand and backs it with an unlimited threat. The magnitude of such demands and threats are, of course, limited by the budget of the activist as considered in Section 5.

[17] The change $x_D^* - x_0$ from (6) is constant in the current practices. This property is due to the linearity of $v(\cdot)$ and $\pi(\cdot)$. If $v(x) = \gamma x - x^2$, for example, then $\frac{dx_D^*}{dx_0} < 1$.

technological advance allows the activist to execute its threat more efficiently and effectively. This can be represented by a decrease in the cost parameter β. Campaigns are thus more aggressive (higher x_D^*) and more negative (higher h^*). The technological advance thus decreases the investment in the industry and can increase the supply of activism by increasing funding by citizens. Technological change may be one explanation for the growth of activism and for its increased impact.

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

$$\begin{aligned} U(x_D^*, r^*, h^*) &= \frac{1}{2}p\gamma(x_D^* - x_0) + \gamma x_0 \\ &= \frac{p\gamma^2(p\alpha + (1-p)\beta)}{4\eta^2\alpha\beta(1-p)} + \gamma x_0. \end{aligned} \tag{10}$$

The utility in (10) is increasing in the marginal value γ of an improvement in the practices as evaluated by the activist and in the responsiveness of the target, as represented by p. It is decreasing in the costs (α, β, η) of the campaign. The utility is also increasing in the current practices. The activist will conduct a campaign if and only if its gain in (5) is nonnegative, and for the example

$$\begin{aligned} G &= \frac{1}{2}p\gamma(x_D^* - x_0) \\ &= \frac{p\gamma^2(p\alpha + (1-p)\beta)}{4\eta^2\alpha\beta(1-p)} \geq 0, \end{aligned} \tag{11}$$

so the activist conducts a campaign for all parameter values. The gain is also independent of the current practices.

2.3 Why Are Campaigns Negative?

In his overview of the history of boycotts Friedman (1999) observed that campaigns usually rely on threats and negative tactics. There are many more attacks on companies than endorsements, and activists seldom demonstrate in favor of firms. The model provides four explanations for why threats are preferred to rewards. First, consider the implications for an industry whose members are targeted. The profit π^* of a 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

$$\pi^* = \pi(x_0) - \frac{p\gamma}{2\eta\beta(1-p)}. \tag{12}$$

Rewards alone ($h = 0$) would increase the profit of the target, but with harm profits are reduced because the ability to harm allows the activist to make a higher demand. Harm thus reduces the

profits of targets and discourages investment in the industry. This reduces the scale of the industry and hence the practices to which the activist objects.

Second, campaigns are negative because activists select among potential targets based on their likely responsiveness p. This selection effect means that the observed campaigns are those with higher p targets, and from the model the demand x_D^* and the harm h^* are increasing in p, whereas the effect on r^* is ambiguous. For the example, r^* is constant in p, and from (9) the ratio of reward to harm is decreasing in p.

Third, harm is emphasized when rewards are costly to provide. That is, the endorsement effect may be weak, and customers may not respond to an activist's endorsement. Just as RAN does not believe that it can demonstrate to targets that a boycott harms sales, it does not believe that praise will help a target nor that other firms in the industry will change their practices in anticipation of praise. This suggests that activists have little ability to reward a target, i.e., α is high, which from (9) implies that harm is emphasized over rewards.

An example of rewards is a certification system. 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 successfully targeted Starbucks to sell fair trade coffee. Starbucks resisted fair trade coffee because it did not believe that the coffee met the company's quality standards (Argenti 2004). 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."[18] 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."[19] 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."[20] This suggests that α is high.

Fourth, as shown in Section 3 a negative campaign can induce proactive self-selection on the part of potential targets. Although the proactive measures are not as strong as the demand the activist would make in a campaign, they enable the activist to avoid the costs of rewards or harm

[18] www.fairtrade.net
[19] *San Jose Mercury News*, April 28, 2004.
[20] *San Jose Mercury News*, April 28, 2004.

and to campaign against another target.

2.4 Target Selection

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 retailers and 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 γ, a high probability p of responsiveness, and low costs (η, α, β) of a campaign.

In its global climate change campaign RAN decided to target a U.S. automaker and chose as its target Ford rather than General Motors (GM), which had shown greater opposition to measures to address global climate change. RAN's reasons for its choice were: (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. In the notation of the model, Ford was easier to harm; i.e., β was lower. 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. In the notation of the model, p was higher. Ford, however, had broken its promise by announcing that it would not meet its fuel economy goal for SUVs because of surging demand for large SUVs. 3) Ford had been targeted by other environmental activist groups, including the Bluewater Network, Global Exchange, and the Sierra Club, and multiple activist groups with the same target increased the pressure. The opportunity for cumulative harm may imply a lower β. 4) Ford had the lowest fleet fuel economy of the U.S. automakers. The model is silent about the effect of current practices, although for the example the gain in (11) is constant in x_0. As considered in Section 5, however, the public's sympathy for the activist's campaign may be influenced by the current practices.

The model has implications for the level of economic activity in an industry. The profit of the target given by the right side of (12) for the example is strictly decreasing in the probability p and the activist's marginal valuation γ and is strictly increasing in β and η. Activism that utilizes threats thus results in less investment in the targeted industry. That is, if the opportunity cost of the resources committed to this activity is $\bar{\pi}$, then some targets with $\pi(x_0) - h^* < \bar{\pi}$ 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. Successful activism thus has a private regulation effect on an industry similar to public regulation.

The model is not capable of addressing several questions about targeting. For example, if the activist targets an industry, will it target firms sequentially or simultaneously? Targeting one firm in an imperfectly competitive industry, 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 rivals a strategic advantage.[22] If the first target, however, expects that its rivals will also be targeted, then its competitive disadvantage will be short-lived. Section 3.1 considers the targeting choice among firms without strategic interactions.

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.[23] This strategic effect would be included in the cost $\pi(x_D) - \pi(x_0)$, which makes it more costly to concede. For the example, η is higher, and the campaign will be less aggressive.

Offsetting this competitive effect is the effect of concession by the first target on the campaign launched against the second target in an industry. As considered in Section 5, 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 the previous targets. 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

[21] Baron and Yurday (2004b).

[22] See Innes (2004) for a model of activist targeting with two firms competing with differentiated products.

[23] 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.

to the activist organization.[24] The campaign against the next target in the industry, if there is one, then will be less aggressive. This effect reduces the strategic gain to the first target from fighting the campaign.

2.5 Variation in the Pattern of Activism

The model implies variation in the pattern of activism. Variation is a function of the issue, the responsiveness of potential targets, and the costs of a campaign, which depend on both the target and the issue. One natural source of variation is between consumer products companies, such as Disney, McDonald's, Nike, and Starbucks, and industrial products companies. Harming a consumer products company by damaging its brand equity may be relatively low cost (low β) for an activist, whereas harming an industrial products company may be quite costly. The shift by activists to market campaigns against the value chain of the ultimate target, such as Boise Cascade and Weyerhaeuser, however, has lowered the cost of harming many industrial products companies.

The pattern of activism can also vary across industries. In industries, such as apparel, cosmetics, and gasoline, where it is easy for the public to participate (low α or β), activists may use more aggressive campaigns than in industries where participation is more difficult, as in pharmaceuticals or earth-moving equipment. Or, in the context of the model in Section 4, campaigns may be more successful when the public can participate than when it is more costly to do so. Friedman (1999) studied PETA campaigns and found that its animal testing campaigns against cosmetics firms were successful, whereas those against pharmaceutical companies failed.

Public participation costs may also differ among firms. Starbucks's clientele may be more responsive (lower α and β) than Dunkin Donuts's clientele. In RAN's global finance campaign, the costs of public participation may have been lower for project finance banks with large consumer banking and credit card businesses than with those with little consumer banking or credit card business. Similarly, the banks involved in scandals, such as those associated with Enron and WorldCom, could be more responsive (higher p) to an activist campaign than banks that were not involved in the scandals. In contrast, some non-U.S. banks may be less responsive.

Variation can also be present within an industry. Some companies may have lower costs η of changing their practices than others. Timber companies operating in states in the northwest where state environmental regulations are stringent may have lower costs of change than timber companies operating in the south where regulations are less stringent.

Variation can also occur across activist organizations. There is a continuum of activist orga-

[24] Fighting a campaign is considered in Section 4.

nizations from radical to collaborative, and those at one end of the spectrum may choose targets that are different from those at the other end. In campaigns on fair trade coffee, Global Exchange at the more radical end of the spectrum targeted Starbucks, and Oxfam America, which is closer to the other end of the continuum, targeted Procter & Gamble and Dunkin Donuts.

2.6 Activist Reputation

In Section 2.2 the target was assumed to view the campaign as credible, but campaign rewards are difficult to demonstrate, and the threat of harm must be backed by the capacity to deliver it. Campaigns require credibility, and credibility depends largely on the reputation of the activist organization, which is built on past actions. An important asymmetry between activists and firms is that activists are typically engaged in many more campaigns than firms. This suggests that it is easier for activists to build and maintain reputations compared to firms that are only infrequently targeted.[25] 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.[26]

A second facet of activist reputation is the ability to raise the funds to cover the cost of carrying out the campaign. Before launching a campaign, RAN expects a campaign to 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 annual budget of between $2 and $2.5 million. Funding is considered in Section 5.2.

A third 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 4, one aspect of this is the extent 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 only modest public support in the United States.

A fourth 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

[25] 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.

[26] An activist reputation is straightforward to establish. Consider a repeated game in which a long-lived activist plays a sequence of different targets, one each round of the game. A reputation for following through on a campaign requires that the activist shirk neither on delivering the promised reward for a target that does not concede. In the repeated game equilibrium all strategic types concede and are rewarded, and all recalcitrant targets refuse to concede and are harmed. The equilibrium campaign characterized in Section 2.2 is a repeated-game equilibrium campaign.

supplying the apparel and footwear industries. Activist groups that are unable to demonstrate credible commitment are likely to whither away.

3. Proactive Measures by Potential Targets

3.1 Self-Regulation

A potential target can determine from (11) how attractive it is. It then can take two types of measures in anticipation of a campaign. One is proactively to change its practices in the hope of avoiding 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 potential target is recalcitrant.

3.1.1 Self-Regulation with a Single Target

Consider first a proactive concession intended to preclude a campaign. The attractiveness of a proactive concession depends on whether the activist can or cannot commit to conduct a campaign when the target makes a concession. Suppose first that the activist can commit not to conduct a campaign if the target changes its practices sufficiently. Such a commitment could be credible because of the reputation of the activist. The activist will not conduct a campaign if the new practices $\hat{x}$ satisfy $v(\hat{x}) \geq U(x_D^*, r^*, h^*)$ or for the example

$$\hat{x} - x_0 \geq \frac{p}{2}(x_D^* - x_0). \tag{13}$$

This implies that even for a high p potential target the required proactive change is less than half the change that would be demanded by the activist in a 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

$$\frac{h^*}{\eta} \geq \hat{x} - x_0. \tag{14}$$

The potential target thus will take proactive measures only if they are less costly than the harm from the campaign. The condition in (14) is

$$x_D^* - \frac{\gamma}{2\eta^2\alpha} \geq \hat{x},$$

so $\hat{x} < x_D^*$.

Combining (13) and (14) yields necessary and sufficient conditions for a proactive strategy to be adopted and a campaign forestalled

$$x_0 + \frac{h^*}{\eta} \geq \hat{x} \geq x_0 + \frac{p}{2}(x_D^* - x_0). \tag{15}$$

An $\hat{x}$ satisfying (15) exists if and only if

$$\frac{2-p}{1-p} \geq \frac{\beta}{\alpha}. \tag{16}$$

Consequently, if from (9) harm is emphasized over reward in the campaign, proactive measures will be observed. The left side of (16) is increasing in p, so the more likely a campaign is to be successful, the larger is the set of practices that can forestall a campaign. This implies that more responsive firms are more likely to make proactive changes. The right side of (16) is decreasing in α and increasing in β, so the more costly is delivering harm and the less costly are rewards the smaller is the set of practices that will forestall a campaign.

A responsive type has an incentive to take a proactive measure satisfying (15). A recalcitrant type that is not opposed to taking proactive measures will also do so when (15) is satisfied. Consequently, the types will pool.

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 thus positively related. In this sense, corporate social performance is a form of self-regulation–self-regulation induced by the threat of activism.

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 potential target adopts $\hat{x}$, the activist acts opportunistically and launches a campaign satisfying (1) with $\pi(\hat{x})$ replacing $\pi(x_0)$. The strategic target concedes to the demand, and a recalcitrant target leaves $\hat{x}$ in place. That is, the recalcitrant target is assumed not to rescind $\hat{x}$ out of principle or spite. For the example, the incentives (r^*, h^*) are unchanged and given in (7) and (8) and the demand increases by $\hat{x} - x_0$. The profit of the target if it concedes to the activist's demand is $\pi(x_D^* + \hat{x} - x_0) + r^*$ and if it does not concede is $\pi(\hat{x}) - h^*$. Since $\hat{x} > x_0$, the potential target cannot gain by taking proactive measures. It would like to take proactive measures to forestall a campaign but, due to the hold-up problem, does not do so because the activist will still launch a campaign. Activism thus faces a commitment problem.

Proactive measures by a potential target 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 (13)). However, even if a particular activist group can commit not to target a firm that makes proactive changes, that firm could be targeted by another activist.

3.2.2 Self-Regulation with Multiple Potential Targets

If multiple targets are available, proactive measures could induce the activist to switch to another target that would yield a greater gain in utility. Suppose there are two potential targets, but the activist has the capacity to target only one of the two.[27] Also, suppose that there are no strategic interactions between the two firms. Let the utility from targeting firm 2 be denoted $U(x^*_{D2}, r^*_2, h^*_2)$, where (x^*_{D2}, r^*_2, h^*_2) denotes the optimal campaign. The activist will target firm 2 with current practices x_{02} if and only if

$$U(x^*_{D1}, r^*_1, h^*_1) + v(x_{02}) \leq v(\hat{x}_1) + U(x^*_{D2}, r^*_2, h^*_2), \tag{17}$$

where the subscript 1 denotes the first firm above, $\hat{x}_1$ is the proactive measures by firm 1, and $U(x^*_{D1}, r^*_1, h^*_1)$ is given in (4) for $\hat{x}_1$. For the example, (17) is

$$\frac{1}{2}p_1(x^*_{D1} - \hat{x}_{01}) + x_{01} - \hat{x}_1 \leq \frac{1}{2}p_2(x^*_{D2} - x_{02})$$

or

$$p_1\frac{\gamma(p_1\alpha_1 + (1-p_1)\beta_1)}{4\eta_1^2\alpha_1\beta_1(1-p_1)} + x_{01} - \hat{x}_1 \leq p_2\frac{\gamma(p_2\alpha_2 + (1-p_2)\beta_2)}{4\eta_2^2\alpha_2\beta_2(1-p_2)}. \tag{18}$$

Firm 1 thus can have an incentive to adopt a proactive measure $\hat{x}_1$ to shift an activist to an alternative target. Firm 1 will take the proactive measure if

$$\pi_1(\hat{x}_1) \geq \pi_1(x^*_{D1}) + r^*_1 = \pi_1(x_{01}) - h^*_1, \tag{19}$$

which is (14). If the two potential targets have the same parameter values, there exists an $\hat{x}_1$ satisfying (18) and (19) for all parameter values.

Activism thus has a multiplier effect when there are multiple possible targets; i.e., activism can change the behavior of firms that are not targeted as well as those that are targeted.

If both firms can take proactive measures, they may be in a prisoners' dilemma. That is both may take proactive measures with one of them targeted, but both would be better off if neither

[27] RAN, for example, has the budget capacity to conduct only three campaigns simultaneously, and it chooses to conduct those campaigns on different issues.

took the proactive measures. The activist thus can create a competition in proactive measures. To show this, let the activist target firm 1 with probability ϕ and firm 2 with probability $1-\phi$, and assume as in the basic model in Section 2.2 that the activist can credibly commit to launch one campaign. The activist thus maximizes its expected utility EU given by

$$EU = \phi(U(x^*_{D1}, r^*_1, h^*_1) + v(\hat{x}_2)) + (1-\phi)(v(\hat{x}_1) + U(x^*_{D2}, r^*_2, h^*_2)). \tag{20}$$

Each firm i has an incentive to take proactive measures as in (18). This incentive persists provided that the measures are less than the bound in (14). That is, the firms will compete to avoid a campaign, resulting in a race to the top. The equilibrium then is that both targets take proactive measures to the point that (14) is binding for one firm. This is equivalent to the activist conducting a second-price auction for the opportunity to avoid a campaign.

Suppose the two firms are identical, and $\bar{x}$ is the maximum practices that satisfy (14). The firms will compete to avoid being the target to the point at which $\hat{x}_i = \bar{x}, i = 1, 2$, or if the firms are identical,[28]

$$\hat{x}_1 = \hat{x}_2 = x_0 + \frac{p\gamma}{2\eta^2\beta(1-p)} > x^*_D.$$

The race to the top leads to greater change than if the activist were simply to launch a campaign against one firm in the absence of proactive measures. Note that this is the case regardless of whether the activist can commit not to target a proactive firm.

When the activist can induce a competition in proactive measures, what strategy do potential targets adopt? Collective action by an industry is one response. The firms in the industry have an incentive to act collectively to avoid being caught in a race to the top. The forest products

[28] To show that this is an equilibrium, note that from (20) firm 1 will be targeted unless

$$v(\hat{x}_1) \geq U(x^*_{D1}, r^*_1, h^*_1) + v(\hat{x}_2) - U(x^*_{D2}, r^*_2, h^*_2).$$

Firm 1 will choose such an $\hat{x}_1$ if (14) is satisfied. Similarly, firm 2 will be targeted unless

$$v(\hat{x}_2) \geq U(x^*_{D2}, r^*_2, h^*_2) + v(\hat{x}_1) - U(x^*_{D1}, r^*_1, h^*_1)$$

and $\hat{x}_2 \leq \frac{h^*_2}{\eta}$. Given $\hat{x}_2$, firm 1 will increase its proactive measures provided that $\hat{x}_1 \leq \frac{h^*_1}{\eta}$, and given $\hat{x}_1$, firm 2 will increase its proactive measures provided that $\hat{x}_2 \leq \frac{h^*_2}{\eta}$. The equilibrium thus is

$$\hat{x}_1 = \hat{x}_2 = \bar{x} \equiv \min\left\{\frac{h^*_1}{\eta}, \frac{h^*_2}{\eta}\right\}.$$

If the firms are identical, $\bar{x} = \frac{p\gamma}{2\eta^2\beta(1-p)}$.

industry did so in establishing the Sustainable Forest Initiative (SFI) which sets standards for forest stewardship. Over 90 percent of the industry members participate in SFI. Collective action for the industry was easy because the firms had an already-established industry association. Similarly, during RAN's global finance campaign Citigroup and three other banks developed the Equator Principles to guide the financing of projects in ecologically-sensitive areas.

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 ρ_o, so the *ex ante* probability p_o that the target will concede is

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

Reputations are built on a record of actions. A reputation for being hard 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 supporting 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. A reputation for being soft could also result from corporate social responsibility policies.

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, since it would be taking the actions anyway, so $\sigma_H(H) = 1$. Also, suppose that type S has a high cost of sending m_H, so $\sigma_H(S)$ can be less than 1. The

posterior probability $\rho(m_H)$ that the target is H given m_H is

$$\rho(m_H) = \frac{\rho_o}{\rho_o + (1-\rho_o)\sigma_H(S)},$$

and the posterior probability given m_S is $\rho(m_S) = 0$. The activist's belief $p(m)$ about whether the target will concede is then $p(m_S) = p_S$ and

$$p(m_H) = \rho(m_H)p_H + (1-\rho(m_H))p_S \ \in \ [p_H, p_S].$$

The activist chooses a campaign (x_{Dj}, r_j, h_j) corresponding to $p(m_j)$ when $m_j, j = S, H$, is received. When m_S (m_H) is received, the activist chooses a more (less) aggressive campaign. That is, if it sends m_S, then $p(m_S) = p_S$, so from Section 2.2 the soft firm faces an aggressive campaign. A soft firm S thus has an incentive to send the costly signal m_H so as to avoid the more aggressive campaign. The soft firm is forced to signal m_H by the hard firm's willingness to signal m_H. The optimal signaling strategy $\sigma_H^*(S)$ satisfies

$$\sigma_H^*(S) \in \arg\max_{\sigma_H(S)} \sigma_H(S)(\pi(x_0) - h^*_{p(m_H)}) + (1-\sigma_H(S))(\pi(x_o) - h^*_{p(m_S)}) - c(\sigma_H(S)),$$

where $h^*_{p(m)}, m \in \{m_H, m_S\}$, is the harm when the message m is received. The first-order condition is[29]

$$\frac{\gamma}{2\eta\beta}\Big(\frac{p_S}{1-p_S} - \frac{p(m_H)}{1-p(m_H)}\Big) - c'(\sigma_H^*(S)) = 0,$$

provided that $\sigma_H^*(S)<1$. The strategy $\sigma_H^*(S)$ is increasing in γ and p_S and decreasing in η and β (because $h^*_{p(m)}$ is decreasing in η and β). Less aggressive campaigns result for S if it sends m_H than if it sends m_S, but the campaign given m_H is more aggressive than it would have been based on prior information.

The opportunity for a target to develop a reputation thus leads to actions (signals) that may be contrary to the interests of the activist. Activism thus can have perverse effects by encouraging soft types to act hard by taking the actions corresponding to m_H. That is, potential targets may aggressively oppose threats from both private and public politics so as to signal that they are hard.

4. Contesting the Campaign

4.1 Campaign Success or Failure

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

[29] The first term is positive for $\sigma_H(S)<1$, since $p_S>p(m_H)$.

campaigns, however, draw sufficient 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 successfully 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 employee morale and solidify their 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 let the probability q of success be given by

$$q = \frac{\theta h}{\theta h + f}, \tag{21}$$

where $\theta \in (0, \infty)$ indexes the public's sympathy or support for the campaign. For example, if the campaign includes a boycott, θ could depend on the switching costs for consumers. The appeal θ thus could be correlated with the cost of delivering harm; e.g., θ and β could be negatively correlated.

If the target chooses not to fight ($f = 0$), the campaign succeeds in delivering harm with probability $q = 1$. If the target fights ($f > 0$), with probability $1 - q$ the target is able to negate the harm in the campaign. A campaign has a planned duration normalized to 1, and a target that chooses to fight does so at time 0. A fight is assumed to last for a time $\delta \in [0, 1)$ after which the outcome is realized according to (21). During a fight the harm is h, and if the campaign succeeds and 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 $(1 - \delta)r$. If the campaign fails because the target is able to negate the harm, the target incurs no harm for the $1 - \delta$ period and is assumed to maintain its current practices x_0. The activist expends $g(h)$ if it loses the fight, and $\delta g(h) + (1 - \delta)c(r)$ if it wins.

4.2 Opportunistic Behavior

In this section the activist is assumed to act opportunistically in the event that it wins the fight at time $1-\delta$. That is, if it wins the fight, it makes the most aggressive demand it can, and that demand satisfies (1). Assume initially that the campaign is chosen such that the target will concede if the campaign is successful. The responsive target will fight according to

$$f^* \in \underset{f\in[0,\infty)}{\arg\max} \quad \hat{\pi} = \delta(\pi(x_0) - h) + (1-\delta)[q(\pi(x_D) + r) + (1-q)\pi(x_0)] - k(f). \tag{22}$$

Substituting from (1) yields

$$f^* \in \underset{f\in[0,\infty)}{\arg\max} \quad \hat{\pi} = \pi(x_0) - (q + (1-q)\delta)h - k(f). \tag{23}$$

The expected profit of the recalcitrant type is also given in (23), so both kinds of the target choose the same fight. The target's profit $\hat{\pi}$ in (23) is decreasing in δ, so the target prefers to resolve the campaign as quickly as possible.

The first-order condition is

$$\frac{(1-\delta)\theta h^2}{(\theta h + f^*)^2} - k'(f^*) = 0. \tag{24}$$

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

$$\frac{df^*}{dh} = \frac{\frac{2(1-\delta)\theta h f^*}{(\theta h + f^*)^3}}{\frac{2(1-\delta)\theta h^2}{(\theta h + f^*)^3} + k''(f^*)} > 0.$$

The fight f is decreasing in δ, since a higher δ implies that less of the harm can be negated by fighting the campaign.

The fight f^* also depends on the public's responsiveness θ to the campaign, and

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

The fight f^* is increasing (decreasing) in θ as $f^* > (<) h\theta$ or equivalently as $q^* < (>) \frac{1}{2}$, where $q^* \equiv \frac{\theta h}{\theta h + f^*}$. 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. If the activist can choose its issue or cause in response to its public responsiveness θ, it will choose a cause with a high θ. The subsequent dynamics of the campaign are thus affected.

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

$$\pi(x_D) + r \geq \pi(x_0) - (q^* + (1-q^*)\delta)h - k(f^*). \tag{25}$$

Strict concavity of $\hat{\pi}$ in (23) implies

$$\pi(x_0) - (q^* + (1-q^*)\delta)h - k(f^*) > [\pi(x_0) - (q + (1-q)\delta)h - k(f)] \mid_{f=0} \; = \pi(x_0) - h. \tag{26}$$

The inequality in (21) and (26) thus imply that (25) is not satisfied, so the target does not concede. Consequently, the target will fight when the campaign satisfies (21) as an equality. Fighting by the target thus occurs in equilibrium when the activist will act opportunistically when the campaign succeeds.

As an example, let $k(f) = kf$ in which case

$$f^* = \theta h\Big(\Big(\frac{1-\delta}{\theta k}\Big)^{\frac{1}{2}} - 1\Big),$$

provided that $\frac{1-\delta}{\theta k} \geq 1$. The fight f^* is increasing in h and θ and decreasing in the marginal cost k. The target will fight if (25) is not satisfied, which is equivalent to $\frac{1-\delta}{\theta k} > 1$. Then, the target will not concede initially. The probability q^* that the campaign succeeds is then given by

$$q^* = \Big(\frac{\theta k}{1-\delta}\Big)^{\frac{1}{2}} < 1. \tag{27}$$

This is independent of h, since f^* is linear in h for the example. As expected, an increase in the marginal cost of fighting, an increase in the public responsiveness θ, or a long delay in resolution of the contract increases the probability of a successful campaign.

The activist's expected utility U_A is

$$\begin{aligned} U_A &= \delta(v(x_0) - g(h)) + (1-\delta)[q^* p(v(x_D) - c(r)) + (1 - q^* p)(v(x_0) - g(h))] \\ &= (1-\delta)pq^*(v(x_D) - c(r)) + (1 - (1-\delta)pq^*)(v(x_0) - g(h)). \end{aligned} \tag{28}$$

When (1) is binding, the campaign satisfies first-order conditions corresponding to (3) and (4):

$$(1-\delta)pq^*(v'(x_D^*) + c'(\pi(x_0) - \pi(x_D^*) - h^*)\pi'(x_D^*)) = 0 \tag{29}$$

$$\begin{aligned} &(1-\delta)pq^* c'(\pi(x_0) - \pi(x_D^*) - h^*) - (1 - (1-\delta)pq^*)g'(h^*) \\ &+ (1-\delta)\frac{\partial q^*}{\partial h} p\big[v(x_D^*) - c(\pi(x_0) - \pi(x_D^*) - h^*) - v(x_0) + g(h^*)\big] = 0. \end{aligned} \tag{30}$$

If the probability of success q^* were exogenous, (29) and (30) would be identical to (3) and (4) with $(1-\delta)pq^*$ replacing p.

When the probability q^* of success for the activist 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 (24) can be rewritten as

$$q^* = \Big(\frac{\theta}{1-\delta}\Big)^{\frac{1}{2}} (k'(f^*))^{\frac{1}{2}}.$$

Differentiating yields

$$\frac{dq^*}{dh} = \frac{1}{2}\Big(\frac{\theta}{1-\delta}\Big)^{\frac{1}{2}}(k'(f^*))^{-\frac{1}{2}}k''(f^*)\frac{df^*}{dh}, \tag{31}$$

which for $k(\cdot)$ linear equals zero. The result in (31) can be used to characterize the elasticity ϵ_f of the response function f^*. Differentiating $q^* = \frac{\theta h}{\theta h + f^*}$ yields

$$\frac{dq^*}{dh} = \frac{\theta f^*}{(\theta h + f^*)^2}(1 - \epsilon_h^*), \tag{32}$$

where $\epsilon_h^* \equiv \frac{h}{f^*}\frac{df^*}{dh}$. From (31), $\epsilon_h^*<1$ if $k(\cdot)$ is strictly convex, and if $k(\cdot)$ is linear as in the example, $\epsilon_h^* = 1$. The target's response is inelastic when it contests the campaign.

The probability q^* of success is increasing in the public support θ for the activist's cause under a number of sufficient conditions. If the elasticity $\epsilon_\theta^* \equiv \frac{\theta}{f^*}\frac{df^*}{d\theta}$ is less than one, which is the case when $q^*>\tilde{q}<\frac{1}{2}$, where $\tilde{q}$ is the probability corresponding to $\epsilon_\theta^* = 1$, greater public support results in a higher probability of campaign success. Conversely, a small increase in public support could lead the target to fight harder, and the probability of success would decrease. The probability of success is increasing in θ if $k(f)$ is linear or is strictly convex and $q^*\leq\frac{1}{2}$.

Also, if $k(f)$ is linear, the equilibrium campaign is given by (1), (3), and (4) with $(1-\delta)q^*p$ replacing p. Since $(1-\delta)q^*p<p$, the campaign demand is less aggressive (x_D lower) and less negative (h lower) than when fighting is impossible. This results because campaigns are more costly the more likely the target is to defeat the campaign. Responsive firms (high p) remain the best targets for the activist.

For $k(f)$ linear the basic model presented in Section 2.2 can be re-interpreted with q^* as the probability of success when the target fights the campaign. That is, for the model in this section, let $p = 1$ and $\delta = 0$, so the probability of a successful campaign is q^*, a constant.

4.3 Commitment Not To Act Opportunistically

If the activist can commit not to act opportunistically in light of a successful campaign, it will choose a campaign that avoids fighting. If it were to fight the campaign, the expected profit of the responsive type would be

$$\pi^o = \delta(\pi(x_0) - h) + (1-\delta)[q^o(\pi(x_D) + r) + (1-q^o)\pi(x_0)] - k(f^o), \tag{33}$$

where f^o is the optimal fight and $q^o = \frac{\theta h}{\theta h + f^o}$. The optimal fight f^o for the responsive type satisfies

$$\frac{(1-\delta)\theta h}{(\theta h + f^o)^2}(\pi(x_0) - \pi(x_D) - r) - k'(f^o) = 0$$

and is decreasing in the reward and the current practices and is increasing in the harm and the demand. A more aggressive campaign thus results in stronger opposition to the campaign, but since a strictly inequality holds in (1), $\pi(x_0) - \pi(x_D) - r < h$, so $f^o < f^*$. The responsive type thus fights less hard than when the activist cannot commit. The recalcitrant type fights the campaign rather than conceding, and its optimal fight is f^* given in (24), so the recalcitrant type fights harder than does the responsive type.

For the example in which $k(f)$ is linear, the fight is

$$f^o = \theta h\Big(\Big(\frac{1-\delta}{\theta k}\Big)^{\frac{1}{2}}\Big(\frac{\pi(x_0) - \pi(x_D) - r}{h}\Big)^{\frac{1}{2}} - 1\Big),$$

and the probability of success is

$$q^o = \Big(\frac{\theta k}{1-\delta}\Big)^{\frac{1}{2}}\Big(\frac{h}{\pi(x_0) - \pi(x_D) - r}\Big)^{\frac{1}{2}},$$

so $f^o = \theta h \frac{1-q^o}{q^o}$.

The responsive type concedes rather than fights if $\pi(x_D) + r$ is at least as great as π^o in (33) or

$$\pi(x_D) + r \geq \pi(x_0) - \frac{\delta h + k(f^o)}{1 - q^o(1-\delta)}. \tag{34}$$

The optimal campaign (x_D^o, r^o, h^o) maximizes the activist's expected utility subject to the constraint in (34).[30] For the example, the optimal campaign has $r^o = r^*$ as given in (7), and the probability q^o of winning satisfies

$$q^o = \frac{\theta k}{\delta - \theta k}\Big(\Big(\frac{\delta(1-\theta k)}{\theta k(1-\delta)}\Big)^{\frac{1}{2}} - 1\Big).$$

The probability q^o depends only on θk and δ and is strictly increasing in θk with $q^o = 1$ if $\theta k = \frac{1}{2}(1 + \sqrt{1 - 4\delta(1-\delta)})$ and $q^o = 0$ if $\theta k = 0$. The campaign demand is

$$x_D^o = x_0 + \frac{\gamma}{2\alpha\eta^2} + \frac{\delta q^o + \theta k(1-q^o)}{\eta q^o(1-(1-\delta)q^o)}h,$$

where λ^o is the multiplier on the constraint in (34). The demand is linear in the harm as in the model in Section 2.2. The harm is given by

$$h^o = \frac{1}{2\beta(1-p)(q^o)^2(1-\delta)}\Big[\frac{p\gamma\theta k}{\eta} + \lambda^o\Big(\delta(1-\delta)(q^o)^2 - \theta k(1-\delta)(1-q^o)^2 - \delta\Big)\Big].$$

[30] Note that regardless of whether the activist can commit, the recalcitrant type does not concede even when the activist wins the contest.

Intuition suggests that the campaign is less aggressive with commitment than without commitment. This can be verified for the case in which the cost of fighting is linear. Equalities in (1) and (34) imply that

$$\pi(x_0) = \pi(x_D^*) + r^* + h^* = \pi(x_D^o) + r^o + h^o - \frac{(1-q^o)(1-\delta)h^o - k(f^o)}{1-q^o(1-\delta)}.$$

Then, (26) implies that the last two terms on the right are positive, so

$$\pi(x_D^*) + r^* + h^* < \pi(x_D^o) + r^o + h^o.$$

The campaign is thus less aggressive when the activist can commit not to exploit a successful campaign. This is necessary to induce the responsive target to accept the demand rather than fight.

In RAN's global finance campaign, Citigroup resisted for three years and lost, Bank of America conceded immediately, and JP Morgan Chase resisted for a year and then conceded.

5. The Supply of Activism

5.1 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. The latter 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 as 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 formed 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.

5.2. Funding the Campaign

Some citizens 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 via 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 potential free-rider problems.

Suppose there are n individuals who 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 the probability p of success and the change $x_D - x_0$ in practices.[31] Let the willingness to contribute be $pw(x_D - x_0)$, where $w(\cdot)$ is an increasing function. In the absence of a free-rider problem, the budget B of the activist equals the total contributions $B = npw(x_D - x_0)$. 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 threat would not be credible. The activist must respect both constraints when choosing its campaign.

[31] The cost of raising funds is assumed to be zero to simplify the model.

The activist's campaign choice is then

$$(x_D^*, r^*, h^*) \in \underset{(x_D,r,h)}{\arg\max}\ p(v(x_D) - c(r)) + (1-p)(v(x_0) - g(h))$$
$$s.t.\ \pi(x_D) + r \geq \pi(x_0) - h$$
$$c(r) \leq npw(x_D - x_0)$$
$$g(h) \leq npw(x_D - x_0).$$

The solution to this program is straightforward and will be presented for an example. Let $w(x_D - x_0) = w\gamma(x_D - x_0)$, where $w>0$ represents the contributors' proportional willingness to contribute relative to the activist's valuation γ. Since activists always seem to be in need of funds, the funding constraints are assumed to be binding.

The equilibrium campaign (x_D^+, r^+, h^+) for the example is

$$x_D^+ = x_0 + \frac{p\gamma nw(\alpha^{\frac{1}{2}} + \beta^{\frac{1}{2}})^2}{\eta^2\alpha\beta} \tag{35}$$

$$r^+ = \frac{p\gamma nw\left(1 + \left(\frac{\alpha}{\beta}\right)^{\frac{1}{2}}\right)}{\eta\alpha}$$

$$h^+ = \frac{p\gamma nw\left(1 + \left(\frac{\beta}{\alpha}\right)^{\frac{1}{2}}\right)}{\eta\beta}.$$

Since $pw\gamma(x_D^+ - x_0)$ 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 of contributors with those sympathies 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.[32]

5.3 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

[32] If the funding constraint is not binding, the equilibrium is as characterized in (6)-(8). When the constraint is binding, the comparative statics of the equilibrium are the same as those in Section 2.2, except that h^+ and r^+ are decreasing in both α and β and r^+ is increasing in p.

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

$$x_D(B) = x_0 + \frac{B^{\frac{1}{2}}}{\eta}\big(\alpha^{-\frac{1}{2}} + \beta^{-\frac{1}{2}}\big).$$

The campaign demand is a strictly increasing and strictly concave function of B.

A sympathetic individual will contribute b_i^* satisfying

$$b_i^* \in \arg\max pw\gamma(x_D(B) - x_0) - b_i,$$

where $w(0)$ 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

$$B^* = \Big(\frac{pw\gamma}{2\eta}\Big)^2(\alpha^{-\frac{1}{2}} + \beta^{-\frac{1}{2}})^2,$$

so

$$x_D(B^*) = x_0 + \frac{pw\gamma}{2\eta^2\alpha\beta}(\alpha^{\frac{1}{2}} + \beta^{\frac{1}{2}})^2. \tag{36}$$

The individual contributions $b_i^* = b^*$ are

$$b^* = \frac{1}{n}\Big(\frac{pw\gamma}{2\eta}\Big)^2(\alpha^{-\frac{1}{2}} + \beta^{-\frac{1}{2}})^2.$$

Comparing the campaign demand in (36) to the demand x_D^+ in (35), the ratio of the change in practices is

$$\frac{x_D(B^*) - x_0}{x_D^+ - x_0} = \frac{1}{2n},$$

which indicates the magnitude of the free-rider problem.

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

$$V = \sum_{i=1}^{n}(wp\gamma(x_D(B) - x_0) - b_i),$$

which yields

$$B^o = \Big(\frac{pnw\gamma}{2\eta}\Big)^2(\alpha^{-\frac{1}{2}} + \beta^{-\frac{1}{2}})^2.$$

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 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, as in a boycott, or lowering their expectations of the firm, which can harm the firm 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. Section 4 considered uncertainty about the success of a campaign, where that uncertainty in (21) could be due to the uncertain participation by the public.[33]

5.3 Reducing the Supply of Activism

Strategies are directed at activism itself, or at least at 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 attacks on activists by individual firms or even industries could backfire by creating public sympathy for the causes advanced by activists. Boise Cascade wrote to all of RAN's major contributors and also filed a complaint with the IRS to withdraw RANs 501(c)(3) status. A website RANamuck.com also appeared at that time. These actions did not improve Boise Cascade's position. Weyerhaeuser anticipated activist questioning at its 2005 annual meeting, and changed its rules to prohibit questions from the floor, allowing only written questions submitted in advance. RAN and other activists complained publicly, and the media picked up the issue with headlines about Weyerhaeuser stifling speech. Activists disrupted the annual meeting anyway, forcing Weyerhaeuser to allow them to speak. Weyerhaeuser's CEO was forced to admit that he had made a mistake and announced that the company would in the future take questions from the floor.

Firms generally prefer to have associations or sympathetic NGOs mount attacks on activists. 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

[33] 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.

announced its intention to hold a hearing on whether organizations that intentionally break laws should have their tax-free status withdrawn.[34] The Committee subpoenaed RAN's records.

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 web site www.activistcash.org provides data on the funding of hundreds of activist groups. 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."[35]

Activists and NGOs have been criticized for both being unelected 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.

Activists and NGOs could be accountable to the public, government, their members, and financial supporters. SustainAbility, Ltd., a London consultancy, published a report (2002), "The 21st Century NGO: In the Market for Change," asking for greater public accountability.

Another possibility is to use existing laws such as defamation, 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.

6. Summary of Results

This section summarizes the principal results from the preceding sections.

1. An activist prefers an issue with high value and strong public support and a target that is responsive to a campaign and for which the cost of a campaign is low.

2. The campaign is more aggressive and more negative 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.

[34] Baron and Yurday (2004b).
[35] *The New York Times*, January 3, 2004.

3. An activist prefers harm to reward because harm decreases investment in the targeted activity, whereas rewards alone can increase investment. Selection among potential targets leads to more negative campaigns, and harm is emphasized when rewards are costly to deliver.

4. 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.

5. A potential target can forestall a campaign through self-regulation by changing its practices proactively only if the activist can commit not to subsequently launch a campaign or the proactive change shifts the activist to an alternative target.

6. With multiple potential targets the activist can generate a race to the top in proactive measures. This creates an incentive for an industry to act collectively.

7. 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 tough through both public and private politics strategies.

8. If a campaign can be contested and the activist cannot commit to exploit a successful campaign, the target fights. Its response depends only on the harm and is inelastic in the harm. Fighting thus occurs on the equilibrium path of play. If the activist can commit not to exploit a successful campaign, a responsive target concedes immediately and a recalcitrant target fights. When the cost of fighting is linear, the campaign is less aggressive when the activist can commit not to exploit a successful campaign.

9. Activism produces a local public good and faces free-rider problems on the resources and the campaign sides. Activism is thus undersupplied compared to the supply collectively preferred by sympathetic individuals. Potential targets have an incentive to diminish the supply of activism.

7. Discussion

7.1 Target Selection

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 for citizens, since if switching costs are low, consumers can easily switch from

the target to another firm. 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. Some activists, such as RAN, go further and challenge their next target in a given industry to go beyond the practices adopted by the first target.

If an activist uses a sequential targeting strategy, effective target selection becomes critical. The model identifies some factors that drive target selection. For example, targets are selected based on how objectionable 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 for responsiveness, how capable they are of combating the activist's strategy (the cost of fighting), and whether a victory over one target will lead others to change their practices.

Empirically, target selection strategies appear to vary widely. Sometimes activists target "worst offenders." For example, environmental activists have concluded that ExxonMobil is the most obstinate opponent of measures to address global climate change. As a result, a coalition of U.S. activist groups began a boycott of ExxonMobil "because its record is worse than its competitors'."[36] Activists, however, sometimes target firms, such as BP and Starbucks, that have positioned themselves as socially responsible and environmentally friendly. Activists also often 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, since such companies may overreact leading to increased media coverage which promotes the activists cause.

Beyond such case studies, there are no rigorous empirical studies that account for the observed variation in target selection. It would be particularly important to investigate how industry characteristics are correlated with targeting patterns. A well-known brand, for example, seems to make companies more vulnerable. 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. 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 large consumer banking and credit card businesses that could be harmed.

[36] Carl Pope, executive director of the Sierra Club, *The New York Times*, July 12, 2005. See www.exposeexxon.com.

Of particular importance to companies that consider investing in socially responsible business practices is the question whether such investment increases or decreases vulnerabilities to attacks. On the one hand, as in Section 3 proactive, socially responsible measures may shift an activist to a different target. On the other hand, companies that position themselves as socially responsible can make good targets on some issues because they have revealed themselves as soft and responsive. Starbucks agreement to sell Fair Trade coffee may be an example.[37]

One research direction would be to model industry structure directly. For example, in an industry, such as oil or banking, with many well-known brands, selecting targets sequentially may be advantageous because a concession by another larger player in the industry may be preferable to an additional concession by a soft target. This would be true, for example, if from the activist's perspective there are decreasing marginal "social" returns to investing in socially responsible business practices. On the other hand, in an industry with one dominant global brand, as in the case of Starbucks, continued pressure on a target that has made concessions may outweigh the additional gains from marginal competitors.

Another research direction would be to model competition among activists groups both for funding and support and also for media coverage and a spot on the public agenda. Activist groups differ widely both in terms of their agendas and in their tactical approach. In the case of Starbucks, initial accommodations to moderate groups led to targeting by more radical groups.

7.2 The Resolution of Campaigns

Campaigns can be resolved by the target conceding to the demand, the activist abandoning the campaign, or by an agreement 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 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

[37] This argument is made by Argenti (2004) who concluded that "truly socially responsible companies are actually more likely to be attacked by activist NGOs than those that are not. ... Our interviews with Global Exchange suggested that Starbucks was a better target for the fair trade issue because of its emphasis on social responsibility, as opposed to a larger company without a socially responsible bent."

measure of the activist is to resume the campaign, and to date RAN has not had to do so. The target's enforcement measure is to resume the practices it changed. Enforceability of an agreement 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 campaign targeting Home Depot 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.

To resolve a campaign and facilitate enforcement, 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. They are intended to govern multiple parties, facilitating coordination, monitoring, and conflict resolution.

8. Conclusion

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. Activists are increasingly turning to private politics to advance their agenda. In part this is motivated by their lack of success in public arenas, and in part by the increasing importance of multinational corporations in global economies.

Viewing the interaction between activists and firms as a form of nonmarket competition, the model focused on the strategic interactions between the parties, ranging from targeting strategies to

proactive measure such as self-regulation or investments in socially responsible business practices. The model showed that strategic interactions play an important role in all aspects of a campaign. This has important consequences for empirical research. For example, once targeting is modeled as a strategic choice, empirical studies of campaign success or impact need to account for possible selection bias. The same is true if self-regulation or corporate social responsibility are understood as proactive strategies to lower the probability of becoming a target in an activist campaign. Unfortunately, systematic empirical studies of activist campaigns are not yet available. The model presented here identifies data to be collected and provides predictions to be tested.

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