Good Cop - Bad Cop: Dynamic NGO Strategy, Offshoring and Technology Choice

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“At the time, it was heresy to say that companies and NGOs could work together; now it is dogma, at least for the Fortune 500,"

Gwen Ruta, Environmental Defense Fund

(from: The Economist, June 2010)

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1 Short Summary:

The rise in offshoring activity over the last decades has been accompanied by the emergence of activist NGOs interacting with the offshoring choices of firms. The types of interactions are diverse and reach from NGO campaigns promoting boycotts of certain firms to cooperation and labeling. The 1990s have witnessed a large number of violent campaigns against offshoring firms. A famous example is the campaign against poor working conditions in Indonesian sweatshops manufacturing for NIKE leading to significant improvements in wages and working conditions (Harrson and Scorse, AER, 2010). In May 1998 Nike's CEO Phil Knight admitted that "the Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse. I truly believe the American consumer doesn't want to buy products made under abusive conditions." While the 1990s were characterized by this type of confrontational interaction, the 2000s witnessed an NGO strategy change: more and more NGOs start to choose more cooperatives strategies towards firms resulting in labels and similar types of cooperation.

In this paper we propose a dynamic two period model of an NGO and an offshoring firm that can choose between clean and dirty production. We show that in this setup the pattern described above can emerge endogenously: if the offshoring firm implements the dirty technology in the first period, the NGO responds with a boycott campaign raising awareness of consumers. If the NGO campaign is sufficiently strong, it can induce the firm to switch to the clean technology in the second period. The NGO can incentivize this switch by offering a label to the switching firm. We use this model to analyze how falling trade costs affect the trade-offs of both the offshoring firm and the NGO and investigate to which extent falling trade costs can be at the origin of the increasing cooperations between offshoring firms and NGOs.