



**HAL**  
open science

## Does ethical activism lead to firm relocation?

Gilles Grolleau, Tarik Lakhal, Naoufel Mzoughi

► **To cite this version:**

Gilles Grolleau, Tarik Lakhal, Naoufel Mzoughi. Does ethical activism lead to firm relocation?. *Kyklos*, 2004, 57 (3), pp.387-402. 10.1111/j.0023-5962.2004.00259.x . hal-02677665

**HAL Id: hal-02677665**

**<https://hal.inrae.fr/hal-02677665>**

Submitted on 12 Sep 2023

**HAL** is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

# Does Ethical Activism Lead to Firm Relocation?<sup>1</sup>

Gilles Grolleau\* (Corresponding author)

Tarik Lakhali

Naoufel Mzoughi

**Abstract:** The first generation of ethical activism has led policymakers to impose higher ethical standards on domestic industries. Because of the costs generated by these ethical pressures, firms may delocate their productive activities to "unethical havens". The second generation of ethical activism has targeted firms regardless of their location. We show that, in certain plausible circumstances, this generation of ethical pressures can lead firms to reconsider the location of their productive activities. A subsequent insight is that supporting ethical activists could be a way to discourage firms migration or an incentive to induce relocation. The third generation of ethical activism relies on more constructive relationships and includes different forms of cooperation between activists and corporations. These partnerships are likely to reinforce firms location because of more consensual decision making. We present several policy implications and stress the need for further theoretical and applied research.

**Key-words:** Ethical pressures, Delocation, Relocation.

**JEL Code:** F18; F23; Q 28.

---

\*: Gilles Grolleau, UMR INRA-ENESAD (CESAER), B.P. 87999, 21079 DIJON CEDEX France, Tel: + 33 3 80 77 24 43, Fax: + 33 3 80 77 25 71, Email: [grolleau@enesad.inra.fr](mailto:grolleau@enesad.inra.fr).  
Tarik Lakhali, Université de Bourgogne- IREDU-CNRS, B.P. 26513, 21065 Dijon CEDEX France, Tel: + 33 3 80 39 54 50, Fax: +33 3 80 39 54 79, Email: [tlakhali@u-bourgogne.fr](mailto:tlakhali@u-bourgogne.fr).  
Naoufel Mzoughi, Université de Bourgogne UMR INRA-ENESAD (CESAER), B.P. 87999, 21079 DIJON CEDEX France, Tel: + 33 3 80 77 24 39, Fax: + 33 3 80 77 25 71, Email: [mzoughi@enesad.inra.fr](mailto:mzoughi@enesad.inra.fr).

1. We are grateful to Pierre Salmon, Jean Marc Callois, Carl Gagné and Steven Kelly for their useful comments. The encouragement of Jacques-François Thisse at the beginning of this project is gratefully acknowledged. We also thank the editors and the two anonymous referees of Kyklos for their constructive comments. The usual disclaimer applies.

# **Does Ethical Activism Lead to Firm Relocation?**

**Abstract:** The first generation of ethical activism has led policymakers to impose higher ethical standards on domestic industries. Because of the costs generated by these ethical pressures, firms may delocate their productive activities to "unethical havens". The second generation of ethical activism has targeted firms regardless of their location. We show that, in certain plausible circumstances, this generation of ethical pressures can lead firms to reconsider the location of their productive activities. A subsequent insight is that supporting ethical activists could be a way to discourage firms migration or an incentive to induce relocation. The third generation of ethical activism relies on more constructive relationships and includes different forms of cooperation between activists and corporations. These partnerships are likely to reinforce firms location because of more consensual decision making. We present several policy implications and stress the need for further theoretical and applied research.

**Key-words:** Ethical pressures, Delocation, Relocation.

**JEL Code:** F18; F23; Q 28.

# Does Ethical Activism Lead to Firm Relocation?<sup>2</sup>

*'Every social movement needs a visible villain, especially when working with the news media, and the anti-sweatshop activists couldn't have asked for a better one than Phil Knight, the founder and CEO of the largest sports-shoe business in the world, Nike.'*

(Bullert, 2000)

## I. INTRODUCTION

The early 1970s saw the birth of the first generation of ethical activism in developed countries. It relied on government interventions to force domestic firms to meet higher ethical standards, such as environmental regulations, and human and labor rights. These ethical standards have become important conditions for doing business (Gereffi et al., 2001). Neoclassical theory, anecdotal evidence and the popular press all argue that increasingly tight ethical standards in developed countries and "ethical dumping<sup>3</sup>" in developing countries are reasons for firms delocation<sup>4</sup>. More recently, ethical activism entered its second generation emphasizing the employment of market-based strategies. Instead of focusing primarily on government intervention, the pressures act directly on corporations, notably by threatening their consumption markets located in developed countries. To reach their objectives, activists attempt (or threaten) to cut firm profits by encouraging boycotts, implementing selective labeling and jeopardizing reputation or public image. These pressures enable activists to obtain higher ethical standards which induce extra costs for corporations. In this paper we argue that, in certain plausible

---

2. Note that the firm has delocated from the home country to another country –frequently a developing country – and will eventually relocate from the developing country to the home country. The title takes as reference an earlier paper by Motta and Thisse (1994), which analyzes the effects of eco-dumping on location decisions.

3. Ethical dumping characterizes a situation in which the ethical standards in one country are lower than those in other countries. By undercutting the ethical standards of other countries, a government reduces the production costs of domestic firms.

4. Firm delocation can be considered as one of the mechanisms of free trade. The dominating paradigm in international development policy, based on trade theory (Ricardo, Heckscher and Ohlin), predicts that international trade will be beneficial for all participating countries. The message conveyed can be summarized as: "Grow first, then clean up", which corresponds to the ethical Kuznets curve (Dasgupta et al., 2002). However, some alternative theories and arguments (that can be tracked back as far as Smith) suggest that free trade might lead to a deterioration of one party's development potential through an unequal appropriation of economic surplus by different actors (Daly, 1993). For recent reviews of the literature devoted to the relationships between trade, economic growth and the environment, see Khalafalla et al., 2001 and Dasgupta et al. 2002.

circumstances, ethical activism can constitute a leverage to induce relocation of industries which have migrated offshore<sup>5</sup>. In the 1990s, many ethical groups lost faith in traditional forms of direct regulation and recognized that confrontation is not always the best means of achieving the best ethical results. This fertile ground allowed collaborative relationships, which can influence location decisions in several ways.

The paper is organized as follows. In section two, we describe the first generation of ethical activism and its effects on firm location. In section three, we present the second generation of ethical activism and its ability to force firms to reconsider the location of their operations. Section four exposes the third generation of ethical activism and its various impacts on firm location decisions. Section five outlines the relevance of these insights for policymakers. Finally, section six provides concluding remarks and stresses the need for more in depth theoretical and applied studies.

## II. THE FIRST GENERATION OF ETHICAL ACTIVISM: A DRIVER OF FIRM DELOCATION?

In many developed countries, activists have played a major role in policy making and enforcement, notably since the 70's. Non governmental organizations (NGOs) and grassroots groups working on equitable and sustainable development have grown in scope and number<sup>6</sup>. Because of market and governmental failures to regulate certain ethical problems, activists from NGOs and grassroots groups have traditionally supported marginalized communities in their efforts to improve the economic, social, environmental and political conditions under which people live. Their initiatives were frequently directed towards governments by attempting to correct governmental failures and participating in the policy cycle at each stage –agenda setting, policy formulation, decision making, policy

---

5. Several economic studies stressed the influence of activism on firm location, even in developing countries, but they used a different line of reasoning, by focusing on the location in the same country (see Pargal and Mani, 2000 for a recent literature review).

6. Activists have considerable resources. As reported by Henderson (The Ecologist, October, 2000), 'worldwide, [NGOs] turnover is thought to be at least \$ 1.1 trillion. By some estimates, they provide more aid than the World Bank and employ more than 19 million people'.

implementation and policy evaluation. According to Manasian (1998), 'over the past 20 years hundreds of human rights non governmental organizations have been forced to document and publicize abuses, proselytize for legal change, chivy governments, deliver aid and arouse public opinion. Human rights non governmental organizations now participate directly in policy making and have become highly skilled at media relations.' Although many ethical causes were related to activities of private actors, ethical activists have relied intensively on governments to impose better "rules of the game" because of their coercive power. For example, in her study on environmental regulation in India, Dasgupta (2000) has stressed how the state's power has changed the location of thousands of plants. Activists also play a major role in pushing international organizations to design, implement and enforce a legal groundwork for multinational corporations and ratifying countries. However, the international "rules of the game", such as international conventions and treaties have been very limited in scope. Where these rules are considered as ambitious, the associated enforcement procedures are weak.

In addition, because of establishment and enforcement of stringent policies in developed countries, subsequent production and transaction costs have increased. These ethical costs include multidimensional aspects such as wages increase, pollution abatement or mandatory safety devices. For example, in Germany, the government has received a warning from Bayer's chairman: 'If the proposed measures are implemented, the German chemicals companies may have to switch more investment abroad. High environmental costs and delays caused by pressure groups have already forced the trio to invest outside Germany' (Financial Times, July, 1<sup>st</sup>, 1992). As enforcement of labor and environmental standards in low-wage countries is often weak, this pattern of production enables rich-country firms to reap the benefits of low production costs. This is because national regulation, where it exists, falls short of assuring the appropriate level of ethical rights. In fact, many governments seem unable or unwilling to ensure that national standards exist and are adequately enforced. Indeed, the first generation of activism has led to pick the "lowest hanging fruits",

and has been ineffective in dealing with emergent problems, notably those generated by delocation of domestic industries to escape the stricter and more costly standards of developed countries. While neoclassical theory, anecdotal evidence and popular press all predict delocation because of stricter ethical standards, empirical studies provide mitigated results. Without developing the whole puzzle of empirical studies devoted to the relationship between regulation strictness and firms location (see Ulph, 2000 and Jeppesen and List, 2002 for recent surveys), Millimet and List (2003) have proposed a pertinent methodology to reconcile and fill the gap between theoretical predictions and empirical validations<sup>7</sup>. Moreover, our preliminary investigations differ from previous studies by broadening the scope of ethical activism, which have been traditionally restricted to environmental considerations.

The underpinnings of the first generation of activists were mainly NIMBY (Not In My Back Yard) considerations, i.e. the improvements of ethical conditions at home, sometimes for specific communities. Activist pressures were oriented towards government to make them regulate stricter domestic industries. Because of the consequent costs increase, some companies may have delocated their productive activities abroad<sup>8</sup>.

---

7. The study of Millimet and List (2003) 'utilizes the method of matching to show that the impact of more stringent environmental regulations is heterogeneous, varying widely and systematically based on location specific attributes. Previous studies that assumed a homogenous response vector across space may have therefore inadvertently masked the overall impact of more stringent control policies by pooling unaffected regions with affected regions.'

8. If we assume that delocation costs are nil, then the trade-off will only be function of ethical costs versus transportation costs. Indeed, we could assume that there are no sunk costs to switch production activities from one country to another. Although this hypothesis seems very restrictive, many corporations do not really invest in heavy equipment in countries where their products are fabricated, instead contracting with suppliers that already have the production capacity, e.g. Nike.

### III. THE SECOND GENERATION OF ETHICAL ACTIVISM: FORCING FIRMS TO ADOPT ETHICAL STANDARDS WHEREVER THEY ARE!

*'I really don't want to know that my clothes are  
made under bad working conditions, but once I  
know, I want conditions improved so I can enjoy  
consuming again. '*

*Archetypal consumer*

In the past decade, activists have taken a new target, broader in scope. The motivational underpinnings of this new generation of activists have shifted from NIMBY considerations to NIABY (Not In Anyone's Back Yard), especially for universal rights or global pollution problems, which are not considered as location dependent. Without removing pressure on governments<sup>9</sup>, activists have extended their pressure directly to multinational corporations, wherever they are located. The lack of effective international (and often national) regulation to protect workers, communities, and the environment has spurred the development of a powerful movement aimed at promoting corporate social responsibility, whose partisans have on occasion forced significant changes in business practices through campaigns aimed at consumers and investors. Companies care about their reputations, which are increasingly becoming global. Multinationals are under pressure to justify their dealings with abusive governments, their treatment of employees and environmental negligence, in developing countries. Activist groups are proving adept at shaming or coercing corporations into paying attention to what activists say. Many top corporations have become the "villain targets" of ethical activists, such as Nike for sweatshops and child labor (Locke, 2001). To brush off activists criticism, multinational corporations have claimed that they have no control over third-world suppliers, and that politics is none of their business (Manasian, 1998). Although this argument is legally valid, it is not sufficient to satisfy activists, who consider multinationals as

---

9. For example, the state of Massachusetts passed a government purchasing law in 1996 barring corporations doing business with Myanmar from bidding for major public contracts. The military government of Myanmar (formerly Burma) has been recognized by many human-rights groups and the U.S. State Department as an egregious violator of basic human rights.



responsible because of their considerable economic power over the whole production chain. Moreover, faced with activists' demands, some firms adopt an avoidance strategy by choosing locations free from activists. A stimulating case is analyzed by Lee (2003), which states: 'the desire to obtain a malleable labor force was more important to firms than was proximity (...). The reasons [to locate new plants in greenfield locations] include opportunities to achieve economies of scale and adopt lean production techniques, enormous state subsidies, and *the desire to avoid labor unions*. (...) [Nevertheless] these locational strategies were successful only for a short period and that unions were organized in greenfield locations by mobile union workers'.

The success of the anti-apartheid campaign in the 1980s, which forced many companies to leave South Africa, demonstrated how vulnerable corporations<sup>10</sup> could be to public pressure on human-right issues (Seidman, 2003). According to Mann (2000), Global Exchange, a human rights organization, has 'forced over 200 US corporations to pull out of South Africa, which was one of the most profitable markets<sup>11</sup>.' Pargal and Wheeler (1996) report another example of such pressures, where 'a neighborhood association protest against a polluting tannery led to its relocation to the outskirts of the city'. In Burma (Myanmar) also, human right activists try successfully<sup>12</sup> to pull multinational corporations out of the country accusing them of supporting the dictator regime in place. Among other reasons, firms explained their delocation by the damage to company reputation and incompatibility with corporate values. Another piece of evidence comes from Hamilton (1993) who finds that firms processing hazardous waste select expansion sites in communities with low voter turnout, calculating that citizens from these areas would be less likely to engage in ethical activism<sup>13</sup>. To force companies to adopt

---

10. Note that vulnerability of corporations varies. For example, leaders and well known brands are more susceptible to becoming targets of activists.

11. Mann, J. (2000). Standing Up For The Victims Of Globalization, *Washington Post*. April, 26.

12. For several examples of firms that have delocated from Burma under activists pressure, see the report "Companies Supporting the Regime in Burma- The Clean List" by *The Burma Campaign UK Action* ([http://www.burmacampaign.org.uk/dirty\\_list/clean\\_list.html](http://www.burmacampaign.org.uk/dirty_list/clean_list.html)).

13. Note that other studies (see Atlas, 2002, for a literature review) present results contrary to Hamilton's ones.

responsible behavior in countries where they have delocated their activities directly or by the means of overseas suppliers, activists have been imaginative and have used various devices, such as encouraging the boycott of products of reprehensible corporations, implementing selective labeling to discriminate between products, internet-based attacks<sup>14</sup> and jeopardizing reputation. Activists are highly skilled at media relations and champions of new information and communication technologies, such as the internet (Bullert, 2000; Klein, 2001). The information duplication and diffusion at very low costs has been very useful in increasing the power of activists. According to Smith (2003), this 'has allowed rapid and widespread exposure of alleged corporate abuses in even the most remote corners of the world, as both Shell (oil spills in Nigeria exposed on television documentaries) and Nike (exposure of sweatshop labor conditions in its subcontractor operations in Asian LDCs) have learnt to their cost.'

These pressures have generated significant results by forcing firms to adopt more responsible behavior. For example, due to the environmentalists criticism, Shell made some efforts to meet its social and ethical responsibilities. Responding in a credible way to activists demands corresponds to additional costs for firms. These costs frequently include costs for designing, implementing and enforcing ethical standards or codes in ill-adapted environments (Gereffi et al., 2001). For example, the Council on Economic Priorities Accreditation Agency, a non-profit group which often criticizes corporate behavior has formulated an ethical standard SA 8000, i.e. "Social Accountability 8000". Inspired by the standards elaborated by the International Standards Organization, this standard aims at regulating corporate behavior by providing a set of measures, applicable anywhere in the world to ensure a decent treatment of workers. An increasing number of firms under scrutiny have adopted SA 8000, such as Toys "R" Us or Bingo Toys. According to Piotrowski and Kratz (1999), 'the costs of testing and verification for foreign producers are significantly higher, especially if they entail plant visits. It was reported in a study carried out in India that for some firms the costs of

---

14. Internet-based attacks include website hacking, virus distribution and e-mail campaigns, which have been used by activists as a means of getting their message across and causing inconvenience and financial losses.

testing for compliance with the Netherlands ecolabel requirements for footwear could lead to a cost increase of up to 50 per cent.' Activists pressures are now an important risk-management issue that can induce significant losses (e.g. temporary suspension of the activity, deterioration of the firm image and subsequent effects on stock exchanges and so on) which can be taken into account in the location decision. In certain circumstances, these extra costs can make the temptation to relocate more attractive and profitable<sup>15</sup>.

#### IV. THE THIRD GENERATION OF ETHICAL ACTIVISM: FROM ADVERSARIAL TO COOPERATIVE RELATIONSHIPS WITH BUSINESS

'Together we stand; divided we fall (...) Let us unite.'

Dr C.T. Wright, Activist Leader<sup>16</sup>

In the 1990s, many ethical groups lost faith in conventional forms of direct regulation and recognized that confrontation is not always the best means of achieving the best ethical results. A "milestone" illustrating the pitfalls of confrontation is the campaign of Greenpeace against the Shell project for the Brent Spar disposal, where Greenpeace finally discovered that it was wrong<sup>17</sup>. According to Arts (2002), 'the incident severely damaged the public credibility of Greenpeace, and particularly worsened the relationship with the press, who had reproduced Greenpeace's figures without any caution. So in the end, both Shell and Greenpeace became damaged by the Brent Spar case'. Many businesses have realized that conflict and human-rights abuses create instabilities and risks which jeopardize long-term investments. Multinationals try therefore to create new kinds of capital to have a stable social environment for business

---

15. As far as we know, cases of relocation from a developing country to a developed one are scarce. However the possibility of being forced to relocate would appear to be a deterrent to a firm's initial delocation.

16. Successor of Leon H. Sullivan as President and Chief Executive Officer of the International Foundation for Education and Self-Help.

17. Greenpeace has diffused wrong data into the world on the storage of oil and toxic waste in the Brent Spar.

operations which can be labeled as "ethical trust". Moreover, an increasing number of corporations was influenced by the "free lunch" thesis: the view that improving ethical performance –especially the environmental one– can be a net gain rather than a net loss (Porter and Van Der Linde, 1995). All this has created a fertile ground for the third generation of ethical activism, which places great emphasis on the development of more constructive relationships between business and ethical activists. Such collaborative arrangements encompass a large spectrum of initiatives from informal exchanges to "ethical alliances", with a variable degree of state contribution. A widespread and well-documented example of collaborative arrangements is green alliances, i.e. alliances between corporations and environmental associations (Hartman et Stafford, 1997). These partnerships can be "win-win" strategies for ethical groups and corporations. Among other advantages, the ethical movement can improve its audience, get quicker and better results at lower cost, encourage firm competitors to follow and benefit from a more constructive image (Hartman and Stafford, 1997). From the corporations side, potential benefits are also numerous. Such partnerships can notably provide an opportunity to do good in a more flexible and efficient way, enhance reputation and public image, create economic opportunities (e.g. ethical differentiation of products) and reduce the likelihood of being the target of activists' attacks or regulators.

The expected effects of this third generation of ethical activism are threefold. First, instead of costly conflicts, more constructive relationships between NGOs and business can help firms to stay where they already are<sup>18</sup>, by making the collaborative situation more profitable than the adversarial one. Working with ethical activists can be a net gain rather than a net loss, and reinforce the firm location. An early case concerns the Sullivan principles jointly elaborated by activists and several US corporations to not practice racial discrimination in their South African operations. This partnership may have supported the location of US corporations in South Africa, making them less vulnerable to activists

---

18. Ethical activists – business partnerships can reduce the expected impacts of the previous generations of ethical activism by decreasing the attractiveness of (1) delocation from a tough country to a more lenient one (2) relocation from a formerly lenient country to a tougher one.

attacks<sup>19</sup>. Paprocki (2002) gives another example of a manufacturer which 'saved more than \$40,000,000 in plant relocation costs by awarding several thousand dollars in grants to a neighborhood revitalization program that eventually resuscitated the inner city neighborhood where the old plant was located<sup>20</sup>.' Another example where partnership can lead to reinforcing firm location concerns the alliance between Conservation International and Latin American coffee-growers and distributors to limit rainforest clear-cutting by developing and marketing "shade farm" coffee beans, which are cultivated in limited sunlight under forest canopy (Hartman and Stafford, 1997). Second, (and closely related to the point above) cooperative approaches can provide or secure the corporation's "social license to operate" in the case of location-based productions such as extractive industries, which cannot be redeployed elsewhere. Several concrete examples of such partnerships for managing ethical issues in the extractive industries are available on the website of The Natural Resources Cluster of Business Partners for Development<sup>21</sup>. Third, partnerships can help firms for location change or new implementation. Such partnership with accurate ethical groups can help an "unwelcome" corporation to improve its public image and its social acceptance in *a priori* hostile environment. Frequently, businesses lack expertise in ethical fields and knowledge about activists' demands. Using collaborative relationships, a business can obtain expertise and strategic information from activists' groups. For example, by realizing the extreme sensitivity of a particular site in the eyes of activists, a business can select less environmentally sensitive areas or unpopulated ones, or take suitable environmental protection measures.

Although this third generation seems promising under some conditions (e.g. coexistence with independent organizations, ecolabels, etc.), some perverse effects are possible. These effects are developed in the next section.

---

19. The original label of "The Sullivan Principles" was the "Guidelines for the Principles of Equal Rights for U.S. Firms in South Africa" (1977). Note that Leon Sullivan called later on corporations to pull out of South Africa and pushed for U.S. sanctions against South Africa.

20. Paprocki, S. (2002). The State of Philanthropy, Document available at <http://www.philanthropyproject.org/publications/stateofphil.doc> (visited on January, 6th, 2003).

## V. POLICY CONSIDERATIONS

The insights expressed in sections three and four have important policy implications. Activists have proven that they can play a significant role in shaping the "rules of the game" and achieve significant results<sup>22</sup>. Because of the considerable literature devoted to delocation consequences, we focus on the implications of a potential relocation for the developed country (i.e. the presupposed "potential winner") and the developing country, (i.e. the potential "future victim").

The threat of relocation can be, to some extent, similar to the threat of delocation of a plant to an offshore site. At first glance, the negative effects of delocation –such as losses of jobs, financial resources and political power – or positive impacts –such as lower prices for consumers – can be cancelled by the relocation. For the country losing the previously delocated activities, all the benefits attributable to delocation are potentially lost. Relocation means a decrease of foreign direct investments and all the positive inducements are alleviated, such as promoting economic development and therefore enhancing the welfare of citizens. Developing countries lose their financial attractiveness for multinationals and a potential driver for improving ethical conditions. Moreover, relocation weakens the competitive advantages of "victim" countries. Thus, standard-makers should take into account two variables, namely the *domestic bias* (i.e. domestic industries can be favored by their presence in standards-setting organizations) and *differing regional conditions* (i.e. different economic regions have different environmental priorities and problems). Indeed, several countries, such as Pakistan and India, fear that activist campaigns restrain their economic development, breaking the virtuous circle predicted by several economic theories of development.

---

21. <http://www.bpd-naturalresources.org/>

22. Note that activists' power depends more on the perception that firms have of this power and its evolution rather than the real level of activism. Indeed, Richard Newton, director of BP Europe, states: ' If people *think* you have power, then- to some degree at least- you do' (Buchan, 1998, quoted by Haufler, 2001).

In some cases, these campaigns may have perverse effects. For example, activists have forced certain sport corporations to stop employing children in the production of soccer balls in Pakistan. However, since many of the children had been brought in from surrounding areas to work in factory-type situations, they ended up on the streets without caretakers or family supervision. This also undermined the economic autonomy of adult women, who are less involved in factory work than in home-based production. For developed countries, the second generation of ethical activism can become a leverage power to generate relocation or to make delocation less attractive.

From another side, corporations can be flooded with demands to meet standard after standard, in a "race to the top" which is uncontrolled and non justifiable. Some demands come from groups whose claim to represent a broad interest seems dubious<sup>23</sup>. This situation can generate non justifiable extra costs. Moreover, it is not at all clear who should decide exactly what standards the companies should adopt (to avoid "to each his own" situation) and the means of their assessment. In fact, some standards do not really achieve the promised ethical improvements. Sometimes, they reinforce inequalities by putting the communities fate in the hands of activists, who are not necessarily legitimately placed to fulfill such a role. Note also that companies do not have the same sensitiveness to ethical activism, which partly shapes the effectiveness of activists campaigns. Corporations with the "most to lose" from a negative ethical reputation have a greater incentive to improve their ethical performance compared to others, which already have a bad reputation. Moreover, even if a given firm designs, implements and enforces credible ethical standards in the developing country, it can become a "victim" of image spillovers resulting from the overall reputation of the country, independently of its efforts.

Finally, in certain plausible circumstances, governments can strategically attempt to use activists as powerful instruments for influencing location decisions. According to Pargal and Mani (2000), 'governments can do well by supporting citizen activism –through greater openness or information provision, greater involvement of local communities in

---

23. Frequently, labor unions and farmers' activism is shaped by protectionist considerations.

framing development plans, and so forth, as well through targeted interventions to raise awareness in lower-income and less-educated areas. Weaker (lower-income, less-aware, less politically conscious) states clearly need to build up the citizen's ability to defend its interests.'

Despite the promises of the third generation of ethical activism, perverse effects are also likely to occur, for example when partnerships generate positive spillovers. For example, 'Shell Foundation and Ford Motor Co. have been giving annual awards to Chinese environmental activists, NGOs, and University students green groups, which not only gives these organizations a short-term financial boost, but also raises their prestige among the general public' (Turner, 2003)<sup>24</sup>. Therefore, the overall image of the implied corporation is improved, regardless of its real practices in other non-implied locations. Moreover, actors involved in these relationships are very asymmetric in terms of power, information, and expertise. This asymmetry can become a strategic field for manipulation, notably the activists' capture by industrial interests. Because of such behaviors, and the weakness of implementation systems, many NGOs would have temptation to turn their back on industry and concentrate their effort on violations of business.

Moreover, industries can strategically use partnerships to their competitors disadvantage. For example, ecolabeling can be used to exclude foreign, distant or specifically located producers, notably by including transport criteria in ecolabeling schemes (see Körber, 1998 for a case study). Governments can sometimes define and enforce the "rules of the game" to ensure a fair and equitable process, such as in government sponsored ecolabeling schemes. Such relationships can jeopardize the strategic positions and the credibility of companies and ethical groups. Turner (2003) argues that 'NGOs working with businesses are often criticized even by supporters and accused of being co-opted by "the enemy"'. Indeed, activists should appear as working *with* a corporation rather than *for* it. For instance, the ethical activists committed in the partnership can lose

---

24. Turner, Jennifer L. (2003). Cultivating Environmental NGO-Business Partnerships, *The China Business Review*. November-December: 22-25.



credibility, become the target of other ethical groups<sup>25</sup> or suffer from other corporations decisions, not included in the formal agreement<sup>26</sup>. Thus, credibility constitutes a critical issue for ethical groups because it represents their greatest asset and seems critical to an ethical alliance's success. Otherwise, corporations can be accused of "greenwashing" their image through partnerships, while not really improving their practices. Also, a partnership is likely to put the involved firm under more rigorous scrutiny by other groups not implied in the partnership.

## VI. CONCLUSION

This paper has exploited the evolution of ethical activism and its potential effects on location choices of industries. Although our analysis has been derived under a *ceteris paribus* clause<sup>27</sup>, the implications for economic policy are considerable. Note that the three generations of ethical activism frequently co-exist and their overall impact can be ambiguous. When a generation clearly dominates the other ones, the impact on location is more predictable. (1) The first generation of ethical activism in developed countries has partly induced governmental regulation and firm delocation to countries with lower ethical standards. As a result, some countries could have incentives to practice ethical dumping to attract foreign investments. (2) Direct attacks of ethical activists against businesses can push companies to improve the ethical conditions of their operations abroad, and, in certain cases, may induce relocation to the initial country. Global activism can constitute new threats for countries willing to attract foreign capital and leverage for governments willing to get relocation of

---

25. A well-known example concerns the Pollution Probe-Greenpeace controversy. Covey and Brown (2001) report: 'In 1989 Pollution Probe (PP) [a Canadian environmental group] (...) endorsed a line of "green" products marketed by Loblaw's, a large Canadian grocery chain. (...) At the same time, Greenpeace (...) publicly questioned whether the endorsed fertilizer was in fact environmentally friendly. By taking this public position, Greenpeace assured its members that it was still leading the Canadian environmental movement and not becoming "soft" on the issues. Greenpeace also had an institutional interest in "blowing the whistle" because the PP endorsement could enhance the PP image with consumers who might otherwise support Greenpeace.'

26. This effect is likely to occur under two forms: (1) A firm can make a decision in another field not covered by the partnership and therefore harms the activists' reputation because of image spillovers, i.e. the decision projects a negative image not only on the corporation, but also on the activists' reputation. (2) When reputation is collective, a firm from the same sector, but not committed in the partnership, can project a bad image on the whole sector and therefore on the partnership.

previously delocated activities. Some governments attempt to compete on other grounds than "ethical endowments", notably by setting harmonized minimum ethical standards. For example, the Eastern European enlargement is likely to raise ethical standards in accession countries. These countries enter a "club" and adopt its minimum ethical standards, but keep a high degree of attractiveness for business, compared to other European countries. (3) Collaborative relationships are likely to satisfy both parties and reinforce location decisions of businesses, because the decisions are more consensual.

More generally, ethical activism under its various forms could be a new and complementary form of regulation, attempting to attenuate government and market failures. This issue questions the ambiguous results of numerous studies that have attempted to assess whether environmental legislation has a significant impact on the plant location decisions of firms. Indeed, the literature has generally failed to incorporate the "informal" regulation of activists. The highlighted policy implications are not lacking in possible perverse effects such as activists' capture by governmental or industry interests. The insights developed in this paper are still in their infancy and constitute a challenging topic for further research.

#### REFERENCES

Arts, B. (2002). 'Green Alliances' of Business and NGOs New Styles of Self Regulation or 'Dead-End Roads'?, *Corporate Social Responsibility and Environmental Management*. 9(1): 26-36.

Atlas, M. (2002). There Goes the Neighborhood: Environmental equity and the Location of New Hazardous Waste Management Facilities, *Policy Studies Journal*. 30(2): 171-192.

Bullert, Bette J. (2000). Strategy Public Relations, Sweatshops and the Making of Global Movement, *Working Paper*. The Joan Shorenstein Center on the Press, Politics and Public Policy.

Covey, Jane G. and Brown David L. (2001). Critical Cooperation: An Alternative Form of Civil Society-Business Engagement, *Institute for Development Research Reports*. 17(1).

Daly, Herman E. (1993). The Perils of 'Free Trade', *Scientific American*. 269(5): 24-29.

---

27. Other parameters shape location decisions and a more rigorous analysis must take into account these multidimensional aspects.

- Dasgupta, N. (2000). Environmental Enforcement and Small Industries in India: Reworking the Problem in the Poverty Context, *World Development*. 28(5): 945-967.
- Dasgupta, S., Laplante, B., Wang, H., and Wheeler, D. (2002). Confronting the Environmental Kuznets Curve, *Journal of Economic Perspectives*. 16 (1): 147-168.
- Gereffi, G., Garcia-Johnson, R., and Sasser, E. (2001). The NGO-Industrial Complex, *Foreign Policy*. 125: 56-65.
- Hamilton, James T. (1993). Politics and Social Costs: Estimating the Impact of Collective Action on Hazardous Waste Facilities, *Rand Journal of Economics*. 24 (1): 101-125.
- Hartman, Cathy L. and Stafford, Edwin R. (1997). Green Alliances: Building New Business with Environmental Groups, *Long Range Planning*. 30 (2): 184-196.
- Haufler, V. (2001). A Public Role for the Private Sector: Industry Self-Regulation in a Global Economy, *Carnegie Endowment for International Peace*. Washington D.C.
- Jeppesen, T. and Folmer, H. (2001). The Confusing Relationship Between Environmental Policy and Location Behaviour of Firms: A Methodological Review of Selected Case studies, *The Annals of Regional Science*. 35 (4): 523-546.
- Khalafalla, Khalid Y., Tuladhar, J., and Algieri, B. (2001). Trade, Economic Growth and the Environment: A Survey, *Working Paper*. Centre for Development Research, Germany.
- Körber, A. (1998). Why Everybody Loves Flipper: The Political Economy of the US Dolphin Safe Laws, *European Journal of Political Economy*. 14: 475-509.
- Lee, Yong S. (2003). Lean Production Systems, Labor Unions, and Greenfield Locations of the Korean New Auto Assembly Plants and Their Suppliers, *Economic Geography*. 79(3): 321-339.
- Locke, RM. (2001). The Promise and Perils of Globalization: the Case of Nike, *Case Study*. MIT.
- Manasian, D. (1998). Survey: Human-rights Law: The Power of Publicity, *The Economist*. December, 5, 349 (8097): S13-S16.
- Millimet, Daniel L. and List, John A. (2003). The Case of the Missing Pollution Haven Hypothesis, *Working Paper*. Southern Methodist University.
- Motta, M. and Thisse, Jean F. (1994). Does Environmental Dumping Lead to Delocation, *European Economic Review*. 38: 563-576.

- Pargal, S. and Mani, M. (2000). Citizen Activism, Environmental Regulation and the Location of Industrial Plants: Evidence from India, *Economic Development and Cultural Change*. 48(4): 829-846.
- Pargal, S. and Wheeler, D. (1996). Informal Regulation of Industrial Pollution in Developing Countries: Evidence from Indonesia, *Journal of Political Economy*. 104(6): 1314-1327.
- Piotrowski, R. and Kratz, S. (1999). Eco-Labeling in the Globalised Economy, *International Politics and Society*. 4: 430-443.
- Porter, Michael E. and Van Der Linde, C. (1995). Toward a New Conception of the Environment-Competitiveness Relationship, *Journal of Economic Perspectives*. 9 (4): 97-118.
- Seidman, Gay W. (2003). Monitoring Multinationals: Lessons from the Anti-Apartheid Era, *Politics & Society*. 31 (1): 1-26.
- Smith, Craig N. (2003). Corporate Social Responsibility: Whether or How?, *California Management review*. 45 (4): 52-76.
- Ulph, A. (2000). Environment and Trade, in: H. Folmer and L. Gabel (eds.), *Principles of Environmental and Resources Economics*. Edward Elgar: 479-528