The NGO’s Dilemma: How to Influence Firms to Replace a Potentially Hazardous Substance

Researchers Kraft, Zheng and Erhun study an NGO’s decisions when it attempts to remove a potentially hazardous substance from commercial use. Specifically, the researchers look at under what market and regulatory conditions the NGO should target the industry versus the regulatory body in order to influence firms to replace the substance. They consider the perspectives of both a pragmatic NGO that takes into consideration firm profits when making its decisions and an antagonistic NGO that maintains an arm’s length relationship with firms. The results of the study demonstrate that a pragmatic NGO should normally target the industry and leverage the competition between firms to ensure a replacement is available to sensitive consumers. In contrast, an antagonistic NGO should examine the existing market structure to determine whether it should target the industry or the regulatory body.

The researchers present the following insights from their research. Firstly, an antagonistic NGO’s optimal strategy is normally to exert enough effort such that either all firms or a dominant firm replaces the substance. An antagonistic NGO should target the industry if the market structure falls into one of two extremes: either the firms are very similar in size or a dominant firm exists. Otherwise, it should target the regulatory body. Secondly, with regard to a pragmatic NGO – it should primarily target the industry to influence either large or small firms to replace. Only if the firms are homogenous in size and the consumer benefit from replacing a substance is very low or very high should a pragmatic NGO consider targeting the regulatory body.

In addition, a pragmatic NGO must carefully weigh the tradeoff between reducing firm costs and maximizing consumer benefit. This is especially true when wither the consumer benefit from firms replacing a substance is high and the market is homogenous or the consumer benefit is lower and the market consists of a dominant firm.

Finally, the researchers also noted that consumers often benefit from the lobbying competition between an NGO and firms.

In conclusion, an NGO can influence firms’ replacement decisions when a potentially hazardous substance is identified by first determining who to target i.e. the industry or the regulatory body, and then what level of effort to exert. The firms then decide whether to proactively replace the substance or to defer replacement and wait to see if the substance is eventually regulated.

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