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The Economic Impacts of Social Activism in Food Markets

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Cornhusker Economics

The Economic Impacts of Social Activism in Food Markets

Market Report	Year Ago	4 Wks Ago	10-16-20
Livestock and Products.			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	*	*	107.00
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	156.18	162.21	159.57
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	150.88	150.60	148.72
Choice Boxed Beef, 600-750 lb. Carcass.	217.93	222.12	211.74
Western Corn Belt Base Hog Price Carcass, Negotiated	59.30	62.11	64.30
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	76.74	79.83	96.99
Slaughter Lambs, woolled and shorn, 135-165 lb. National.	139.55	129.87	160.11
National Carcass Lamb Cutout FOB.	403.37	424.93	440.83
Crops.			
Daily Spot Prices			
Wheat, No. 1, H.W. Southwest NE, bu.	3.74	NA	5.12
Corn, No. 2, Yellow Central NE, bu.	3.74	NA	3.80
Soybeans, No. 1, Yellow Central NE, bu.	8.41	NA	9.89
Grain Sorghum, No.2, Yellow Southeast NE, cwt.	6.02	NA	4.85
White Oats, No.1/2, Bulk Minneapolis, Mn, bu.	3.09	2.96	3.13
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	*	NA	NA
Alfalfa, Large Rounds, Good Platte Valley, ton.	107.50	NA	NA
Grass Hay, Large Rounds, Good Nebraska, ton.	95.00	NA	NA
NADried Distillers Grains, 10% Moisture Nebraska Average.	147.50	151.00	168.20
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	52.50	44.08	50.67
* No Market			

Private politics, usually led by nongovernmental organizations (NGOs) and social activists, focuses on changing the behavior of private economic agents through social pressure rather than through government action (although government action is also possible) (Baron, 2003). The food sector has been experiencing increased social pressure from social activist organizations to achieve diverse goals, ranging from improving food safety and food fortification to increasing transparency in food markets. A primary reason for the increase in organized activism in the food sector is the proliferation of the provision of credence attributes which are attributes unobservable through search or experience (consumption and use). The majority of these credence attributes are related to a product's production process (e.g., *raised without antibiotics, GMO free, gluten free, fair trade*) and their provision is not mandated by the government but instead firms choose to 'self-regulate' and voluntarily provide them to appeal to consumers who value them. The voluntary provision and the lack of well-defined standards for many of these attributes (e.g., claims that the product is *100% natural, ethically produced or produced in a socially responsible manner*) create an opportunity for the emergence of fraudulent behavior which often takes the form of firms making false or misleading claims about its product's quality.

There are numerous examples where social activist organizations such as the Changing Markets Foundation, the Organic Consumers Association (OCA), SumOfUs and Greenpeace, have exerted

social pressure on food firms, who, according to these activists, have made false and/or misleading claims about their products and/or business practices. These organized social activist groups often collaborate with different players in the markets such as competitors of the firms they target, research organizations and NGOs and conduct research to identify irresponsible corporate practices. Based on this research, the activists may decide to launch campaigns, which are organized series of events, to fulfill desired goals. Campaign documents reveal that activist organizations whose primary goal is to remove false and misleading claims will initially make demands on the target firm to remove these claims. If the target firm rejects these demands, then the activists will exert social pressure which can take multiple forms, such as, (1) harming the reputation of the firm with name and shame campaigns that publicize the activists' research findings, (2) signing petitions, (3) encouraging citizens to vote on a referendum to repeal existing legislature, (4) calling for boycotts of the firm's products or (5) even disrupting the regular activities of the firm by protesting outside their offices.

A recent example of social activism in food markets is the launch of the "Busting the Myth" campaign against Nestle, which is one of the global leaders in the infant milk formula market, by the Changing Markets Foundation and the International Baby Food Action Network (IBFAN). The objective of the campaign was to remove misleading and false claims made by Nestle with regard to the various infant milk formulas and to ensure that Nestle improved their standards by removing harmful content from their products. Specifically, the activists argued that Nestle made contradictory claims about the benefits and potential harm of sucrose and vanilla compounds in infant milk formula. For instance, while the company advised against giving sucrose and vanilla in Brazil and Hong Kong, its infant milk formula sold in Africa did contain sucrose. The campaign also accused the company of making false claims about its product being 'closest to breastmilk' and thereby, breaking established standards set by the World Health Organization.

Similarly, the OCA launched "The Myth of the Natural Food" campaign where the main objective was to remove natural label claims. OCA argues that when firms such as Nature Valley, Post Shredded Wheat and Sioux Honey Association use the claim *natural*

for their products, consumers automatically equate *natural* to *organic*, which provides the opportunity to mislead consumers for economic gains. OCA has also directed social pressure on Tyson for making misleading claims that it is following socially responsible practices.

The success of activist campaigns depends, to a great extent, on support from the public. GlobeScan's *Trust in Institutions* surveys show that NGOs rank highest in public trust compared to the United Nations, large local companies, national governments, and global companies, in that order (Baron, 2012). Given the increased presence of social activist organizations in the food sector and the rise of large-scale organized campaigns, it is important to analyze the economic impacts of their presence in food markets. Researchers in the Department of Agricultural Economics at the University of Nebraska-Lincoln are examining the economic impacts of the presence of activists who exert social pressure with the objective of removing false and misleading claims when well-defined standards for the credence attributes provided by food firms do not exist. The credence nature of the food product attributes and the lack of well-defined standards create an informational asymmetry between the firm and other parties (e.g., consumers, regulators, activists) that the firm may choose to exploit. The removal of false and misleading claims by food firms can have important welfare implications for both consumers and producers. The study derives the conditions under which an activist will be effective in removing misleading and false claims and provides insights as to how the presence of private politics in food markets affects market outcomes and the welfare of agents along the supply chain when the activist is effective as well as when they are ineffective or incorrectly target a firm.

Specifically, the study develops a game-theoretic framework that includes the following players: two firms – a self-regulator that provides a credence attribute and a profit maximizer that provides a basic good – a continuum of heterogeneous consumers and a confrontational activist. Consumers value the credence attribute, but they differ in their strength of preference for it, and they revise their perceived quality valuation of the firm's product if the firm is targeted by the activist (this accounts for

the reputational harm faced by the targeted firm if the activist's campaign succeeds). The activist values market transparency, her utility decreases in the discrepancy between the quality the firm produces and the claims it makes about this quality and receives utility from targeting the firm. The self-regulating firm decides on the level of quality of the credence attribute it will supply in the market and the claims it will make about this quality.

Study results show that even in the presence of an activist who always monitors the firm and accurately identifies discrepancies between the firm's actual and claimed quality, there are conditions under which a self-regulating firm has an incentive to misrepresent its true quality. The greater is the effectiveness of the activist and the reputational harm the firm faces if the activist's campaign succeeds, the less likely it is that the firm will misrepresent its true quality. Interestingly, results show that if the firm finds it optimal to misrepresent its quality, the presence of the activist does not affect the *outrageousness* of the firm's claims. However, the presence of the activist can alter the

optimal quality the firm actually produces and supplies in the market; the optimal quality is greater when the activist is present in the market than when she is absent. This occurs because by choosing a greater quality, the firm can strategically alter the activist's incentive to target the firm and the probability that a campaign, if launched, will be successful. Finally, results show that while the activist can play an important role in increasing market transparency resulting in significant welfare gains for consumers, a benevolent yet ineffective activist can lead to welfare losses that may be greater than those present when the activist is absent and consumers are uninformed.

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