

Talk it out: When dialogue works wonders

IESE's Fabrizio Ferraro investigates the transformative power of dialogue in an award-winning paper that tracks years of shareholder activism.

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Wal-Mart, employer of 2.2 million people worldwide, has attracted the attention of many activists. Are Wal-Mart wages too low? Are its hiring practices unfair?

Street activists have used reputational damage as a weapon to try to change labor practices at Wal-Mart and elsewhere. Shareholder activists, particularly those committed to engaging in dialogue over time, have a different story to tell — one that has not been rigorously studied by academics until now.

[Fabrizio Ferraro](#) of IESE and Daniel Beunza of the London School of Economics focus their research on the transformative power of shareholder dialogue by [following a group of investor-activists whose work dates back to the 1970s](#). The results — titled "Why Talk? A Process Model of Dialogue in Shareholder Engagement" — won 2014's "Best Paper" award from Sustainalytics, a responsible investment research firm.

The research is based on a four-year qualitative study, which includes scores of interviews with activists and executives as well as analyses of archival data. The co-authors narrow their focus to six multi-year shareholder dialogues with six major corporations: Wal-Mart, Merck, Ford, ExxonMobil, Dillard's and Tyson. Through this research, Ferraro and Beunza conclude that dialogue can be an effective method of bringing about social change and they map out how.

The case of Merck

By early 2001, HIV/AIDS had infected an estimated 36 million people and claimed 22 million lives. Sub-Saharan Africa was home to the majority of HIV-infected people. Emerging economies there were having a hard time finding the resources to fight the disease.

In 2001 Merck, maker of patent-protected anti-HIV drugs, was among the drug makers suing South Africa's government for allowing generic anti-HIV medication in to treat the problem within the HIV-ravaged country. The drug companies argued that South Africa could undermine patent protections and thus undermine their business models. But with treatments costing north of US\$1,000 per patient per year, social activists were clear that corporate change had to happen to save African lives.

Social protests were plentiful, from street protests in Manhattan to Pretoria with mock coffins and slogans critical of Merck and many other big pharma companies.

At the same time, a group called the Interfaith Center on Corporate Responsibility (ICCR) approached Merck to talk about the issue. Founded in 1971, New York-based ICCR was made up of 275 faith-based institutional investors with more than \$100 billion under management. Over the course of several years, ICCR managed to set up meetings with Merck, suggest several ways to make their drugs more accessible in Africa and reframe the moral debate in business terms, positing change as a way to reach previously unreachable emerging markets.

The results were positive, with Merck launching its progressive Access to Health Guiding Principles in 2010, the same year it ranked second on the global Access to Medicine Index, an initiative funded by the Bill & Melinda Gates Foundation to improve access to medicine in developing countries.

Dialogue as a tool

ICCR's outreach efforts also led to Wal-Mart improving its employment practices in the early 2000s (although much of this progress was lost later in the decade). Efforts by ICCR also moved Ford to cease funding a climate-change-denying think tank and embrace sustainable technology. The ICCR's secret weapon was dialogue.

Contentious activism can weed out illegal practices by focusing on reputational threats to a company — by exposing and shaming its use of sweatshops in the developing world, for

example. Engaging in dialogue, meanwhile, works toward the same goal, but by employing a more private and collaborative route it proves more effective at treating ongoing issues within a company. Dialogue leads to learning instead of simply shaming. Three steps are key:

1. **Start the conversation: Raising awareness.** Dialogue and activism work well together, the authors find, and are most complementary when seeking to raise awareness. Negative publicity and threats to reputation can encourage companies to open their doors to dialogue and help stakeholder activists gain access to corporate managers to alert them to a social problem.
2. **Bring the right mix of people to the table.** But access alone may not be enough. Once those doors are open, it's important to bring the right people to the table. On the corporate side, a group composed of high- and low-ranking executives has more chance of creating internal champions within the company. High-ranking executives have internal influence while lower ranking ones may be closer to the realities of a problem that needs to be fixed. It's important to consider dialogue as creating a space that allows internal concerns to surface, the examples show. Building coalitions of affected parties can spread the network and the possibilities for change. Industry conferences, for example, can serve as a public forum for promoting early reformers and exposing laggards within a given industry.
3. **Reframe the issue in business terms.** Issues regarding labor practices and access to life-saving medication are clearly of moral concern. Nonetheless, reframing these issues in business terms can make for more effective dialogue within the corporate world. Reframing the debate may allow both parties to consider each other's perspectives without being put on the defensive. Dialogue is, after all, intended to be a two-way street. Meanwhile, as dialogue is a private and ongoing process, shareholders have to be in it for the long term. A single problem may devolve into multiple issues, and time and mutual feedback serve to build trust and develop key relationships. An issue may require commitment to confidentiality where the media is concerned.

Talk: Mightier than the sword?

The co-authors complete their analysis by identifying the conditions under which contentious/confrontational activism (along the line of street protests) is more appropriate than dialogue and vice versa. They develop seven conclusions to map out when and how these agents of social change work best:

1. **Activism is more effective on mature issues that may require the weeding out of illegitimate practices, while dialogue is more effective at shaping corporate practices on emerging issues.** Contentious activism is the way to go to end practices that are widely seen as wrong — e.g., discrimination and the violation of basic human rights. But dialogue works better for steering change over a longer time horizon — e.g., approaches to climate change and emerging global trends.
2. **Activism opens doors.** Naming and shaming can be effective in the early stages, providing a reputational threat for the company and raising awareness of the issue.
3. **Dialogue soothes fears and presents issues in a light that is positive to business.** Once access has been gained, dialogue can serve to soothe managers' fears while suggesting that there is business merit to addressing the problem.
4. **Dialogue is effective in companies where there is internal debate on the issue.** It can serve to bring these debates to the forefront.
5. **Activism is indirect, dialogue is relationship-based.** While activism needs to be widely reported (media coverage) to be effective, dialogue works by building trust between the activist and the corporation.
6. **Dialogue is the tool of the strong.** Activism tends to work most effectively on more vulnerable companies, while dialogue is effective with stronger companies — companies that may have a higher organizational capacity for change.
7. **Activism leads to isolated pockets of change.** It also diffuses more slowly throughout the industry. Dialogue, meanwhile, can lead to significant change.

While there's no guaranteed resolution for a social problem, dialogue provides a chance for true learning and transformation — and increased closeness between company and shareholder interests.

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