

Who is willing to talk social and environmental change?

IESE's Horacio Rousseau and Pascual Berrone's award-winning paper examines which factors lead companies to engage with social and environmental activists.

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"Change happens by listening and then starting a dialogue with the people who are doing something you don't believe is right," said renowned activist Jane Goodall.

It makes sense, but sometimes those you want to change are, in fact, organizations, and more difficult to engage in dialogue than people. How likely is a corporation to embrace meaningful dialogue on social or environmental issues?

It depends on their CEOs' backgrounds, how they are paid, how long they have been in their jobs and a number of other factors examined by IESE's Horacio Rousseau and [Pascual Berrone](#), with co-author Judith L. Walls, in [research](#) that won the 2014 Best Paper Award from the Academy of Management (ONE Division).

Furthermore, based on empirical data on shareholder activism spanning eight years, the authors find that social welfare issues and environmental issues should not be lumped in one CSR category if one wants to understand how social and environmental changes are actually initiated.

Seven lessons on corporate dialogue

The authors examined shareholder activism in the U.S. manufacturing and heavy transportation industries. Using a well-regarded database tracking shareholder proposals, the authors manually coded the proposals to separate social from environmental petitions. Social

proposals included bans on animal testing, protections for Chinese factory workers and more inclusive, anti-discriminatory HR policies. Environmental proposals included anti-pollution measures and the incorporation of more sustainable materials.

The authors then tested a series of hypotheses to help determine which corporations engaged in dialogue with shareholders on what kinds of issues. The idea is that dialogue is the first step to meaningful corporate change.

Here's a rundown of the results:

1. *Powerful shareholder activists are more likely to get corporations to talk.* Essentially, power talks, and shareholders who own a lot of stock are more likely to get management's attention and engagement. This effect was particularly strong for environmental proposals, but it also holds true for social welfare issues. In addition, activists seen to have legitimacy (via their affiliations) are also more likely to have social proposals heard.
2. *CEOs with experience working for NGOs are more likely to engage in dialogue about social matters.* Having a CEO with NGO experience strongly and significantly influences that firm's willingness to engage with proposals on social issues. However, NGO experience was not significant for environmental issues.
3. *CEOs who also sit on other corporations' boards are more willing to engage in dialogue on social demands.* This may boil down to concern for reputation, with CEOs on other corporate boards more likely to be concerned about their personal reputations -- both in business and social spheres. But, like NGO experience, sitting on multiple boards did not appear to influence engagement with environmental issues.
4. *Elite-educated CEOs are more open to dialogue on environmental issues.* While it did not matter for social issues, having a CEO who attended an elite university had a significant impact on the corporation's willingness to engage in dialogue on environmental matters.
5. *New CEOs are more likely to engage on social and environmental concerns.* Newly appointed CEOs generally lack legitimacy and internal power and so it seems they feel greater pressure to engage in dialogue to increase their personal legitimacy. On the flip side, tenured, powerful CEOs are apparently more likely to deflect efforts to talk.
6. *CEO long-term pay affects dialogue on environmental issues.* Long-term pay, which may include stock options, is meant to align CEOs with the long-term goals of the company. In the study, long-term pay is positively associated with dialogue on environmental issues, but not

social ones.

7. Highly visible corporations are more likely to talk about environmental issues. Having a high profile makes it more likely a company will respond to environmental issues. At the same time, visibility is not significant regarding dialogue on social matters.

Two types of logics at play

The study's results back the idea that environmental issues and social welfare matters are rooted in different institutional logics. As such, they are not affected by the same factors in the same ways, even though many studies insist on lumping them into a single CSR (corporate social responsibility) category.

The authors describe their research as motivated by two questions: First: "What are the factors that enable dialogue on social and environmental issues?" And second: "How does the importance of these factors change depending on whether the dialogue is centered on social rather than environmental issues?"

In sum, they find that powerful activists and new CEOs make it more likely that firms and actors will start talking about environmental and social issues. In addition, they find that activists with more legitimacy, CEOs with more NGO experience and CEOs who sit on other boards are more open to dialogue on social welfare issues, but not necessarily environmental ones. Meanwhile, CEOs with elite education, long-term pay incentives and firms with higher profiles are more open to dialogue on environmental issues, but not necessarily social ones.

The result is a more nuanced understanding of how to open the door to corporate change.

For example, Avon stopped testing its products on animals over 20 years ago to address concern for animal welfare. Meanwhile, companies such as Koch Industries and ExxonMobil have been cited for refusing to engage with shareholder activists on environmental and social issues, respectively. Understanding the paths to dialogue is an important step to understanding how social changes might be best pursued.

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