Paper Title: Let's talk: Studying Dialogue among Firms and Outside Actors on Social and Environmental Issues

Introduction and Theory

Over the last couple of decades, corporations have been facing increasing pressure to include social and environmental concerns as criteria for everyday decision making. Confronted with the fact that the link between social and financial performance is elusive (Margolis & Walsh, 2003), scholars have resorted to cultural theories of the organization in order to explain why firms include non-financial stipulations as a basis for action. Scholars working under the institutional theory paradigm, for instance, have addressed the impact of normative and coercive forces (such as the state's regulatory capacity) in pushing corporations to behave in socially-responsible ways (Campbell, 2007; Hoffman, 2001). A central tenet from institutional theory is that firms comply with institutional forces in order to secure important resources such as social legitimacy (Meyer & Rowan, 1977). In most cases, empirical studies adopting an institutional view proceed by developing some measure of the 'strength' of a certain institutional pressure and then showing how this measure covariates with a specific facet of the social or environmental behavior of the firm (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010; Delmas & Toffel, 2004).

Absent from this approach, however, is the fact that the presence of multiple institutional pressures or 'logics' (Thornton & Ocasio, 1999) is a necessary but not sufficient condition to challenge current institutional arrangements and push corporations towards adopting more sustainable management practices. Social actors are needed to give 'voice' and act upon these logics in order to stimulate the desired change in the current field frames of corporations (Andersson & Bateman, 2000; Reid & Toffel, 2009). An important part of corporate change is thus better understood not as the result of ubiquitous institutional forces but as the outcome of everyday interactions held in concrete social situations by actors who 'represent' and give voice to competing institutional demands (Powell & Colyvas, 2008). When such interactions are held through legitimate channels, we call them *dialogue*. Dialogue is a formal mechanism by which societal level inconsistencies and tensions are solved through a process of communicative action (Habermas, 1984). By dialoguing, participants try to challenge and mutually alter their worldviews, in a process that can lead to social and institutional change (Scherer & Palazzo, 2007; Seo & Creed, 2002). Although dialogue is a central mechanism that links societal-level institutional logics to micro-level change (Hasselbladh & Kallinikos, 2000; Rehbein, Logsdon, & Buren, 2012), researchers only have a limited understanding of the factors that affect whether dialogue will occur in the first place. Moreover, previous studies have failed to analyze the role played by institutional logics as script-providing devices, therefore giving an undersocialized view of agents fostering social change (Granovetter, 1985).

In this paper, we attempt to remedy this gap by answering the two following research questions: *What factors influence the likelihood of dialogue between corporations and actors voicing social and environmental demands that stem from larger society? Does the importance of these factors change depending on whether the dialogue is centered on social rather than environmental issues?* We address these questions using shareholder activism as an empirical setting, since it is a major arena in which advocates of social and environmental change try to promote dialogue through the proxy process (David, Bloom, & Hillman, 2007; Logsdon & Buren, 2008; O'Rourke, 2003). More specifically, we focus on shareholder resolutions on social and environmental issues in the context of manufacturing and heavy transportation industries. These industries have a considerable effect in the environment and represent a mature and homogenous field (Berrone & Gomez-Mejia, 2009). Outside actors in this field give voice to competing institutional demands and try to engage top managers (i.e. CEOs) in a conversation that might eventually lead to change.

Results and Conclusions

Our findings suggest that only two factors are important enablers of dialogue on both environmental and social issues: the power (influence) of the external actor and the situational factor of a new CEO. Since power is a pervasive element of social relationships both within and between organizations, it is not surprising to find that corporations cannot ignore a powerful external actor without impairing their access to some valuable resource. On the other hand, new CEOs lack the power needed to deflect dialogue, and are therefore better disposed to talk on both issues. Besides these two factors, dialogue on environmental issues is enabled by CEO elite education, corporate visibility and CEO long-term pay. This indicates that the technical nature of environmental issues (Shrivastava, 1995) may cause a larger reputational damage to CEOs from privileged backgrounds. High-status CEOs pose a special premium on their personal reputation within the community and therefore weight more heavily local environmental issues. Corporate visibility is also important for environmental issues. Since the environmental impact of corporations is a localized phenomenon, visible corporations seem to be willing to dialogue with actors who give voice to environmental concerns as a way to retain their environmental legitimacy within the community (Berrone, Gelabert, & Fosfuri, 2009; Marquis, Glynn, & Davis, 2007). Long-term pay also plays a major role as an enabler of dialogue on environmental issues. We attribute this to an incentive structure that allows for a better alignment between the time-horizons of CEO compensation and environmental initiatives.

Dialogue on social issues, on the other hand, is enabled by the external actor's legitimacy, CEO NGO experience, and the CEO board membership. Affiliation seems to play a key role in conceding legitimacy on social welfare issues (such as inequality and labor standards) thus enabling dialogue on these matters. Also, CEOs with NGO experience show a good attitude towards dialogue in mitigating social problems. This is further enhanced by the fact that CEOs who neglect getting involved in social issues might harm their reputation in a way that prevents them from maintaining their business-elite member status. Thus, CEOs who are currently reaping the rewards of an enhanced status by participating in other major corporate boards are more prone to discuss social issues with external parties.

In conclusion, our paper aims to make several contributions to both sustainability and institutional theory. First, we rigorously introduce dialogue as a core mechanism through which external actors and corporations negotiate inconsistencies and tensions that stem from the larger social system (Rehbein et al., 2012; Seo & Creed, 2002). By doing so, we offer an explanation of how macro-level societal concerns on the social and environmental duties of the corporation influence micro-level behavior. Dialogue can help explain social and institutional change without resorting to either contentious extra-institutional actors (King & Soule, 2007) or external shocks or 'discontinuities' (Fligstein, 1990; Tilcsik & Marquis, 2013). Second, we empirically test the factors that affect corporate willingness to dialogue on social and environmental matters. Finally, we provide evidence that each of these factors has a distinctive effect on dialogue initiation depending on whether the dialogue is centered on environmental or on social welfare matters. Because social and environmental demands are rooted in different institutional logics, the factors that affect dialogue on one topic should differ from the factors enabling dialogue on a different subject. Moreover, the consequences for managers of avoiding dialogue will vary depending on the issue at hand. In this way, we aim to raise a warning sign to scholars who conflate social and environmental matters under the broad rubric of CSR.

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