Christoph Lueneburger and Daniel Goleman

The Change Leadership Sustainability Demands
SUSTAINABILITY

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Sustainability initiatives can’t be driven through an organization the way other changes can. They have three distinct stages, and each requires different organizational capabilities and leadership competencies.

BY CHRISTOPH LUENEBURGER AND DANIEL GOLEMAN

THREE TEEN-AGED GIRLS are at a shopping mall looking for sunscreen. It’s an impulse purchase, and it has to be an all-natural choice. They think they’ve found what they’re looking for at one store, but on the way to the register one of the girls takes out her phone and swipes it by the barcode of the product they’ve selected. Moments later, as she’s pulling out a credit card at the register, her iPhone announces an incoming email. It’s a short message informing her that the item she is about to purchase contains compounds that are linked to the decimation of coral reefs. Moreover, the plastic container is difficult to recycle. Because her phone has pinpointed her location via GPS, she also learns that another store in the mall carries a “greener” sunscreen that has neither of those two problems. The girls leave the register and make a beeline for the other store.

This scenario is not a pipedream. In fact, the technology needed to make it happen is already in

Radical transparency led to the movement by American consumers that transformed milk from a product laced with rbGH — the genetic copy of a hormone occurring naturally that significantly boosts milk production — to a much more natural substance.
place. Retailers like Wal-Mart Stores Inc. are developing sustainability indices; one day soon comparative product ratings will be posted next to price tags. The website GoodGuide.com provides a free iPhone app that rates and compares tens of thousands of products on their environmental, health and social impacts. Because of such technologies, the guiding principle for many companies, increasingly, is caveat venditor: let the seller beware.

As many markets become ever more “transparent” to environmentally conscious customers, the pursuit of sustainability will shift from a choice that companies make to a sheer necessity of survival. It will affect the de facto “license” of a business to operate — a license that customers won’t hesitate to revoke.

Many executives understand how these dynamics will fundamentally alter their businesses, and they understand that sustainability is, ultimately, about the sustainability of their own organizations. But they often stumble in making the transition because of basic misconceptions about what it will take to transform their companies. Many make the mistake of treating sustainability like any other large corporate initiative: It’s actually different in several crucial ways. Or they assume that it will require a steady, constant effort over years. In fact, it entails three distinct phases, each requiring different leadership skills. When implementing a business strategy that commercially incorporates sustainability, managers must first recognize how such efforts are unique, and then understand how best to advance through each major stage of a sustainability initiative.

**Not Your Father’s Corporate Initiative**

Not so long ago, sustainability wasn’t even on the radar screens of most companies. Today, many corporations view sustainability as a strategic opportunity and are pursuing it as an operational competence. The most advanced of these organizations are now thinking of sustainability as a core value — the fundamental way in which they do business. To achieve that kind of transformation, executives must first understand the three basic ways in which sustainability is substantively different from other kinds of corporate initiatives.

First, sustainability is about operational reality first, and public perceptions second. Companies that market their external image beyond their actual accomplishments are risking serious damage to their corporate reputations, the impact of which can extend far beyond any individual brands. Second, other initiatives tend to be unambiguously commercial decisions: costs are cut, target segments are expanded, pricing is commoditized. In the case of sustainability, the organization frequently starts not only with an unclear picture of its potential commercial impact but also with a blurred definition of sustainability itself. Third, other corporate initiatives — such as implementing just-in-time concepts or reorganizing from products to geographies — can generally be a part of a sustainability strategy, which will itself be greater in scope. Although other initiatives tend to pivot about a particular function such as purchasing, IT or operations, sustainability applies to every role and every action of the enterprise. It therefore requires widespread operational as well as cultural changes.

Correspondingly, our research indicates that successful sustainability initiatives tend to evolve through three distinct phases. (See “The Three Phases of a Sustainability Initiative,” p. 52.) However, different initiatives pursued in concert with one another will frequently be asynchronous in their evolution. Each phase relies on different levels of organizational capability and a specific set of leadership competencies on the part of the individual heading that effort (see “About the Research”). We’re not talking here about never-seen-before competencies but about the right combination of competencies — exceeding the norm for executives with similar tenures and responsibilities — at the right time. A closer look at each of the three phases provides details of these competencies and the leadership challenges involved.

**Phase 1 — Making the Case for Change**

When an organization is largely unprepared to address sustainability, the key challenge is to make a clear and compelling case for change. Because the organization is at best reactive to the challenges of sustainability (and usually unaware of the opportunities), the sustainability leader must be adept at collaborating and influencing others in the course of the transition from unconscious to conscious reactivity. At the end of Phase 1, sustainability emerges as a powerful mandate that is pervasive throughout the organization.
At some point, nearly every company has been unconsciously reactive to sustainability. Employees might be unaware of the threats and opportunities involved until something happens that brings the issue onto the senior leadership’s radar screen. The trigger has often been explicitly reflected on the C-level dashboard (impending regulatory action or media exposure from environmental disasters, for instance) but increasingly it is rooted in more gradual trends (such as the growing scarcity of a key manufacturing input or the evolution of comparative product metrics). Either way, the organization begins to engage with sustainability but lacks a shared and consistent understanding of what it means. As such, an important task in Phase 1 is the early identification of important but as yet ill-defined risks and opportunities. This process can be difficult because senior executives might not yet fully appreciate the significance of the issue. “The thing we struggle with is engaging the general managers, who actually run businesses,” says the head of sustainability at a major educational publisher. “Without them it’s very difficult to move our agenda forward. This is really the key challenge.”

Accordingly, the paramount competencies of the sustainability leader in Phase 1 are twofold: 1) collaboration and influencing and 2) change leadership. The leader must communicate a compelling vision and gain buy-in from key opinion formers in the organization. To do so, the leader must be able to understand the motivations of different stakeholders, and engage and partner with managers to weave sustainability into the fabric of the organization. In addition, the leader must possess the ability to understand and overcome the barriers to adopting sustainability. Leaders must help identify, define and develop a specific set of business processes geared to manage previously unquantified risks and capture new opportunities. The initial mandate for the sustainability leader might be surprisingly vague, expressing only the general sense of a need to act. Consequently, the leader must be able to deal with ambiguity and still be effective in guiding the organization through Phase 1.

Consider Owens Corning, an innovator in fiberglass technology. In some ways, the company has been environmentally friendly since 1938, when it launched its first insulation product. But the first phase of its real engagement with sustainability began in 2002 with Dave Brown, then the CEO, and Frank O’Brien-Bernini, then the head of research and development. (O’Brien-Bernini would serve in a dual role as the company’s head of R&D as well as chief sustainability officer, or CSO, for two years before relinquishing his R&D responsibilities altogether.) Leveraging the explicit support he had from Brown, O’Brien-Bernini created a sustainability council composed of the most influential executives and managers at Owens Corning, including representatives from all businesses and functions. “I was not looking for evangelists,” he recalls. “I chose them primarily for their ability to influence the organization.”

O’Brien-Bernini selected council members based on three criteria. First, he wanted to maximize the impact of the council, and he realized that doing so required decision makers. Second, he was aware that — as a corollary — if he merely assembled a team of “tree huggers,” the credibility of the effort would immediately be in question. Third, he believed that having leaders of different products and geographies on the council would enhance the company’s ability to cross-pollinate successful initiatives across the entire organization.

With its sustainability council in place, Owens Corning began focusing on seven critical issues: energy use, greenhouse gases, particulate emissions, volatile organic compound (VOC) emissions, water use, waste and nitrous-oxide emissions. These priorities were communicated to the different plants, and capital was set aside for the best projects. The competition fostered widespread participation to reduce energy consumption, decrease greenhouse gas emissions and so on. “It was a good deal for the plants as

ABOUT THE RESEARCH
Egon Zehnder International’s comprehensive model of leadership, which encompasses the core competencies of senior executives, is based on the company’s experience working with senior management teams across industries and on more than 25,000 senior management appraisals conducted over the past five years. That work, combined with recent executive search and management appraisals for senior-level sustainability professionals, suggests that six leadership competencies are central to the success of sustainability initiatives: 1) change leadership, 2) collaboration and influencing, 3) strategic orientation, 4) commercial orientation, 5) results delivery and 6) team leadership. Other competencies, such as customer impact and market knowledge, were found to be relevant in individual cases, but our research focused first on the general profile of sustainability leadership and second on the two key competencies found most prominently in leaders successfully navigating each of the major phases of sustainability initiatives. Although any individual who leads a sustainability effort will need a baseline of all six leadership competencies, each phase benefits from specific strengths in certain capabilities, as described in the main text of this article.
they realized that the best ideas across the company would get funded,” recalls O’Brien-Bernini.

Quick wins, including many environmental projects that achieved payback in less than a year, helped convert many skeptics. Some of those early wins were simple and straightforward, such as installing motion sensors for light switches to minimize energy consumption. Others took more effort, as in the case of a production line that was redesigned to operate on significantly less pressure, which not only conserved the energy used by the air compressors but also resulted in fewer leaks and longer life for the manufacturing equipment. “It’s a matter of collecting successes you can point to and say, ‘This is making a difference,’” says O’Brien-Bernini.

Two general rules apply to these types of initial projects. First, they need to emphasize the quantitative (that is, the bottom line) in favor of the qualitative (for example, concepts like brand equity) to convince skeptics of the business case. Second, they should include projects that maximize organizational exposure. One effective approach is to help grow the top line, for example, by finding buyers for substances previously considered waste (such as partially cured resins, compost or impure ethylene glycol). Consider a major home-improvement retailer that offers free haul-away of old appliances for customers who buy new ones. The company has recently been exploring refurbishing those used appliances for resale in Latin America, where they would be more energy efficient than the older models currently in use.

Executives who are adept at collaboration and influencing are somewhat rarer than those who are skilled at change leadership. This might be true partly because it is generally less necessary for senior leaders to collaborate than to lead change; it may also reflect these individuals’ preference for control. The right leaders for Phase 1 are driven by the need to change — supporting it, advocating it and motivating others to initiate it. Moreover, they know how to get the support of others by building enduring partnerships across the organization. To accomplish this, they frame the dialogue in terms of issues that matter to managers, delineating the elements of sustainability that register as commercially substantive risks or rewards.

## Phase 2 — Translating Vision Into Action

When companies emerge from Phase 1, commercial orientation becomes the key competence in aligning sustainability initiatives and value creation, a point that cannot be emphasized strongly enough. Now the task is to translate high-level commitments into a comprehensive change program with clearly defined initiatives and hard commercial targets. To make this happen, sustainability leaders in Phase 2 must excel at delivering results, and they must have a strong commercial awareness. At the end of this phase, the organization is consciously proactive on sustainability across its footprint and tracks economic, environmental and social metrics over the business planning cycle.

The organization must now develop and implement programs that translate vision into a series of discrete initiatives and tangible projects that deliver real change, not just incremental improvement. As such, the sustainability leader must display the following two competencies: results delivery and commercial orientation. The leader must be able to translate a sustainability vision into a comprehensive program of targeted initiatives that can be tracked using clear metrics, and must take corrective action when performance falls short of expectations. In

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**THE THREE PHASES OF A SUSTAINABILITY INITIATIVE**

As an organization moves through the phases of a sustainability initiative, its capabilities grow: sustainability evolves from a non-issue to a core value, and business metrics that may have been absent become robust and consistent.

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<tr>
<th>Organizational Capability</th>
<th>Time</th>
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<tr>
<td><strong>Unconsciously Reactive</strong></td>
<td><strong>Consciously Reactive</strong></td>
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<td>Phase 1 Early</td>
<td>Intermediate</td>
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<td>Efficient Frontier</td>
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**Systemic Challenge**

- Create Sustainability Vision
  - Cultivate receptiveness
  - Persistently build business
- Translate Vision into Action
  - Embed sustainability for operational impact
  - Relinquish central control
- Anticipate Future Needs
  - Build long-term partnerships
  - Foster innovation

**Key Executive Competencies**

- Change Leadership
- Collaboration and Influencing
- Results Delivery
- Commercial Orientation
- Strategic Orientation
- Commercial Orientation

**Vernacular**

- Data
- Information
- Knowledge
- Insight
- Foresight
addition, leaders must focus and prioritize efforts that generate the most value for the organization over the business planning cycle.

The management adage “what gets measured gets done” strongly applies to Phase 2. Although little data and no metrics existed before, there is now a concerted effort to measure and accumulate hard financial, environmental and social data so that the organization can make smarter decisions about various trade-offs. Consider the case of a food products company in Europe. Managers there introduced metrics to track the ratio of packaging material to food mass, and that data initially led to a discussion of whether to increase the container size for a particular product, which would result in proportionally less packaging. But a competing metric was the amount of non-natural ingredients in that product. A comprehensive analysis led managers to recognize that by shrinking the container size they could do away with a class of chemical preservatives altogether because the smaller size would result in faster consumption, which would allow for compressed expiration dates.

As managers of business units learn to perform these types of analyses, the sustainability leader can begin handing off operational responsibility to them. At Owens Corning, the sustainability council was disbanded and responsibility was diffused to the plant managers, who understood the corporate goals and were encouraged to develop effective local metrics for monitoring and guiding the environmental impact and energy efficiency of their operations. This could be something as simple as reducing the daily number of dumpster hauls, a change that was made at a plant in Amarillo, Texas. In other instances, certain terms had to be redefined throughout the organization. The word “broken,” for example, was redefined to include the notion of “wasteful.” Instead of regarding machinery as broken only when it ceased to function, employees at Owens Corning began to consider equipment broken when its operation was inefficient. “A constant-speed fan running at about 70% of the efficiency of a variable-speed fan is actually broken,” explains O’Brien-Bernini. “And if you fix it, you’ll get a big drop in energy consumption that [improves] the bottom line.”

Phase 2 is not simply about becoming a better corporate citizen through increased sustainability. Commercial results are crucial. Successful leaders in this phase understand how to leverage sustainability into an advantage in the marketplace. A major magazine publisher, for example, recognized that its advertisers were becoming increasingly interested in the forestry management practices of its suppliers. The company now champions the fact that it has increased the amount of certified fiber used in its magazines from 20% to 80%. Moreover, the publisher realized that this was just the first step. It also had to take a hard look at its entire sustainability footprint, including the post-consumption of its products. As a result, it partnered with the National Recycling Coalition Inc. and launched a program that increased the amount of recycled magazines by 30% in its first year.

Sometimes, a deep knowledge of sustainability issues can, by itself, provide a huge competitive advantage when leveraged in the appropriate ways. At Owens Corning, a general manager of one of the businesses was working with a potential customer seeking to manufacture carbon-neutral products. The GM was able to discuss those products with respect to the carbon offsets required and describe exactly what the customer would have to do to compensate for the raw materials used. The ability to engage in that type of conversation not only won Owens Corning a large materials contract but also led the company to realize it could begin to use its sustainability leadership position to create differentiated value with customers.

We have found that executives who are effective in Phase 2 tend to be comfortable with the distinction between the ideology of sustainability and the sustainability goals that the organization seeks to achieve. These executives are motivated by commercial targets and view sustainability as one arrow in their quiver to hit those targets. In the case of the magazine publisher, the company’s increased use of certified fiber and its participation in helping to create citywide recycling programs were motivated by advertisers beginning to become concerned about placing ads in publications that had potential liabilities with respect to the environment. The publisher chose to take preemptive action rather than wait and hope for the best, and the reasoning behind that decision was founded entirely in economic logic rather than ideology. “People are motivated by different things,” observes...
O’Brien-Bernini. “Some people are motivated by their personal commitment around climate change, others to the bottom line. In my role, I actually don’t care what motivates people as long as it drives us to our goal.”

**Phase 3 — Expanding Boundaries**

The need for commercial orientation continues unabated but is now matched by a strong strategic orientation. As the organization continuously raises the bar and leverages sustainability to create competitive advantage, it increasingly views sustainability as a strategic opportunity and gauges its progress with metrics that reach beyond the short and medium term. As such, the sustainability leader must be adept at anticipating and evaluating long-term sustainability trends, spotting new opportunities and developing strategies to reposition the organization to benefit from them. The goal is to embed sustainability in the organization’s DNA, much like quality or financial control, such that it is a core value and the organization is unconsciously proactive about it.

The sustainability leader now needs to extend the commercial orientation of the previous phase and bring it to a strong strategic orientation. This combination requires the synthesis of multiple and frequently conflicting trends to develop a coherent long-term strategy that manages trade-offs and ensures that the organization is aligned with key sustainability principles for years to come. Consider, for example, an aviation manufacturer that looked 20 years ahead to see how its market was likely to evolve. Industry projections had suggested that over the next two decades the number of planes in the air would increase from 18,000 to 36,000, but the company decided to challenge those projections in the context of sustainability. What if more airports or runways aren’t built? What if contiguous land masses that have high-speed rail between large cities make it illegal to fly between those metropolitan areas? What if companies need to start pricing carbon? “The commercial impact is difficult to estimate, but it’s crucial to get a handle on,” says that company’s head of sustainability.

Sustainability leaders in Phase 3 must evolve into futurists, pursuing long-term investments and partnerships that strengthen and transform organizational assets. They need to be inquisitive and reflective, asking tough questions that probe the core purpose of the organization: What are the ways in which we can profitably run our business without fear of environmental degradation or social inequity? How can we anticipate, influence and benefit from regulatory changes that relate to sustainability? How can we leverage sustainability to create differentiation and competitive advantage in our markets?

The answers to such questions will often require sustainability leaders to establish a more sophisticated (and frequently unconventional) level of engagement with external stakeholders such as competitors, NGOs and other organizations that might well have been viewed as adversarial in the past. When McDonald’s Corp. eliminated Styrofoam from the packaging of its fast foods, for example, it did so by partnering with the Environmental Defense Fund. Other multinationals like Wal-Mart and major private equity companies like the Carlyle Group L.P. are now working with the EDF around initiatives designed to minimize the environmental impact of their businesses.

In Phase 3, the sustainability leader must often advocate for new approaches and practices that run counter to how the organization has long conducted its business. For example, the leader might need to challenge the way in which investments are typically viewed by arguing for an adjustment to traditional ”hurdle rates” when considering initiatives that would generate a significant return, but over a longer time period. “We have to ... develop sustainable, waste-free product[s] designed for manufacturability and recyclability for tomorrow,” says the CSO of a global high-tech company. “We couldn’t do that if we had not changed the way we look at our financial model, because in many cases it means paying more up front for supply parts that have superior LCA [life cycle analysis] characteristics and lifetime costs.” Decisions are still made in favor of the commercially optimal solution but, thanks to an expanded time horizon, the burden of up-front costs can be more substantially reduced by factoring in the long-term benefits. In addition (and as importantly), longer time horizons force companies to consider the dangers of making decisions that benefit the short term but might provoke a consumer backlash further down the road.

As sustainability becomes a corporate value that is embedded in the organizational DNA, the lead
sustainability executive can focus more on “game changing” opportunities. At Owens Corning, a transition to a new CEO in 2007 did not alter the company’s commitment to sustainability. Rather, the new CEO, Michael Thaman, increased the company’s focus on energy efficiency, renewables and environmentally responsible manufacturing as key to growth. That consistent leadership from the top has allowed sustainability to continue evolving at Owens Corning. Consider how the company has been leveraging the beginnings of radical transparency in its industry by conducting life cycle analyses of its products, seeking third-party certifications and verifications of its claims, and working to influence standards-setting bodies. One of those standards is the National Association of Home Builders (NAHB) verification and certification program for “green” homes. Among other offerings, the program provides builders with online verification of products that have received third-party certification. Owens Corning’s insulation products were the first to make the list, and they appear first when builders click on the website’s drop-down menu.

That easy availability of information has become a competitive advantage that should not be underestimated. Builders that want to adhere to green standards can readily determine that Owens Corning products have the necessary third-party certifications. If they are considering using a competitor’s products that lack certification, they must go through the time-consuming process of proving to the NAHB that those products meet green standards. “Having the right products is an important first step” says O’Brien-Bernini, “then making your products easy to specify elevates your competitive edge.” But the point here is not that information transparency is a serendipitous benefit that can result from a sustainability initiative. Rather, transparency is what will pull companies along the journey through every phase more swiftly than regulations can push them.

THIS BRINGS US BACK to the mall, where the three teen-aged girls have just purchased another brand of sunscreen at a different store. One is now texting her friends, another is sending a message on Twitter and posting a note on her Facebook page, while the third is logging a comment on Digg. Maybe it’s something about the cool new brand of sunscreen they’ve found; or perhaps it’s about their disgust at the product they abandoned. With social networking, radical transparency will go viral, vastly multiplying its impact in the marketplace.

So, to paraphrase the novelist William Gibson, the future is already here; it’s just not distributed evenly yet. Today, young consumers like these teenagers are buying products, intuitively using an emerging set of tools. Already, those among them who know the most about social responsibility issues are so eager to work for companies that embrace their values that they are willing to take a significant pay cut.1 And while they’re buying products today, they will be running businesses tomorrow. In the meantime, companies that want be around when this happens must find leaders with the right competencies to build a bridge to the future.

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1. A 2008 white paper reporting the survey by David Montgomery and Catherine Ramus of UC Santa Barbara, “Calibrating MBA Job Preferences,” examines the trade-offs students are willing to make when selecting a potential employer. Based on the responses of 759 graduating MBAs at 11 top business schools, future business leaders rank corporate social responsibility high on their list of values, and they are willing to sacrifice a significant part of their salaries to find an employer with values aligned with their own. The researchers found that the students expected to earn an average of $103,650 a year at their first job. Nearly all (97.3%) said they would be willing to make a financial sacrifice to work for a company that exhibited four characteristics of social responsibility: caring about employees, caring for stakeholders (such as community residents), environmental sustainability and ethical business conduct. These students said they would sacrifice an average of $14,902 a year, or 14.4% of their expected salary.

While we found team leadership to be important throughout all three phases, it was not an abnormally strong competence in sustainability executives compared with other leaders with similar tenures and responsibilities.

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