A SPECIAL COLLECTION OF INSIGHTS ON THE IMPACT OF SUSTAINABILITY ON TALENT MANAGEMENT

The Sustainability / Talent Formula
## The Sustainability/Talent Formula

<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Does Sustainability Change the Talent Equation?</td>
<td>Fall 2009</td>
</tr>
<tr>
<td>3</td>
<td>One CEO’s Trip From Dismissive to Convinced</td>
<td>Fall 2009</td>
</tr>
<tr>
<td>8</td>
<td>The Change Leadership Sustainability Demands</td>
<td>Spring 2010</td>
</tr>
</tbody>
</table>
THE PROMISE OF WORKING with a company that makes sustainability a priority is a powerful incentive. Credit some of that power to the lowly cubicle.

“You’ve gone through this generation that have lived in cubicles,” says 36-year-old Cameron Sinclair, cofounder of Architecture for Humanity Inc., a nonprofit organization based in San Francisco that brings professional design services to communities in need. Cubicle culture may have started with a noble idea — openness and accessibility — but for many office workers, cubicle life turned into, as Sinclair puts it, “being holed away in a five-foot-high, fabric-panel square without any view of the world.”

Employees are hungry not just for a paycheck and some creativity in their job but for companies that pay attention to that world and ask them to, too. And increasingly, that translates into wanting companies to pay attention to issues around sustainability.

It’s not just charitable companies like Sinclair’s that are alert to the possibilities. Conversations with 70 thought leaders as well as responses to the Sustainability Initiative survey bear this out: of private sector companies, 57% say they expect employee interest in sustainability to impact their organizations. Over one-third of companies — 37% — already highlight sustainability initiatives in recruiting. And some 43% are drawing on employees to be part of the process by designing products or processes for reuse or recycling.

But just as companies are benefitting from new employee hungers, they’re encountering risks. When you unleash employee passion, expectations change. There are costs to not meeting them.

First Wave of Payoffs: Attraction and Retention

“You see it at the front lines of recruiting,” says Peter Schwartz, co-founder and current chairman of the Global Business Network, a scenario planning consultancy headquartered in San Francisco. “One of my former staff went back to graduate school and is getting an MBA at Stanford and a PhD at Stanford in ecosystems. I was asking him, ‘How’s it going at school?’ And he said, ‘Half the people want to be green business, and half want to go into investment banking and are deeply depressed.’”

Companies that talk about sustainability in coherent ways have the potential to unleash an emotional commitment to them. Harvard Business School professor Rebecca Henderson encountered this phenomenon while researching the value of energy conservation. While energy represented just 3% of costs for most businesses she looked at, making reducing energy usage not an obvious financial priority, she saw how efforts to conserve energy, to reduce water, “to act in ways that are more consonant with the individual values of your employees,” all set a tone that employees noticed. The no. 1 reason that managers she’s spoken to care about these issues, she says, is hiring. “It really helps them get good people.”

Our survey found the same thing among some companies. While 35% of respondents said that improving sustainability-related communications would deliver the greatest benefit to their organization’s relationship with consumers, the relationship with employees was the next most frequently top-ranked choice, at 16%.

Second Wave of Payoffs: Increased Innovation and Productivity

Christina Page is director of climate and energy strategy at Yahoo!, Inc., a title created when she took the job in 2007. She says that the
effects of bringing a climate change strategy to a company can be broader than might be obvious at first, in ways that many would find surprising.

When she asks to the accounting staff for information about how certain expenses are tracked, “they spontaneously offer back, ‘I’m so glad you’re doing this. I’m so glad we have this within the company,’” she says. When she talks to engineers, “they’re thrilled to be part of the solution” and look at how the design of a Web page or elaborateness of a Flash animation — say, the number of snowflakes on the Yahoo! front page in December — affects the CPU cycle, which affects server utilization, which affects the company’s emissions globally. The data center staff are on it, too. “I think they find it personally offensive not to make a data center as thermally efficient as you possibly could,” Page says. It’s a passion that’s there for the tapping.

“People are hungry for the opportunity to work professionally in a way that is consistent with building a sustainable world instead of one that undermines it,” says John Sterman, a professor at the MIT Sloan School of Management and director of MIT’s System Dynamics Group. “The idea that ‘I’m going to work in a corporation that may have the impact of further degrading the capacity of the planet to support life and then in my spare time I’m going to use the money that I’ve made to do good deeds’ — that just doesn’t cut it for people anymore. You can’t have that kind of dissonance.”

The Big Risk: Raised Expectations Must Be Met

There’s a risk to asking people to care, of course. “You have to then walk the talk,” says Richard Locke, a codeveloper of MIT’s Laboratory for Sustainable Business and an MIT Sloan School deputy dean and professor. “If you start selling [sustainability], people are going to check on you.”

Jeffrey Hollender, co-founder and executive chairman of home-products company Seventh Generation Inc., says there’s an inherent challenge to entering into a relationship about sustainability with employees: It raises the bar. “If you disclose nine things but forget to disclose the tenth, there is a tremendous feeling of being let down,” he says. “The pressure that you have to exert internally to maintain those standards and provide that disclosure is incredibly high. And you have to be very willing to admit you’re wrong when you fall short of those expectations. We have experienced both this wonderful exponential support, but we’ve also experienced tremendous disappointment and anger when we fall short of those expectations.”

Challenge: Breaking Mental Models and Establishing Leadership

The biggest challenge within organizations to addressing sustainability issues is outdated mental models and perspectives on sustainability, according to our survey. That was cited as the no. 1 roadblock by about 23% of respondents, even ahead of “don’t know what to do first,” “not persuaded by the value proposition” and “not enough resources.”

That’s what John Hofmeister found when he was president of Shell Oil Co., from which he retired in June 2008. “One of the biggest obstacles is educating everyone to come to a fairly comfortable level of knowledge and understanding of what it’s all about,” he says. At Shell, there were — and still are — skeptics of the business value of a focus on sustainability. “They never quite saw the value, could never quite get their heads around understanding the whys and wherefores, the hows and whats, of sustainability,” says Hofmeister. “They felt it was more in the range of public relations.”

So who’s tasked with leading the charge? No consensus there. Nearly 40% of managers in our survey say that “all employees” are responsible for addressing sustainability issues. About 23% say a corporate or cross-functional group has authority, about 17% say a senior or executive-level official and about 8% say each business unit has a group responsible.

“Businesses need to get on board with this,” says Tim Mohin, now a sustainability consultant with EORM Inc., an environmental health and safety consulting company, and previously senior manager for supplier responsibility at Apple Inc. and Intel Corp.’s director of sustainable development.

Their best bet, he says: bring on people “who want to save the world,” give them a little space to be innovative and then figure out how to keep them from falling into “the great cubicle mind-set.”

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One CEO’s Trip From Dismissive to Convinced

When Interface’s Ray Anderson founded his commercial carpet company, he’d never heard of ‘sustainability.’ Now his company has turned it into a competitive advantage. Here, a timeline for how one CEO’s ‘mental model’ changed.

BY BRUCE G. POSNER

FOR RAY ANDERSON IN 1994, two decades into building his Atlanta-based commercial carpet company, the intellectual case for sustainability had suddenly become obvious. The writings of Paul Hawken and others had convinced him that man and nature were on a collision course. The signs of environmental degradation were multiplying. And as one-time industrial engineer Anderson — then 60 and Interface Inc.’s founder and CEO — began to think about his legacy, it made him uneasy. Deep down, Anderson realized Interface’s business model was based on “digging up the Earth and turning petroleum and other materials into polluting products that ended up in landfills” — not something he wanted his grandchildren and great-grandchildren to remember him by. So in 1994, Anderson broke with the old model and began anew. Standing up to naysayers (whose ranks included associates, suppliers and Wall Street analysts), he set out to transform Interface from a traditional business built on consumption and waste to one whose focus — that is, beyond profitable growth — would be zero waste and restoring the Earth.

Since the journey began 15 years ago, Anderson and his associates have confronted technical barriers that no one could have anticipated. For example, you cannot eliminate waste and effluents from factories until you know what the materials you’re using are made of, which often meant going back to do research with suppliers … or with their suppliers, who didn’t always want to tell you how they made their goods. And even if they did tell you, the technology for fixing the waste problem didn’t always exist. “When I conceived of this whole thing, I didn’t see the specifics,” Anderson says. In the pages that follow, see a timeline of how Ray Anderson and his company moved along the road to sustainability.

THE LEADING QUESTION

How do you shift from a traditional manufacturing business to one focused on profitable growth and zero waste?

FINDINGS

- You set high expectations and show an openness to new ideas wherever you can find them.
- You “figure out the mountain” and divide the challenge into pieces.
- You commit the organization to training and use every occasion as an opportunity for improvement.
heavily on petroleum, Interface commits to addressing three overarching issues: what the company takes from the Earth; what it makes with the energy and material it uses; and what it wastes along the way from oil wellhead to landfill.

AUGUST 1995: Anderson chose waste elimination as the first big target. “We defined waste as a cost that doesn’t add value to our customers,” says Anderson. The idea was to take a portion of the savings and use it to fund other sustainability efforts within the company.

Even as the company forges ahead, there are major structural hurdles. “You realize there are huge technical challenges. The waste elimination effort — that’s pretty straightforward — the sort of thing we ought to be doing anyway.” But tackling other areas like emissions and energy consumption was a different story. “We had no idea what was coming into our factory, but what comes in will go out, either in the product or in waste or emissions or effluents. And that’s a huge spectrum of stuff that needs to be understood and dealt with.”

The company’s Toxic Chemical Elimination Team sets ambitious goal of eliminating the need for filters by redesigning products and processes. “Filters only concentrate the pollution,” says Anderson, “and then what do you do? Throw the filters away? There is no ‘away.’” At the time, Anderson notes, no one knew how to recycle nylon or PVC. “No one was doing waste elimination as the first big target.”

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THE SUSTAINABILITY / TALENT FORMULA • MIT SLOAN MANAGEMENT REVIEW 4

O N E R E A D

“No one ever catches the back of the wave and reaches the shore. You’ve got to start paddling before the wave comes in… . Being ahead of the curve always leads you to capture more profits.” — SHAI AGASSI, CEO, BETTER PLACE

MIT SLOAN MANAGEMENT REVIEW

HEARD SUSTAINABILITY WHAT TO BECOME

JANUARY 1995: Interface invites major suppliers to a “green the supply chain” meeting to talk about its goals. “I said to them, ‘It’s up to you, but those who come with us will get the business, and those who don’t won’t,’” says Anderson. “I’m told people left that meeting and rushed to call the home office saying, ‘They’re serious.’”

1995: Company launches major effort to develop meaningful metrics in every area of business and sets goal to eliminate all harmful releases from smokestacks, effluent pipes or solid waste by 2020. Individual teams are charged with promoting change. During the first year, Anderson speaks to associates inside the company at every opportunity. “I’d talk about our environmental stewardship responsibility,” he says. But what did that mean in terms of overall changes in the company? As Anderson notes, “No one had written the book. There was no how-to book in existence — we were writing it as we went.

“One day I was making a speech,” Anderson recalls, “and I took a felt-tip pen and drew a mountain. I said, ‘That’s Mount Sustainability, and the point at the top symbolizes zero footprint.’ Then I drew a stick figure, and I said, ‘That’s us, we’re going to the top of the mountain.’” As Anderson explains, “We realized that, if you’re going to climb the mountain we called Mount Sustainability, you’ve got to figure out the mountain.”

As a company whose manufactured products dependently on petroleum, Interface
1996: Interface begins a series of energy-focused experiments to reduce its dependence on petroleum and carbon-based fuel, including a 127-kilowatt-peak photovoltaic solar array project in southern California. The company’s accountants argue against the $1.2 million investment, saying the payback period was too slow. But Anderson decides to go ahead. This allows Interface to introduce a popular new product line called Solar-made. As it turned out, Anderson says, “The payback was a slam dunk.” And he learns a broader lesson: “There are unmistakable competitive benefits that come from not waiting. … When paradigms shift, early movers win.”

1996: Interface holds first meeting of what it calls its “Eco Dream Team,” made up of outsiders steeped in environmental issues. Among the early advisers are Paul Hawken, Amory Lovins, John Picard, William McDonough, David Brower, Karl-Henrik Robert and Bill Browning.

1996: Anderson meets with a corporate customer in Los Angeles to explore the idea of leasing carpet as an alternative to selling it. Interface would provide and maintain the carpet while also maintaining and recycling it over the life cycle. The lease concept was — and still is — ahead of its time (for accounting, tax and budgeting reasons), notes Anderson. “But it opened a lot of doors that led to conventional sales, with a commitment on our part to take the carpet back at the end of its life.” For him, it represents an early example of how commerce can be redesigned.

NOVEMBER 1996: Interface publishes what it believes to be one of the first corporate Sustainability Reports describing the company’s “road map to sustainability.” In it, the company lays out the Seven Fronts of Sustainability (later renamed the Seven Faces of Mount Sustainability). The report features a three-page centerfold documenting what happens as raw materials are converted to products and waste. By now, the company is involved in about 400 separate sustainability initiatives. Anderson observes, “It’s important to realize that nobody planned the Industrial Revolution. It evolved as opportunities to substitute fossil fuels and machinery for human and animal power multiplied.”

APRIL 1997: Company holds global sales meeting at the Grand Wailea Hotel in Maui, Hawaii, over objections of its own Eco Dream Team members. “They said, ‘That’s the worst message you can possibly send,’” recalls Anderson. However, one member suggests using the meeting to educate salespeople about the company’s commitment to sustainability. Anderson invites his board and more than 100 suppliers to attend.

1997: Interface named by Fortune as one of the “100 Best Companies to Work For.” “We asked the Fortune people how we got chosen, and they said it was two things: our commitment to the environment and our commitment to training,” Anderson says. “Well, the fact was that all of our training was about the environment.”

Through its sustainability program, Anderson says the company “unconsciously injected a sense of purpose, higher purpose into our work force, and it had a galvanizing effect. We have people who never dreamed of going into the carpet industry, but they say, ‘We’re not here to make carpet, we’re here to make history.’”

The company’s environmental leadership generates business payoffs as well. When a Japanese manufacturer of modular homes bought 60,000 square meters of carpet for its headquarters, Anderson says, “We woke up to the fact that the goodwill of the marketplace is an incredibly important byproduct.” In fact, he adds, “Today, if you asked me about the business case for sustainability, I’d put goodwill at the top of the list.”

Early on, Anderson identifies another byproduct: the influence Interface could have on other companies. Although the company itself operates in a relatively small market, “we realized that if we could begin to move in a credible, demonstrable way toward sustainability, we might just influence other companies — even competitors — to move in that direction. From the very beginning, that was part of our vision.”
“Customers do want low prices, but not by sacrificing quality. They want products that are more efficient, that last longer and perform better. And they want information about the life cycle of a product so that they can feel good about buying it.” — MIKE DUKE, PRESIDENT AND CEO, WAL-MART
2002: Interface creates team to screen suppliers’ products and processes under a program Anderson calls “trust but verify.” As part of effort, company also begins examining its suppliers’ suppliers.

2003: Interface begins using renewable gas produced by local landfill to provide power for one of its Georgia plants, resulting in savings over natural gas.

2004: Following sale of the company’s contract deal network, total revenues decline to $881.7 million.

2004: Interface receives Environmental Protection Agency’s Climate Protection Award for its environmental programs.

2006: Responding to inquiries from business leaders, Interface establishes consulting business headed by Hartzfeld to help companies accelerate their own learning curves regarding sustainability.

2006: Interface launches Fast-Forward 2020, an expanded training program for associates in Europe. For their final project, employees are required to study one aspect of the company’s sustainability strategy and develop detailed suggestions for how to accelerate progress.

2006: Thanks to process improvements, the total number of BTUs required to produce a square yard of Interface carpet has declined by 44% from a decade earlier. Meanwhile, the company sends 64% less waste to landfill than it sent in 1996.

Interface employs a new technology developed in Italy for taking apart the components of used carpet in a clean, closed-loop process for remanufacture. Interface has diverted more than 102 million pounds of carpet from landfill since 1995.

2007: Company calculates that its waste elimination efforts have allowed it to avoid costs totaling $372 million since 1995. Through a new patent-pending technology called Cool Blue, company is able to recycle the most common types of nylon carpet and carpet backings into new nonvirgin PVC carpet tile backing. More than 25% of the raw materials used in carpet production are recycled or bio-based.

Interface becomes active buyer of used carpet for recycling. Increasingly, Anderson says, customers can’t imagine sending their carpet to a landfill. “As we get the old carpets back, we can salvage the nylon and work with our yarn supplier to put that nylon back into the new product. We’ve become a supplier to our supplier — that’s an interesting loop!”

2008: Interface has a total of 10 facilities and operates in 110 countries, employing 3,500 people. Eight of the facilities operate with 100% renewable electricity. Company earns $117 million on worldwide revenues of $1.1 billion.

2008: Anderson points to increased corporate spending on sustainability (specifically, GE’s $1.4 billion investment in R&D for clean technology) as broad evidence that actions by Interface and other innovators are having an effect on other companies. “When Jeff Immelt [GE’s CEO] makes that kind of investment,” Anderson says, “you know there’s not an ounce of altruism in it.”

2008: Eighty-nine percent of Interface’s global electricity and 28% of its total energy comes from renewable sources. During the past decade, the company has shut down 33% of its smokestacks and 71% of its wastewater pipes from continuing operations. Compared with 1996, its greenhouse gas emissions are down 71% (82% relative to sales). The company has diverted 43 million pounds of carpet and carpet scrap from the landfill, bringing the cumulative totals for this program to 175 million pounds since 1995.

2009: “Our people are truly empowered,” Anderson says. “Particularly our technical people are charged with finding, inventing, scouring the world for the better way — whatever it takes to move the needle. The innovations come from them — it’s a self-generating process.”

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The Change Leadership Sustainability Demands

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.
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.
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 (87.3%) 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.

1. 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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