

# Sustainability: Culture and Leadership Assessment

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## Introduction

Over the past year, the number of companies that have made commitments to sustainability has grown. Many if not most have found that the commitment is the first step in a complex yet worthy journey. The landscape is uncertain and the risks significant. Yet with the right strategy in hand, companies can not only meet their goals but thrive as a result of their efforts. Of course the strategy must include targets and usually technical and operational tactics for achieving them. However, if the strategies are limited to these components, they are likely to fall short. Organizational culture plays a vital role in the success or failure of sustainability strategies.

Sustainability has a broader and more comprehensive agenda than most other corporate initiatives. It is unique in the following ways:

1. The focus is long-term and the context contains high levels of uncertainty.
2. Internal cross-functional integration is critical to achieving the goals because the strategies affect the entire enterprise.
3. Success requires interconnections across external boundaries. The key levers of change may reside outside of the organization in the supply chain or with other stakeholders.
4. Sustainability issues are more closely connected to values and personal belief systems than are most other strategic concerns.

A review of the research conducted over the past few years indicates that even organizations with sound strategies often fall down in execution. This same research reveals the sometimes subtle perception that the failures may result from cultural barriers.

Organizational culture is a broad concept and is defined in a variety of ways. Most definitions incorporate some intrinsic ingredients such as shared knowledge, attitudes and values. Most definitions include collective norms that distinguish those behaviors that are appropriate, desirable and rewarded. Of course, this means that organizational culture has an impact on the likelihood of various kinds of behaviors occurring. Culture is dynamic. It affects the choices people make and, in turn, is shaped by these choices.

Culture includes norms regarding appropriate and desirable interactions with others outside as well as within the walls of the organization. Likewise, the interactions across the boundaries impact whether others view the organization as credible, ethical, innovative, and so on.

While culture counts with execution of all organizational strategies, it matters even more with sustainability strategy because of its unique and challenging context. Most sustainability-related surveys conducted over the past few years acknowledged that culture is important. However if organizations are to address culture, they need practical information about the specific aspects that are most important to success. Our aim with this project is to begin to tease out the practical details concerning which of the many culture and leadership characteristics make a difference in organizations' ability to set aggressive agendas for sustainability, and achieve success in executing them.

On the one hand, some of the research implies that the most relevant culture factors are those directly connected to the substance of sustainability such as leaders' beliefs about the importance of protecting the environment. On the other hand, by taking a close look at how and why companies fail to execute their strategies, one can see that more general cultural characteristics such as the level of *trust throughout* the organization or the tolerance for risk could be equally or more significant to the success of sustainability initiatives. Therefore we set out to look at wide range of possible cultural enablers or inhibitors. We included elements that have an easily identifiable 'face validity' to sustainability as well as those that aren't so obvious.

In addition, the area of sustainability is as broad as are types of cultures. Perhaps the most practical approach to managing the two is to strive for a 'best fit' between types of cultures and types of sustainability strategies. The Competing Values Framework<sup>1</sup> offers a reasonable theoretical construct for understanding fit between culture and strategy. The Competing Values Framework includes two key dimensions based on research on organizational effectiveness. The first dimension differentiates cultures that emphasize flexibility, dis-

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<sup>1</sup> *Diagnosing and Changing Organizational Culture Based on the Competing Values Framework*, Kim Cameron and Robert Quinn, Jossey-Bass, 2006.

cretion and dynamism from those that emphasize stability, order and control. Thus cultures on one end of the continuum are versatile and adaptable while those on the other end are steady and durable. The second dimension differentiates cultures that are inwardly focused and emphasize integration and unity from those that are focused externally on differentiation and rivalry. These dimensions together define four types of cultures with unique values and differing orientations to the definitions of effectiveness. The Framework and the research that has been done to support it suggest the importance of congruence between the dominant culture, its leadership styles, management roles and effectiveness criteria.

We propose the need for congruence between organizational culture and sustainability strategies. For example, a flexible, externally-focused culture may be more likely to succeed with progressive sustainability strategies such as creating 'green products' than an internally-focused, stable culture. On the other hand a more internally-focused, stable culture may be primed to succeed in less ambitious goals such as to eliminate energy-related waste embedded in work procedures. Perhaps the key to successful execution of sustainability strategy lies in ensuring alignment between the dominant culture and the sustainability goals.

Of course alignment can be achieved in more than one way. Companies may choose to set goals to match their current dominant culture or may choose to change their culture to align with the goals they wish to set. How they choose to achieve alignment will depend on the underlying reasons for making the commitment to sustainability in the first place. For example, a company that has a stable, inwardly-focused culture and wishes to engage in sustainability initiatives primarily to reduce costs may set more cautious goals that are consistent with the current cultural strengths. On the other hand, if the company with the internal and stable profile wishes to exploit new opportunities for innovation through sustainability initiatives, they may choose to change the culture. Regardless of which approach an organization decides to take, the first step will depend on an understanding of the elements of organizational culture that are relevant to the sustainability terrain.

## Review of Previous Research

We began this project by reviewing relevant empirical survey research conducted over the past 3 years.<sup>2</sup> Subsequently, we conducted interviews with approximately 40 executives from companies recognized as leaders in sustainability. We also interviewed an equal number from small to medium-size companies who supply companies with sustainability scorecards or indices. Finally, we interviewed several educators who are working in the field as well as executive directors of NGO's, and representatives of the Environmental Protection Agency.

Our data revealed that leaders of organizations are challenged with the need to create change in attitudes and behaviors as well as in policies and practices to enable their organizations to meet the rapidly escalating expectations of stakeholders. Oftentimes they find that they must establish goals for sustainability in the absence of a clear path for achieving them. Even when their strategy is clear, frequently they are faced with challenges in execution. Many times the problems seem to be rooted in a mismatch between some specific aspects of their dominant culture and the sustainability goals and strategies that they have set.

## Implications

If companies are neglecting the cultural elements that enable implementation, they are likely to be impeded in their efforts to execute their sustainability strategies. Certainly, attitudes towards specific aspects of sustainability such as leaders' values concerning the environment and social justice would seem to be relevant. However alignment between more general underlying dimensions such as flexibility versus stability or internal vs. external orientation could be relevant. Specific characteristics of culture such as the ability of the organization to tolerate ambiguity or its commitment to continuous learning could be equally significant.

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<sup>2</sup> Empirical research included surveys and studies such as the MIT Business of Sustainability Study, the KPMG International Survey of Corporate Responsibility Reporting 2008, The Corporate Social Responsibility Branding Survey, the CERES Sustainability Roadmap study, the CECP McKinsey report Shaping the Future: Solving Social Problems through Business Strategy, and many others.

## Method<sup>3</sup>

We designed an assessment instrument composed of items pertaining to culture and leadership. We used the data from our review of the public literature and our interviews with thought leaders. None of the previous surveys that we reviewed focused on culture and leadership per se. However many included at least one or two items relevant to culture. Therefore, to construct our instrument, we gathered the data from across many surveys. Each item in the assessment described in this report, is tied to a specific survey item or derived from a model or a characteristic that we uncovered in our research reviews. The assessment contains both sustainability-specific content as well as more general organizational climate content that has been demonstrated or asserted in other research to impact the execution of sustainability strategy.

### Question Categories

The questions were divided into the following categories:

#### *Organizational Leadership*

Organizational leadership refers to those who are in formal positions of authority from the executives at the top of the organization down through the management ranks.

#### *Organizational Systems*

Organizational systems are the mechanisms through which work is regulated and results are measured and communicated.

#### *Organizational Climate*

Organizational climate is defined as the characteristics of the internal environment as experienced by its members. It can influence behavior and can be described in terms of a particular set of characteristics of the organization such as ability to collaborate, or levels of trust.

#### *Change Readiness*

Change readiness is defined as the organization's ability to implement and sustain change.

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<sup>3</sup> This study is a pilot of our assessment instrument and process. We plan to strengthen the data base, and revise the items in the survey/assessment based on what we learned from this pilot.

#### *Internal Stakeholders*

Internal stakeholders are groups or individuals within the bounds of the organization who can affect or are affected by the achievement of the sustainability objectives.

#### *External Stakeholders*

External stakeholders are groups or individuals outside of the organization who can affect or are affected by the achievement of the sustainability objectives.

### About the Sample

The sample included 53 people representing 32 companies. Participants included representatives from public (43%) and private (47%) companies as well as a few from not for profits (13%). Participants tended to be senior-level managers or above (63%), and represented a wide range of functions including operations, corporate responsibility, marketing, environmental affairs, finance, supply chain, communications. We invited two types of companies to participate and assigned them to groups before they took the survey based on the following criteria:<sup>4</sup>

#### *Early Adopters*

We defined **Early Adopters** as organizations highlighted in the press, articles and indices as being leaders in sustainability. We contacted the companies so designated to ask them to participate and to validate whether they saw their organizations as sustainability leaders and upon what basis they made this claim. These organizations include companies such as IBM, Kaiser Permanente, UPS and others that have been noted for aggressively pursuing sustainability goals. Also we included organizations with thought leaders in sustainability, i.e. people who have been in the forefront of innovative practices. We invited up to 3 people per company in this group to participate. A total of 33 people representing 17 **Early Adopters** organizations took the assessment. Most of the organizations in this sample are either very large (53% employee over 10,000) or small (41% employ under 500).

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<sup>4</sup> As we move beyond this pilot study, we believe that we must tighten our criteria for assigning participants to the **Early Adopter** category. We plan to move beyond self report of sustainability leadership and look for more stringent objective indicators to use to assign the companies to categories.

## Others

In addition to the **Early Adopters**, we contacted companies in our network that have not been singled out by the press and/or articles for their sustainability leadership. We invited three people from each of these other companies to participate in the survey pilot. We refer to these companies as Others. A total of 20 people from 15 companies in this category took the assessment. The companies represented tended to be smaller than the **Early Adopters**. Fifty-three percent had 1000 or fewer employees.<sup>5</sup>

In addition to assigning the companies to the two categories a priori, we also included some questions on the survey itself that helped us check on the validity of the sample assignment. We looked at responses to items such as the breadth of companies' definitions of sustainability and the degree to which they have mechanisms in place to measure operational performance and compliance in the areas generally associated with sustainability strategy. We used these data only as a means of validating the sample assignment. We found that the companies which we had assigned to the Early Adopter category, did in fact, show more leadership in sustainability based on their answers to these validating questions. Therefore we did not move any of the companies from the a priori group assignment based on their answers to these questions.

<sup>5</sup> Because the two groups differ in size of organizations, we cannot rule out this factor as a possible explanation for some of the differences that we found. As we continue to collect additional data, we will examine the impact of size more systematically.

## Results

The results of this survey include both statistically significant differences between the two groups as well as large differences in percentages of agreement that don't quite reach statistical significance due to high variability. We report both sets of results and note those that are statistically significant. While the charts show percentages of people who chose each response category, we combine 'strongly agree' and 'agree' into one category that we refer to as 'agree' throughout most of our narrative description of the data. Likewise we combine 'strongly disagree' and 'disagree' into one category that we refer to as 'disagree'.

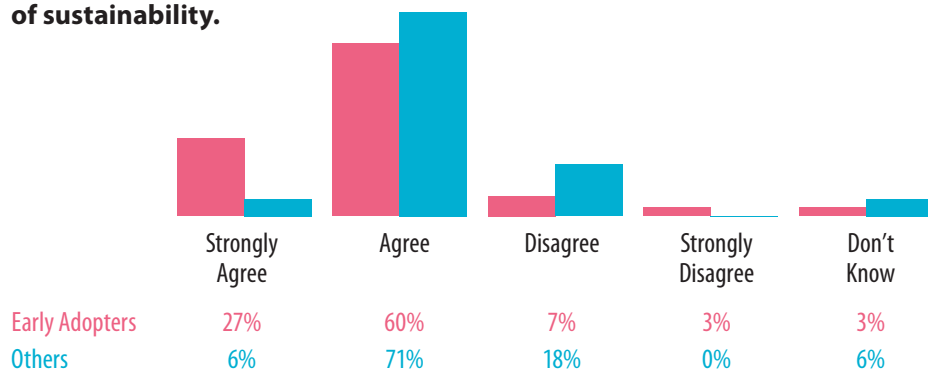
*(Note: Percentages in the following charts may not add up to 100% due to rounding.)*

## Organizational Leadership

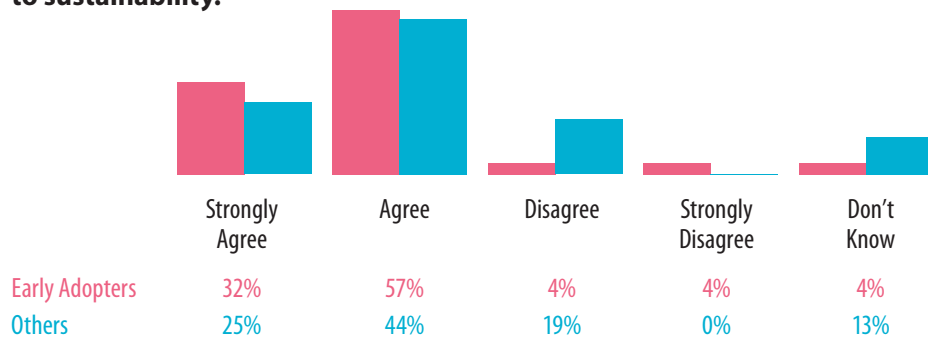
Thought leaders have suggested that organizations might be in a stronger position for reaching sustainability-related goals when key executives serve as the sponsors. Our data supports that premise. Eighty percent of the **Early Adopters** compared with 59% of the **Others** indicated that a top level executive sponsored their sustainability efforts.

While executive sponsorship seems to be a key to success, additional leadership is also critical. We proposed that success with sustainability requires leaders throughout an organization to have a clear understanding of the issues and the personal commitment to address them. Our data support this argument. A large percentage of respondents in both groups agreed that their leaders are knowledgeable of sustainability issues (**EA**= 87%, **O**=77% agreement). However, **Early Adopters** agreed more strongly that their leaders are personally committed (**EA**=90% **O**=69%).

### The leaders of this company are knowledgeable pertaining to the the issues of sustainability.

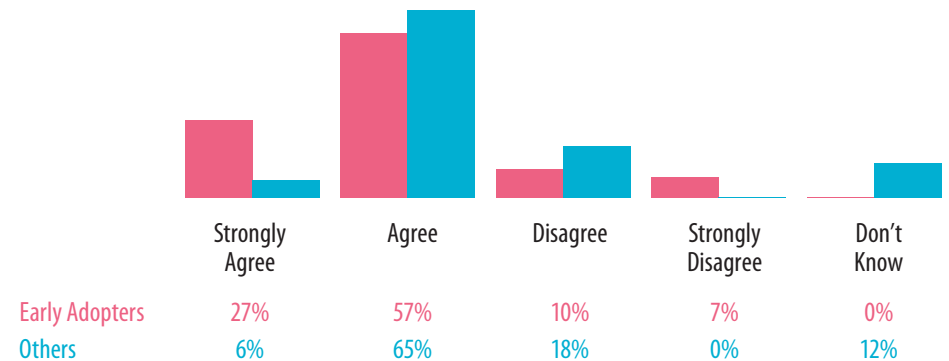


### The leaders of this company are personally committed to issues pertaining to sustainability.

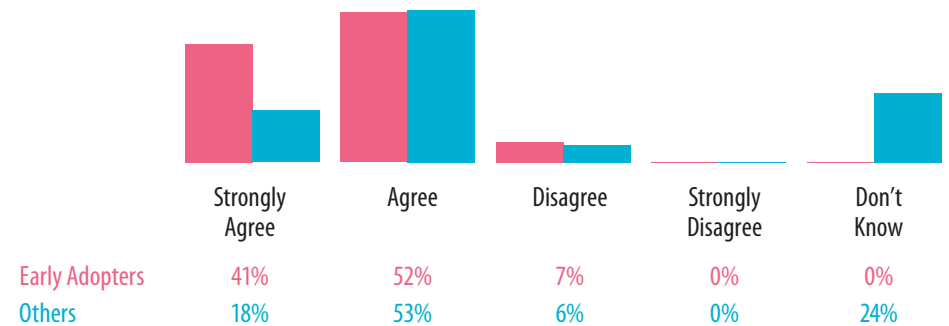


One might assume that leadership commitment would position companies to take sustainability into consideration in decision-making. Eighty-four percent of **Early Adopters** and 71% of **Others** agreed that leaders in their companies integrate the two. Only 6% of the **Others** and 27% of **Early Adopters** strongly agreed. Data from our interviews and open-ended questions suggest that strong leadership commitment to sustainability may not be enough to influence decisions when organizations have predetermined targets for financial returns. Odds are that those companies that have a sound business case for their sustainability strategies in the first place are likely to find it easier to integrate sustainability into their decisions. Ninety-three percent of the **Early Adopters** agreed that their organizations have a persuasive business case for sustainability, whereas only 71% of **Others** agreed.

### The leaders of this company integrate sustainability into their decision making.



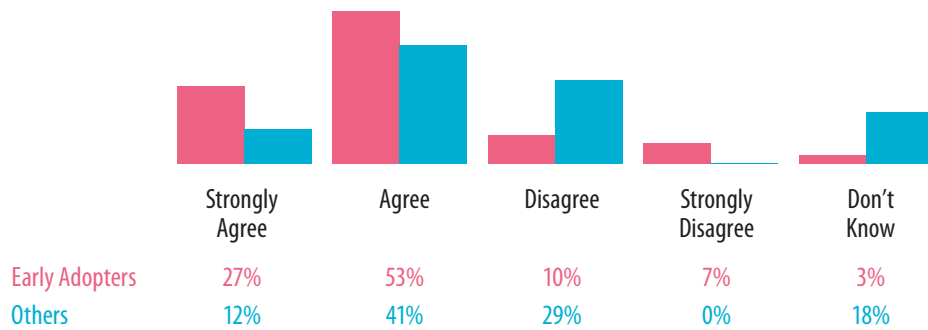
### This company has a persuasive business case for pursuing the goals of sustainability.



We also put forward that companies whose leaders had a clear vision for the future of the company and specifically a vision for sustainability would be in a better position to achieve sustainability-related goals. Moreover, we posited that companies with leaders who can inspire others with their visions would be more apt to create momentum for their sustainability initiatives.

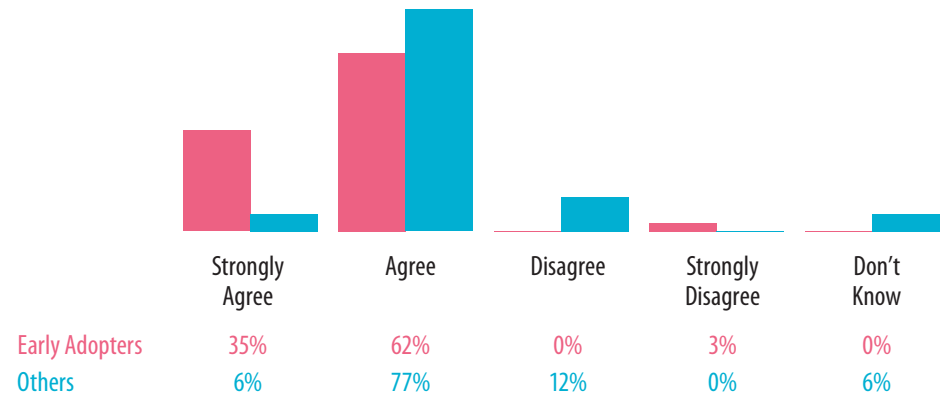
While a large percentage of both the *Early Adopters* and *Others* agreed that their leaders had clear visions for their companies (98%), a larger percentage of *Early Adopters* indicated that their leaders had clear visions of sustainability for their companies (*EA*= 80%, *O*=53%).

**The leaders of this company have a clear vision of sustainability.**

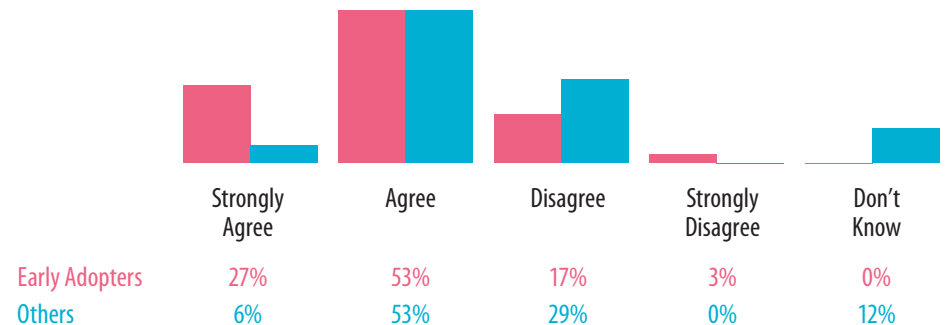


Moreover, leaders of *Early Adopters* companies were perceived to be more capable of inspiring *Others*, (*EA*=97%, *O*=83%, *p*<.05). Likewise, *Early Adopters* viewed their leaders as being more capable of inspiring others around sustainability issues and initiatives specifically, (*EA*= 80%, *O*=59%).

**The leaders of this company are able to inspire others.**

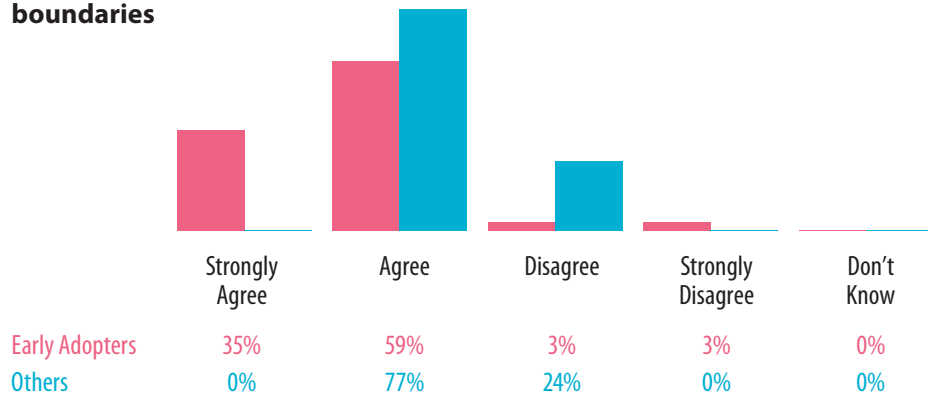


**The leaders of this company are able to inspire others about sustainability-focused issues and initiatives.**



Sustainability-related goals tend to impact all parts of an organization and require collaboration with a vast number of stakeholders both internal and external to the enterprise. Therefore we reasoned that companies with leaders that are adept at collaborating with many stakeholders would be better poised to execute their strategies. In fact, our data did reveal that **Early Adopters** leaders were viewed as better at collaborating across boundaries than were leaders of **Others** organizations (**EA**=93% agree; **O**=76% agree,  $p<.05$ ). In fact no one in the **Others** category strongly agreed that their leaders could successfully collaborate across organizational boundaries.

### The leaders of this company collaborate successfully across organizational boundaries



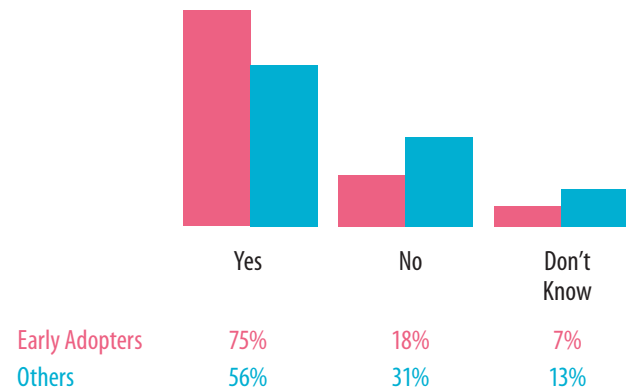
Based on these findings, we suggest that the **Early Adopters** organizations have stronger leadership for their continued efforts in sustainability. Their leaders were perceived to be knowledgeable and more strongly committed to sustainability. Likewise, they were perceived to be more likely to set clear visions for achieving their sustainability-related goals. In addition, they were viewed as being better at the more general leadership skills of inspiring others and collaborating across boundaries. Both of these skills sets are critical to successful leadership of many types of efforts. However given the unique context within which sustainability resides, these skills are even more important.

## Organizational Systems

In order to meet sustainability targets, organizations need systems for regulating work and measuring and communicating results. Therefore we included questions pertaining to the mechanisms that organizations have in place to embed sustainability-related practices into work.

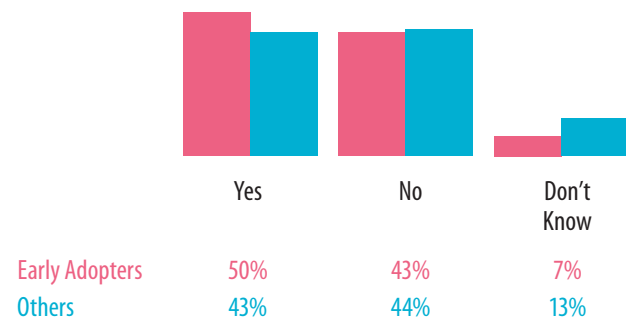
Over half of all respondents agreed that their companies have embedded sustainability into operating procedures and policies (**EA** = 73%, **O**=61%).

### This company has embedded sustainability into its operating procedures and policies.



However less than half of either group reported that their organizations had enterprise-wide management systems for sustainability (**Early Adopters** = 46%, **Others** = 18%). Neither group reported adequately integrating sustainability goals into their performance management systems, (**EA**=50%, **O**=43%).

### This company has integrated sustainability-related goals into the performance management system.

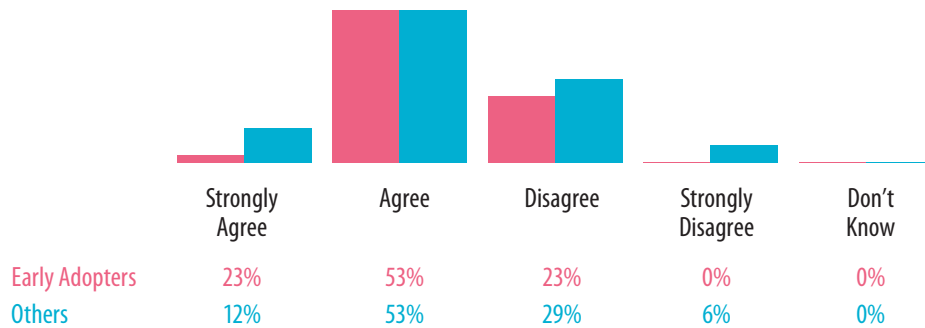


The data lead us to conclude that **Early Adopters** have a narrow advantage over **Others** in integrating sustainability into systems. However, both groups show room for improvement. Companies that want to set and achieve progressive goals that require sustained effort and attention will need to shore up their systems for doing so.

## Organizational Climate

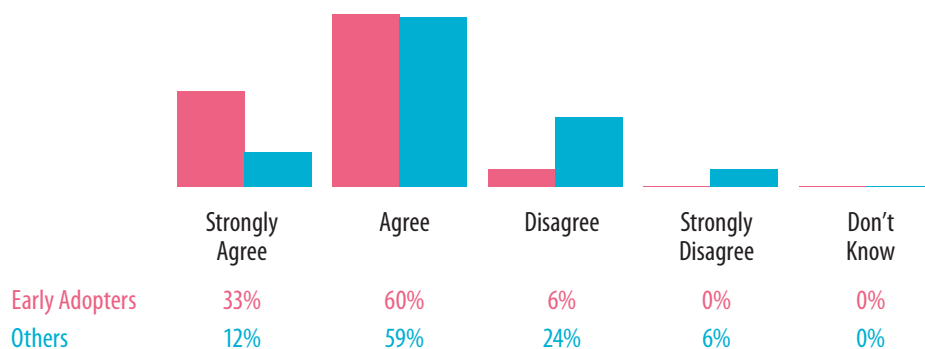
The uncertainty in the context surrounding sustainability can create enormous challenges for organizations. Of course some organizations tolerate uncertainty better than others. In our sample, **Early Adopters** reported greater agreement that people deal with ambiguity well in their organizations (**EA**=76%, **O**=65%). However, the percentages of agreement are fairly low for both groups. Since uncertainty is prevalent when addressing sustainability-related issues, organizations may need to engage in discussion about ways to become more capable of dealing with it. Likewise, leaders may look at how to strengthen other aspects of their climate in order to succeed in this uncertain space.

### People in this organization deal with ambiguity and uncertainty well.



One such element might be the degree to which the organization supports learning. In an environment that is in flux and evolving, learning continuously and quickly is critical. A larger percentage of **Early Adopters** agreed that continual learning was a focus of their organizations (**EA** = 93.3%; **O**= 71%,  $p < .05$ ).

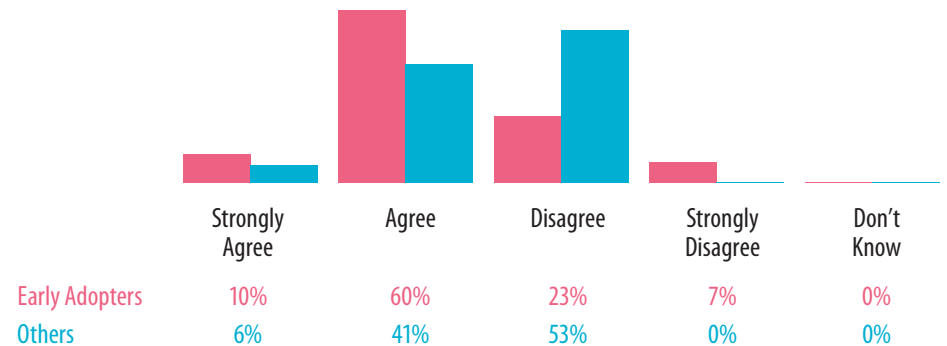
### Continual learning is a core focus of this organization.



However, only 33% of **Early Adopters** and a mere 12% of **Others** strongly agreed. Both groups could consider placing a greater emphasis on continuous learning given the turbulence of the current sustainability context.

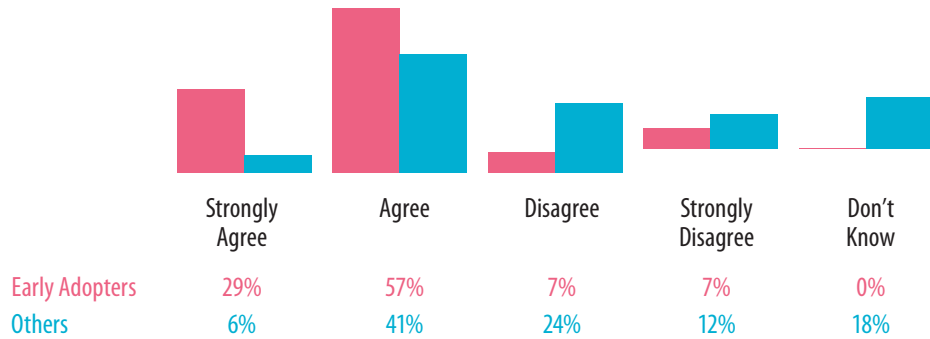
Another indicator of whether organizations emphasize learning is the degree to which they encourage people to take the time to reflect and learn from their experiences. A larger percentage of **Early Adopters** agreed that people have adequate time to reflect and think about the outcomes of their actions (**EA**=70%, **O**=47%). Perhaps more significant is that a full 53% of the **Others** and 23% of **Early Adopters** disagreed with the statement. This level of disagreement might suggest that people do not invest adequate time in activities that promote learning from experience.

### People in this organization have enough time to reflect and think about the outcomes of their actions



Another approach that organizations can take is to encourage people to learn from external sources. **Early Adopters** agreed that their companies encourage people to learn about sustainability from external sources (86%), whereas over half of **Others** either disagreed or didn't know (53%) ( $p < .05$ ).

**People in this organization are encouraged to learn new things about sustainability from external sources**

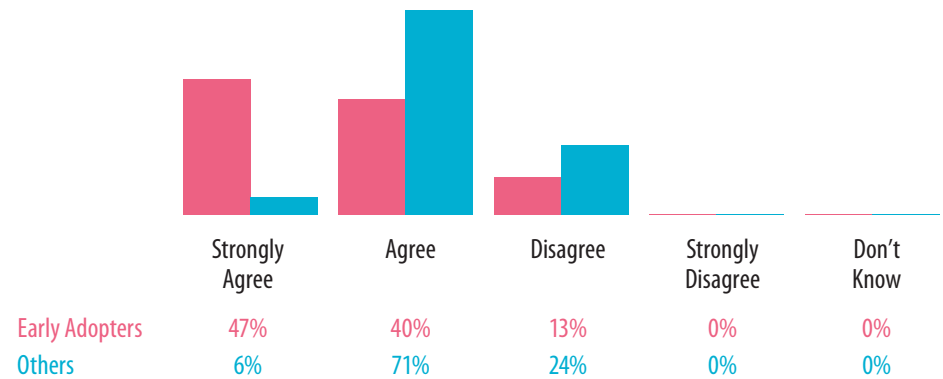


Our data suggests that while **Early Adopters** have an edge over **Others** in continuous learning, both groups have room to improve.

Another aspect of climate that must be important in an environment of uncertainty is trust. In fact, since actions for achieving most sustainability-related goals extend beyond traditional functional and even organizational boundaries, a climate of cross-functional and cross-organizational collaboration and trust is critical.

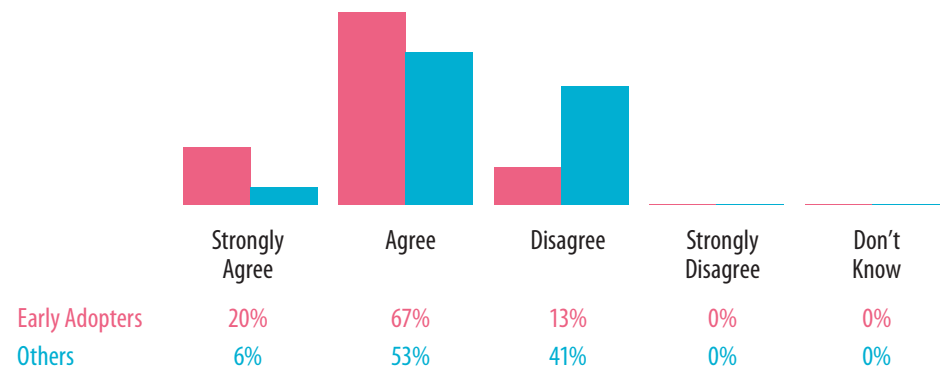
Our data showed that significantly more **Early Adopters** agreed that the level of trust was high in their organizations ( $EA = 87\%$ ,  $O = 77\%$ ,  $p < .05$ ). The difference becomes even more pronounced when looking at the numbers who strongly agreed. Only 6% of the **Others** strongly agreed that the level of trust was high, compared with 47% of the **Early Adopters**.

**The level of trust within this organization is high.**



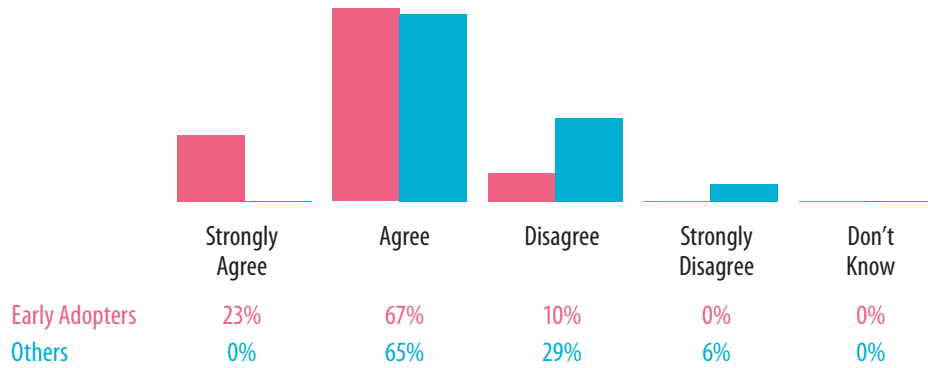
Consistent with the differences in trust, a larger percentage of **Early Adopters** indicated that people find it easy to work together effectively ( $EA = 87\%$ ,  $O = 59\%$ ,  $p < .05$ ) and are good at resolving conflict productively ( $EA = 90\%$ ,  $O = 65\%$ ,  $p < .05$ ).

**People from different departments find it easy to communicate with each other and to work together effectively.**

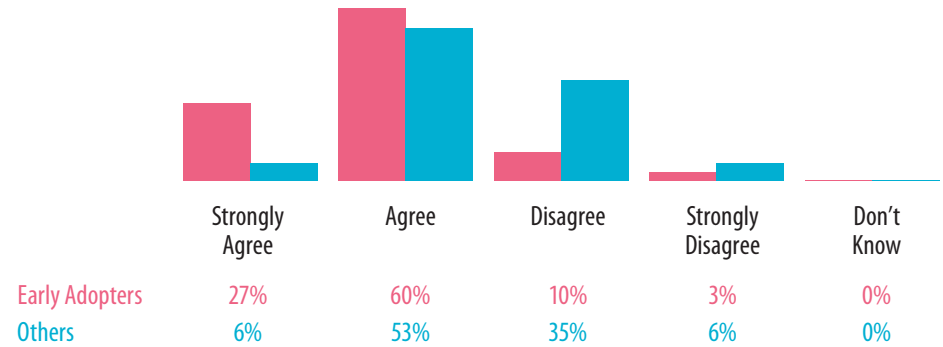


We propose that companies that are committed to innovation and are willing to take some risks are better able to thrive when faced with ambiguity. Taking action in the face of uncertainty requires some tolerance for risk. Our data suggests that **Early Adopters** companies are more likely to encourage moderate levels of risk (EA = 84%, O= 65%) and are more likely to reward innovation (EA = 87%, O=59% agreement, p<.05).

**People in this organization are good at resolving conflicts productively.**

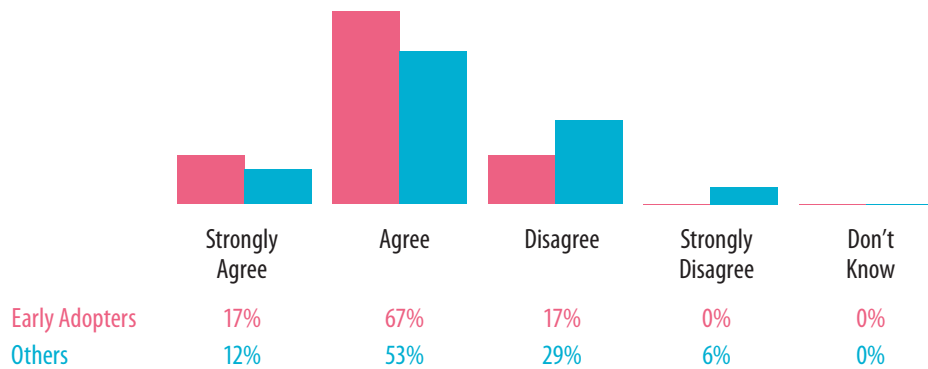


**This organization rewards innovation.**



In summary, consistent with our expectations, some specific elements of organizational climate do differentiate **Early Adopters** from **Others**. **Early Adopters** showed stronger commitments to learning both from their own experiences as well as from others. They indicated higher levels of trust and ability to communicate and work together better. And they indicated that their companies are more willing and able to deal with risk and innovation.

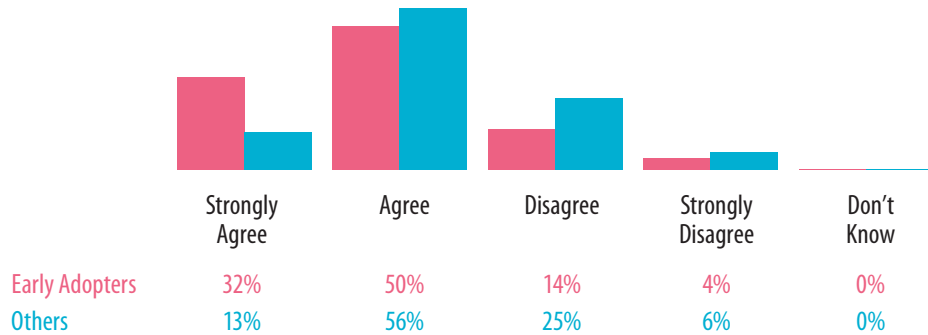
**People in this company are encouraged to take moderate levels of risk.**



## Change Readiness

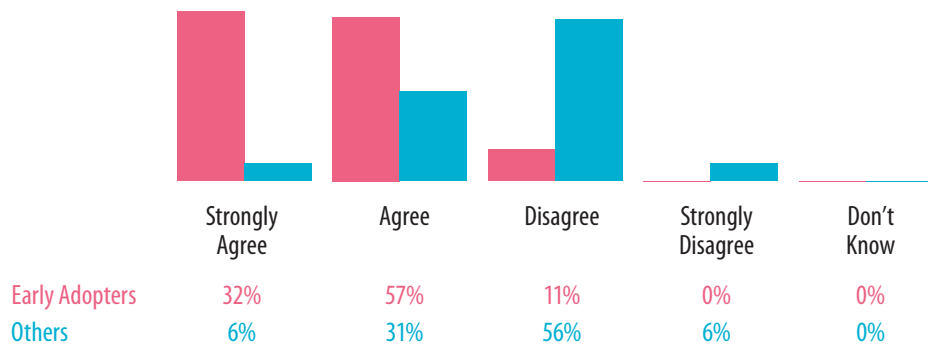
Given the context of uncertainty surrounding sustainability, cultures that are adept at handling change are more likely to thrive with their efforts. One indicator of change readiness is the degree to which people actively challenge the status quo. Eighty-two percent of the **Early Adopters** compared with 69% of **Others** agreed that people in their organizations actively challenge the status quo.

### People in this company actively challenge the status quo.



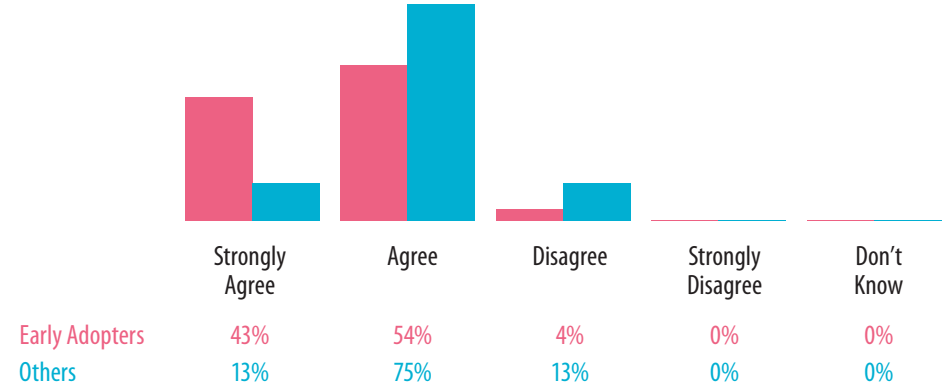
Often the best predictor of future behavior is past behavior. Therefore we asked respondents about their companies' track records with past change efforts. The data showed strong differences between **Early Adopters** and **Others**. Eighty-nine percent of the **Early Adopters** reported that their companies have a strong track record of successfully implementing large-scale change compared with only 37% of **Others** ( $p < .05$ ).

### This company has a strong track record of implementing large-scale change successfully.



Even when considering small, incremental change, the **Early Adopters** have an edge. While the vast majority of both groups agreed that their companies do this well, the level of agreement was still significantly stronger among **Early Adopters** (97%) vs. **Others** (88%) ( $p < .05$ ).

### This company has a strong track record of implementing incremental (small, continuous) change successfully.



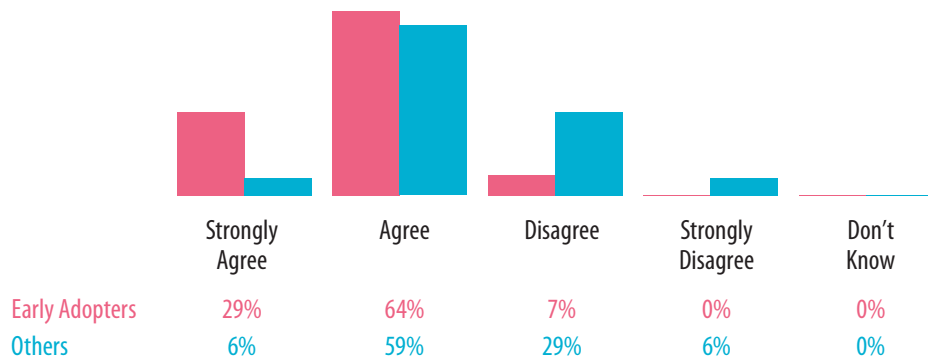
Based on these findings, we would conclude that **Early Adopters** are in a much better position to make the kind of large-scale changes that are likely to be required to execute progressive sustainability strategies. As for **Others**, it may be that more cautious approaches to sustainability strategies would be justified based on change-readiness alone. Their current cultures may be prepared to support only modest sustainability goals. The challenge for them is that small incremental change in the sustainability space may not be good enough to ensure that companies stay competitive. Therefore, addressing and increasing the change readiness of their organizations is likely to enable companies to tackle sustainability-related goals, and also to survive in a competitive environment that is fraught with change.

## Internal Stakeholders

Sustainability is believed to thrive in organizations where the employees care about the company and its values and, in turn, feel valued by the company. Since everyone in an organization will be touched by sustainability, smart organizations engage all employees in the efforts. This is easier in companies where employee engagement is the norm and the appropriate mechanisms are already in place. Overcoming the skeptics has been cited as one of the major challenges to successful execution of sustainability strategy. Employees need to believe that sustainability means more to the company than just an added cost.

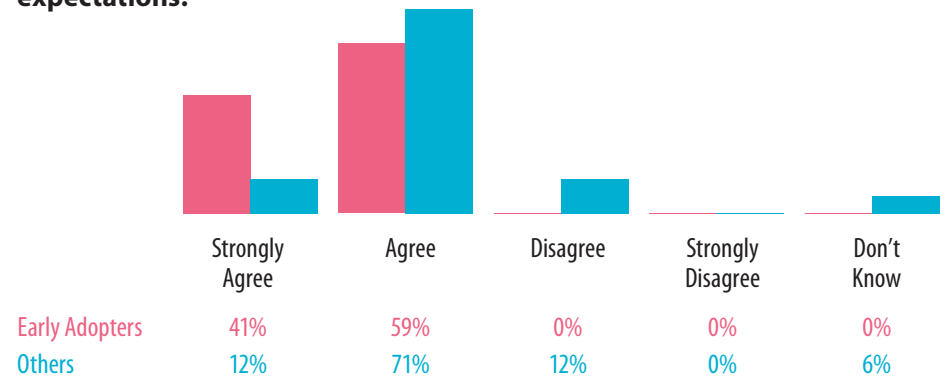
The differences between the *Early Adopters* and the *Others* in this category are quite striking. The *Early Adopters* showed a significantly higher agreement than *Others* with respect to their employees feeling valued, (93% vs. 65%,  $p < .05$ ).

**Most employees believe that the organization values them and their contribution.**



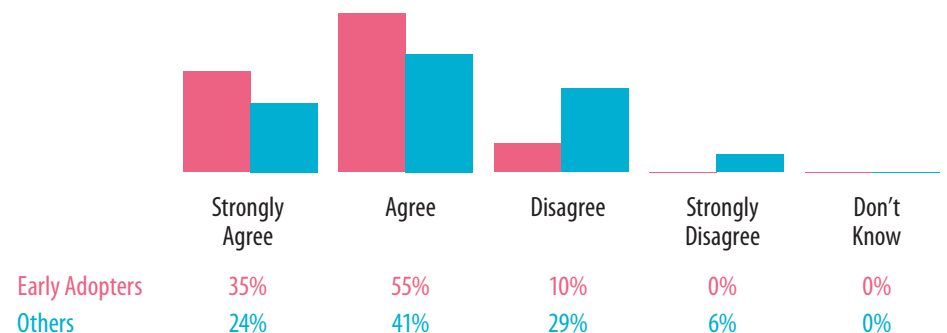
Likewise a greater percentage of *Early Adopters* indicated that they believe their organizations demonstrate concern for meeting employee needs and expectations ( $EA = 100\%$ ;  $O = 83\%$ ,  $p < .05$ ).

**This company demonstrates concern for meeting its employee's needs and expectations.**



While almost all *Early Adopters* indicated that their companies seek suggestions from people affected by activities, (90%) a significantly lower percentage of *Others* agreed (65%) ( $p < .05$ ).

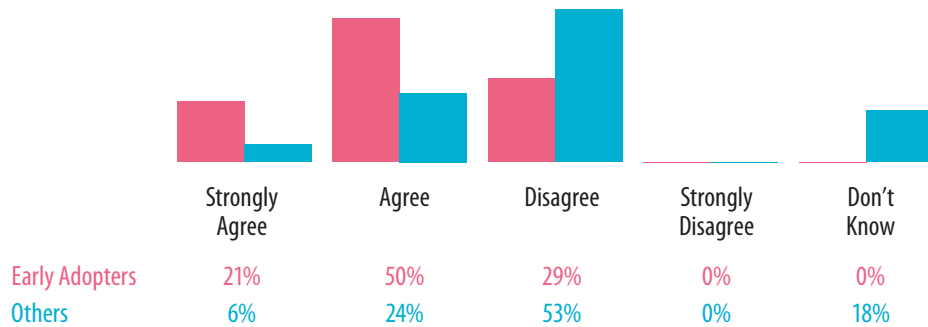
**This company actively seeks suggestions and input from all internal stakeholders affected by activities in the organization**



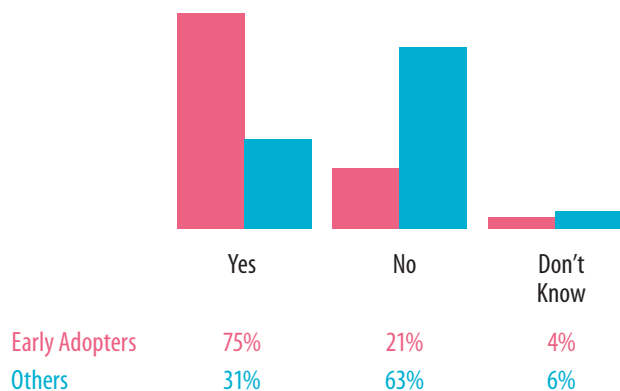
When it comes to sustainability-specific engagement, both groups have room for improvement. Nevertheless, **Early Adopters** agreed significantly more often that their companies have a clear engagement strategy for sustainability initiatives (**EA**=71% vs. **O**=30%, $p<.05$ ).

**Early Adopters** also indicated that their companies have mechanisms in place to integrate employees' knowledge, learning and ideas pertaining to sustainability into the organization (75%). **Others** showed much lower agreement (31%).

**This company has a clear strategy for engaging all internal stakeholders in its sustainability efforts.**

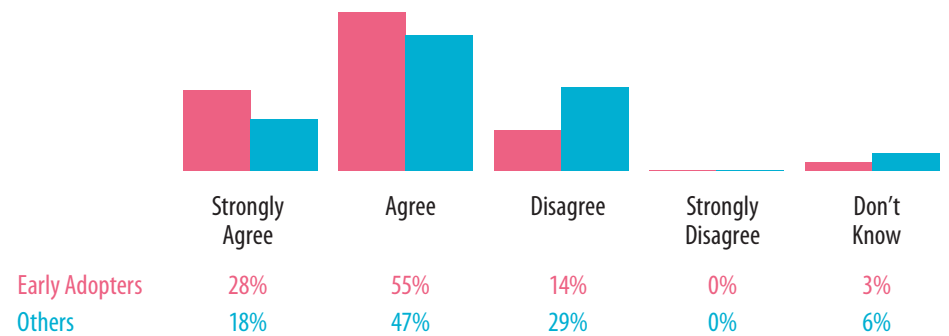


**This company has mechanisms in place to integrate employees' sustainability-related knowledge, learning and ideas.**



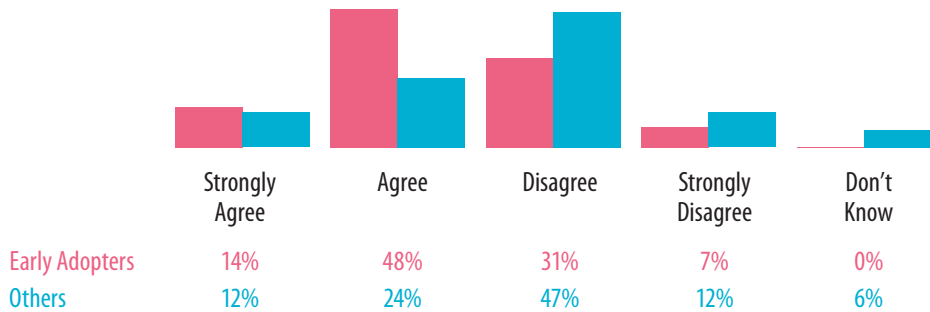
Of course the degree of engagement within an organization is likely to be related to whether employees believe that their work is somehow connected to the organization's sustainability agenda. Over half of both groups indicated that most people in their organizations are engaged in work that is related to the company's sustainability goals even though **Early Adopters** showed higher percentages of agreement, (**EA** =83%, **O**=65%).

**By and large, people in this organization are engaged in work that is connected to sustainability goals.**

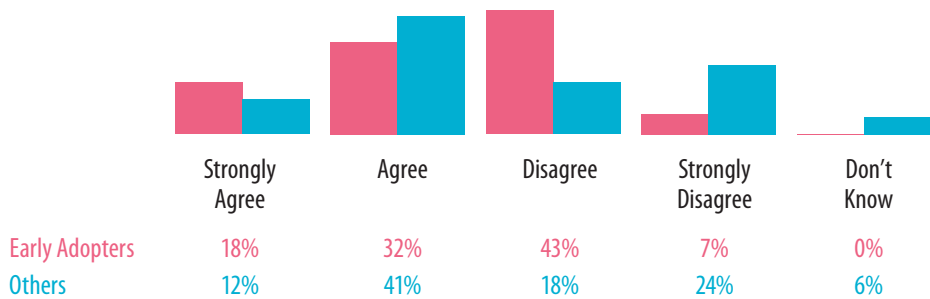


Even so, the level of agreement concerning whether employees' get regular feedback about their performance related to these sustainability goals was low for both groups. Only 62% of the **Early Adopters** agreed and a mere 36% of **Others** agreed. Likewise both groups could improve on rewarding employees for accomplishing the goals. Only around half of the respondents in each group agreed that compensation and rewards are linked to their organizations' sustainability goals.

**Employees get regular feedback about their performance related to the company's sustainability goals.**



**Rewards and compensation are clearly linked to the organization's sustainability goals.**



We conclude that *Early Adopters* do have a more robust approach to employee involvement in general and in their sustainability efforts in particular. However, both groups have a long way to go to optimize the results of the systems. In order to get the most from employee engagement, feedback and rewards should be aligned.

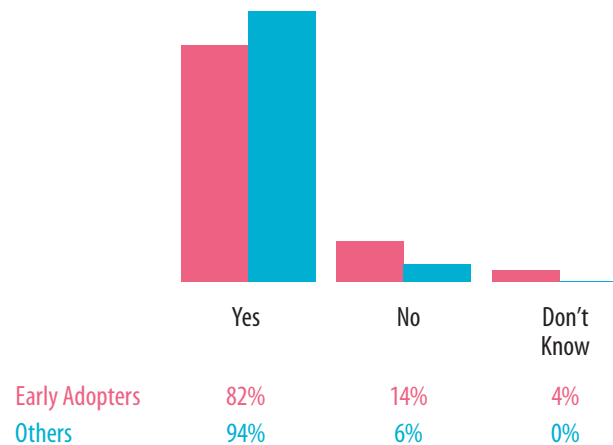
## External Stakeholder

The range of external stakeholders is more extensive for issues pertaining to sustainability than for most other corporate initiatives. They include Boards of Directors, investor portfolio managers, suppliers, customers, and all of civil society to some degree. And while the various stakeholders may be interested in differing aspects of organizations' sustainability goals and strategies, the message to all should at least be consistent.

We suggest that organizations need a consistent and integrated engagement strategy that deliberately targets key external stakeholders. For one, consistency in messaging builds credibility for the organization which, in turn, strengthens trust. Secondly, engagement with stakeholders creates more opportunities for feedback which supports identification of market opportunities, innovation and mitigation of risks.

Our data reveals that both groups have mechanisms in place for interacting with external stakeholders. In fact the *Others* indicated that their organizations are in a better position on this variable than *Early Adopters*, (*EA* = 82%, *O*=94% agree).

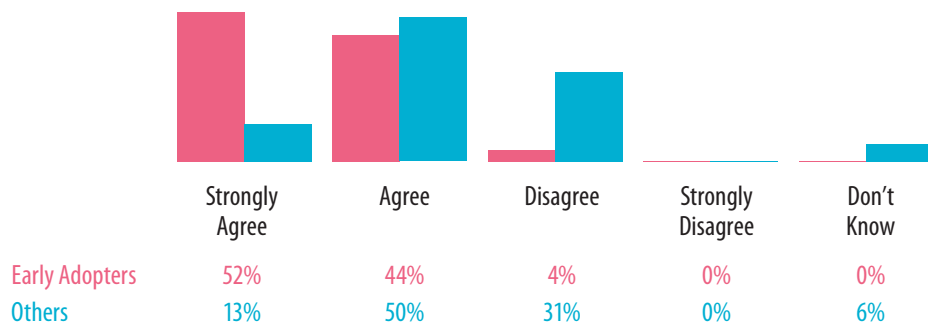
**This company has mechanisms in place for interacting with external stakeholders.**



However the **Early Adopters** tend to take a larger number of stakeholder groups into consideration in terms of sustainability strategy. While over half of both groups tended to consider Boards of Directors, customers, suppliers and government regulators, **Early Adopters** were more likely to include competitors (EA= 79%, O= 44%), consumers (EA=79%, O=47%), NGO's (EA = 54%, O=36%). Small numbers in both groups reported considering investors, although **Early Adopters** did so to a greater degree than **Others**, (EA=40%, O=33%).

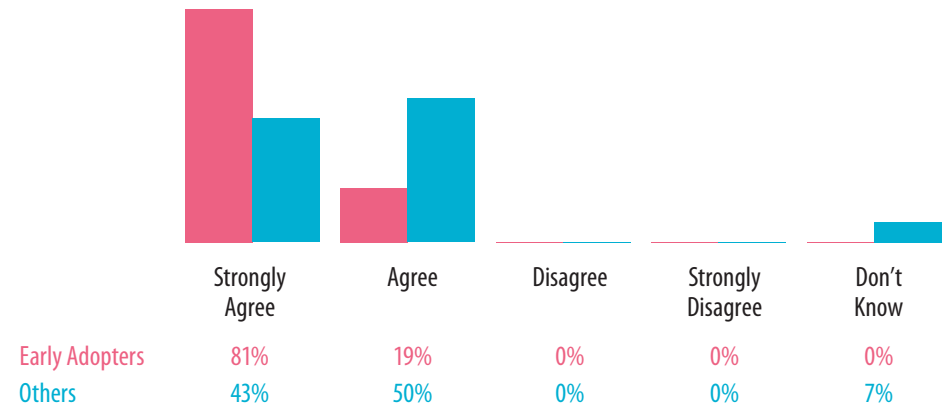
In communicating with external stakeholders, almost all **Early Adopters** agreed that their companies send a clear and consistent message about the company's commitment to sustainability (96%), whereas far fewer **Others** agreed (63%, p<.05).

**This company sends a clear and consistent message to external stakeholders about its commitment to sustainability.**



An important question is whether outreach to external stakeholders has a payoff for **Early Adopters**. The payoff could be defined in several ways. For example, perhaps perceptions of the organizations differ depending on their external communications around sustainability. Both groups in this survey indicated that their companies are viewed as being ethical, although **Early Adopters** showed stronger agreement (EA=100%, O=93%, p<.05). To get a more accurate read on how the companies are viewed and whether the two groups differ in the effectiveness of their communications, we would need to survey the public and look at additional measures of payoff such as license to operate, ease of working with supply chain, levels of scrutiny by investors, etc.

**This company is viewed by the public as being ethical**



## Conclusions

The data from this assessment do corroborate our original assertion that elements of organizational culture differentiate those companies that are noted for their aggressive commitments to sustainability. The Early Adopter companies are believed by their representative responders to have stronger leadership, more trusting and collaborative climates, greater commitments to continual learning, risk-taking and innovation. They are more likely to have sustainability goals embedded in their systems and are more likely to have mechanisms in place for employee engagement in sustainability-related initiatives. Likewise, they have a more expansive view of stakeholders and better means for communicating a clear and consistent message to them.

On the other hand, neither group showed the kind of tolerance for ambiguity that this uncertain context will likely require. Likewise, neither group showed the level of change readiness that would be ideal for not only facing the challenges but also leveraging the opportunities that sustainability offers.

Every year more and more companies become aware of and involved in sustainability-related issues. Some strive to merely predict and comply with consistently evolving regulations. Others are aggressively seeking savings in energy costs and efficiencies in supply chains. And a growing number of companies are looking for ways to achieve a competitive advantage in a world that increasingly cares about sustainable development. Companies in each of these categories should take a good look at their organizational culture to see if it is congruent with the goals that they are trying to reach. Lack of congruence will require adjustments either in strategy or in culture to enable successful execution of strategy.

Finally, it is interesting to note that the significant differences between the **Early Adopters** and **Others** were not only in those elements that directly relate to the substance of sustainability. More general aspects of culture such as ability to collaborate across boundaries, tolerance of risk and ability of leaders to inspire others also differentiated the two groups. Thus measures of culture should not be limited to the obvious questions such as the degree to which people value the environment or the views of leaders about the business case for sustainability. Other dimensions such as internal versus external focus and

flexibility vs. stability as put forth in the Competing Values Framework are very likely to be important to companies going forward. So too are specific elements of culture such as the ability to collaborate across boundaries and the capability of handling ambiguity.

## Next Steps

While we believe that the data reveal some interesting differences between the two groups that we studied, we also look forward to expanding the data base. We would like to include more organizations and more people within each organization in our sample. We believe that a more robust read of the relationship between culture and sustainability will come from taking a deeper dive into the organization and surveying a cross-section of people from various functions and levels.

Likewise, as we expand our data collection, we also plan to more clearly define the criteria for **Early Adopters** versus **Others**. We will address the question of what indicators demonstrate an organization's aggressive commitment to sustainability. Moreover, we plan to look at the relationship between cultural factors and more objective outcomes related to execution of strategy and goal achievement.

Finally, we hope to more directly address the relationship of congruence between culture and sustainability goals. We would like to study how an organization makes the choice of whether to set goals congruent with the culture or to address culture change to ensure alignment of culture and goals. And we would like to take a close look at the relationship between cultural and goal congruence on the success rate in executing sustainability strategy.

In today's environment, organizations are acutely conscious of doing the right things and doing things right. The implications of specific aspects of organizational culture are great for organizations to become more efficient and effective in setting and implementing sustainability-related strategies and goals.