

WHEN CHANGE IS THE CAUSE AND THE SOLUTION FOR SUSTAINABILITY

WHY DEVELOPING YOUR
ORGANIZATIONAL CHANGE MUSCLE IS
THE KEY TO AN IMPACTFUL
SUSTAINABILITY STRATEGY

Fact Sheet



The idea that change is a constant is nothing new.

But the increasing demand for companies to change to meet society's environmental, social, and governance (ESG) needs while navigating the increasingly complex and politicized landscape is unprecedented (e.g., Katz et al., 2023). Yet, given the ambiguous and voluntary nature of incorporating ESG into business strategy, organizations are choosing how much of an effort they want to create. As a result, we see varying degrees of impact: from organizations misleading the public about their ESG performance or engaging in short-term, less sustainable actions like carbon-offsetting to companies weaving ESG and sustainability goals throughout the business and developing longer-term, high-impact strategies.

For the future, however, organizational sustainability will depend on the ability to make and embed substantive change (Porter et al., 2019). A recent Korn Ferry survey found that today's Chief Sustainability Officers see the ability to drive and manage change to support sustainability as a primary function of their role now—and in the future. Additionally, Korn Ferry conducted a survey with over 700 senior executives from the World's Most Admired Companies, nearly all agree that executing an ESG strategy is important, with 93% saying they have connected their ESG efforts to their broader organizational purpose.

What's more, 72% say their companies have already changed their operating models to support their ESG strategy, while 64% plan to update their organizational structures and 57% anticipate changes in their cultures. These responses suggest that not only is implementing an ESG strategy a priority, but that it requires substantial organizational changes to be meaningful. The United Nations' Intergovernmental Panel on Climate Change reinforces a focus on change as both the cause (climate change) and solution (large-scale systematic change) surrounding ESG and sustainability (IPCC, 2023).

With the current broad application, limited standardization, and lack of shared ESG expectations, navigating these changes and communicating progress can create challenges for companies striving for meaningful impact—as well as advantages for companies not striving for meaningful impact. Without a universally accepted ESG framework or set of reporting standards, organizations can select and selectively report on ESG goals or, in some cases, postpone any action (C-Suite, 2022). Indeed, research shows that organizations report challenges in their staff expertise to support reporting, adequate technology to enable monitoring and measurement, and access to accurate and complete ESG data as they try to engage in targeted ESG actions—particularly for more robust efforts like Scope 3 GHG emissions reporting (Deloitte, 2022; C-Suite, 2022).



Research further suggests that undergoing environmental certification does not directly translate into positive environmental impact (Heres et al., 2020). ESG disclosures and even external certification metrics that lack commitment to obtaining and setting material goals can result in lower impact. This finding illustrates the distinction between organizations adopt surface-level ESG efforts to create a sense of corporate legitimacy versus those that embed their ESG efforts, so the outcome is centered on meaningful changes and improved performance (Boiral & Henri, 2012). As the name suggests, taking a substantive approach to ESG and sustainability within an organization likely requires dedicating significant resources—such as time, money, and talent—to implement changes.

In contrast, a symbolic approach to ESG may lead to greenwashing, where organizations provide misleading information to stakeholders concerning overall environmental performance by emphasizing positive ESG behaviors while withholding negative impact information (Netto et al., 2020). When organizations engage in greenwashing, it can carry unsubstantiated positive effects relating to their organizational reputation, such as stakeholders' trust, willingness to give the benefit of the doubt, and desire to work for their company (Reprtrak, 2022), as well as overall value estimates by investors (Elliot et al., 2014). However, as the demand from stakeholders grows and as federal rules on climate-related disclosures become finalized, organizations will have increased reporting accountabilities making it harder to engage in greenwashing.

As organizations develop their sustainability strategy, they can clarify the breadth and depth of change needed by understanding impact **and** considering different actions. Pro-environmental behaviors (PEB) have been largely studied and measured by the type of action and associated effort—whether conservation (e.g., unplugging electronics) or consumption (e.g., eating less red meat). Measuring the impact of these behaviors, on the other hand, has been less of a priority. But some researchers advocate for a greater focus on prioritizing and quantifying the actual impact value of various PEBs (Ciocirlan, 2017; Markle, 2013; Stern, 2000). By focusing on the impact of behaviors, organizations can create a clearer line of sight from action to meaningful change.

Research also underscores the need for sustainability efforts to include a combination of actions focused on mitigating negative effects while also proactively adjusting to current and future situations through adaptation (IPCC, 2023). Organizational change is also determined by the extent to which companies choose to embed their sustainability efforts, from symbolic gestures to substantive can reflect subsequent impact (Nardi et al., 2022).

By integrating sustainability across the ecosystem—from strategy to leadership, talent, and culture—organizations can **achieve their goals, contribute meaningful impact, and answer the call for change.**

How to make substantive changes to implement a sustainability strategy

Although organizations may still engage in symbolic, less meaningful ESG efforts, research suggests that embedding a substantive ESG approach is a promising path forward for long-term viability—both for companies and society (Kramer & Pftizer, 2022). Here are two key enablers to help companies implement an impactful sustainability strategy:

1. **Anchoring ESG to purpose.** Research suggests organizations that integrate ESG into their purpose and values report stronger relationships with financial performance and overall organizational effectiveness (Li et al., 2021; Korn Ferry, 2022; Spencer & Dai, 2021). Furthermore, business experts have found organizations that create “shared value”—where their purpose is to create economic progress through profit-driven social value—show stronger financial outcomes than other ESG company rankings (Porter et al., 2019). When organizations focus on substantive ESG actions that support their organizational purpose, it creates a foundation of ongoing ESG and sustainability impact.
2. **Developing organizational change readiness.** With the increasing responsibility for organizations to meaningfully contribute to environmental and societal needs, delivering on these more robust ESG and sustainability strategies requires significant organizational changes. Although there are various approaches to managing organizational change, growing evidence shows that change readiness is an important precursor or change-enabler to effective organizational change (e.g., Alqudah et al., 2022). Change readiness captures the alignment within and outside an organization to identify, prepare, and enable organizational changes. This readiness is particularly relevant given the comprehensive change efforts at many organizations in response to new ESG requirements. These include new operating models and org structures, upskilling or reskilling of leaders and broader employees, and new incentives and reward structures required to evolve the way things are done.. As leaders consider their sustainability paths and ability to adjust to higher expectations, understanding and prioritizing their organization’s readiness to change will support the effectiveness of change efforts.

Conclusion

When companies tie sustainability to their purpose, it becomes a part of their identity and path towards a continued competitive advantage. In turn, they can better respond to changing external market conditions while also developing the change muscle needed to support future adaptation needs. And by integrating sustainability across the ecosystem—from strategy to leadership, talent, and culture—organizations can achieve their goals, contribute meaningful impact, and answer the call for change (Ioanno & Serafeim, 2019; Jamal et al., 2021; Gebhart et al., 2022; Surroca et al., 2010).

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