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Note on Climate Change as an Organizational Challenge

Developing a corporate climate change strategy is not primarily a technological or economic challenge, but is more importantly an organizational and cultural challenge.[1] While technological and economic activity may be the direct cause of our environmental and social problems, it is the culture of the organization that guides the development of that activity. Corporate leaders must focus on developing an organizational culture that will fully engage the issue and find innovative ways to integrate it within the structures of the firm. Therefore, realizing the strategic benefits in addressing climate change requires a change in the foundational elements of the organization, most notably the reward structures, hiring and selection processes, training procedures and organizational structure. Companies must engage workers as partners in identifying and enacting new and innovative strategies.

Ultimately, an effective strategy must focus on diffusing responsibilities for climate action throughout the organization, but especially to the departments best able to address it. Climate strategy can be directed to any one of a number of functional areas (see **Figure 1**),[2] each designed to address a set of external considerations and internal resources because they share a common language and set of perspectives.

Legal departments typically treat climate change as one of regulatory compliance and legal protection; marketing departments typically treat the issue as one of external presentation and consumer appeal; operations departments typically treat the issue as one of material acquisition, production and distribution. In each case, the climate change issue requires a mitigation strategy (emission reduction) and an adaptation strategy (response to the physical impacts). And in each case, climate change transforms the work roles and functions of the department that address it, as well as the overall organization. As such, successful adoption requires a careful process of organizational change management.

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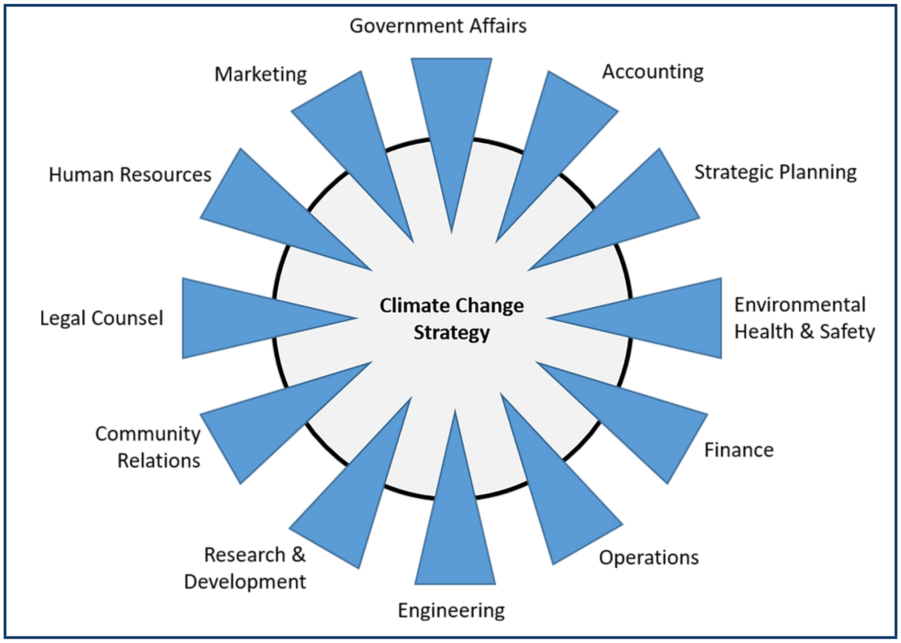
Figure 1

Climate Strategy May Reside in One of Many Functional Departments



Source: Hoffman, A. (2000) *Competitive Environmental Strategy: A Guide to the Changing Business Landscape,* (Washington DC: Island Press).

Organizational Change Management

The organizational change process goes through a series of four general phases, phases that are subdivided into eight critical steps (see **Figure 2**).[4]

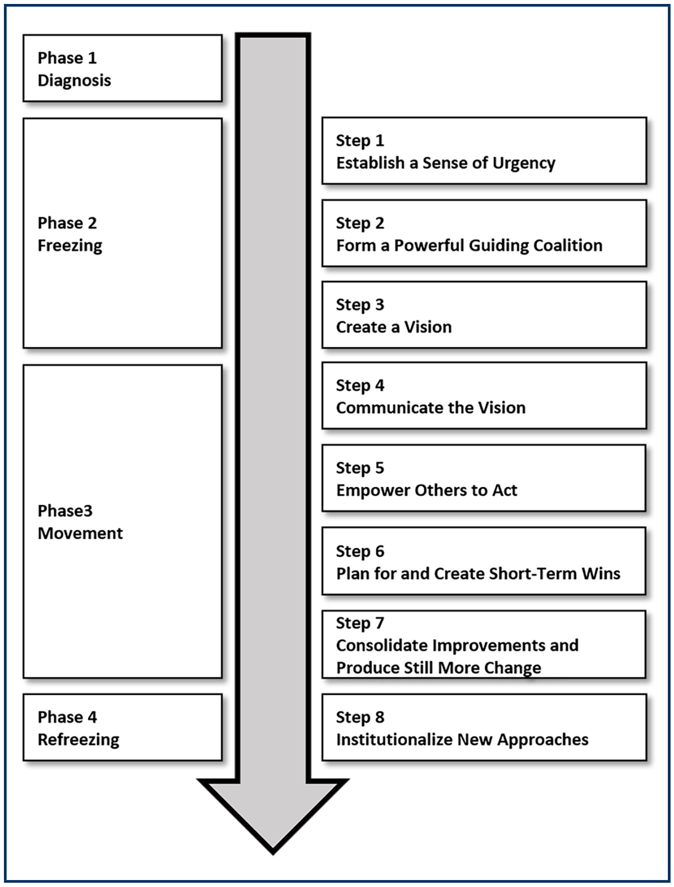
Phase One: Diagnosis

The first phase of a change process is diagnosis—realizing that change is necessary and then deciding what strategic actions to take in response to critical external signals. To remain connected to these external signals, many firms adopt boundary spanning activities with other organizations that are sensitive to changes in the business environment (such as nonprofits, scientific bodies and government agencies and other companies). To craft a response that is tailored to the distinct culture of the individual organization, a careful analysis of the organization's purpose, structure, internal relationships, reward structures and leadership systems must be undertaken. Any attempt to incorporate an externally-devised, formulaic program will merely create the illusion of change without any lasting substance. Thus, the diagnostic phase is a stage of careful reflection, considering questions specific to the distinct demands, needs and capabilities of the organization. Boundary spanning will help trigger this diagnosis, but the challenges for the manager are interpreting these external signals and tailoring a strategic response.

On the issue of climate change mitigation, a critical component of the diagnosis phase is an emissions profile assessment[5] in which the firm can identify and prioritize emissions reduction options, research the means to reduce emissions, consider products and services that may be affected by carbon constraints, and develop potential strategies that are complementary to the core business. On the issue of climate change adaptation, companies must evaluate the vulnerability of key assets to increased storm severity, droughts, and other physical impacts, as well as the security and future availability of key resources.

Figure 2

A Road-Map for Organizational Change



Source: Hoffman, A. (2000) *Competitive Environmental Strategy: A Guide to the Changing Business Landscape,* (Washington DC: Island Press); Lewin, K. (1947). "Group decision and social change." In T. M. Newcomb & E. L. Hartley (Eds.) *Readings in Social Psychology.* (New York: Holt, Rinehart, & Winston); Kotter, J. (1995) "Why transformation efforts fail," *Harvard Business Review.* March-April: 60-67.

Phase Two: Unfreezing

Once the change management process begins, the second phase, unfreezing, is intended to prepare the organization for change and lower the barriers of organizational resistance by gaining buy-in from the organization on the necessity of change. Unfreezing is comprised of three fundamental steps: establishing a sense of urgency, forming a powerful guiding coalition, and creating a vision.

Establish a sense of urgency

No change process will ever succeed if the members of the organization are not clear on why it is being done and what level of importance it holds for the organization. One obvious way in which the organization can be motivated into action on climate change is through a crisis or organizational jolt. A disaster (such as an oil spill or natural disaster), administrative problem (such as a negative external audit or regulatory violation) or stakeholder pressure (such as an activist attack, investor proxy or shift in insurance coverage) can create an opportunity to drive change. But events do not, in and of themselves, create organizational change. They are socially constructed in ways that capture attention and drive both debate and action. As such, they require a receptive audience, powerful advocates, and evocative framing that lead to a clear message.[6] When (then President Obama's Chief of Staff) Raum Emmanuel famously said, "Never waste a good crisis," he was calling out ways in which change agents can precipitate a period of revolutionary science that Thomas Kuhn[7] described as periods of conflict over the nature, meaning, and response to these events.

So, while events are opportunities for revolutionary change, social entrepreneurs must develop tactics that create incremental change and lay the foundation for more revolutionary change when the opportunity arises. Successful managers will initiate change by taking a hard look at the company's competitive situation, market position, technological trends and/or financial performance. This may involve the development of a strong audit program, identifying the weaknesses in the present organization, assessing the full range of environmental risks and calculating the costs of existing programs that do not offset them. Surveys have found that climate strategy development requires an assessment for how operations and sales may be affected— both for the positive and the negative—by climate change-related factors and, as a result, how such factors may alter competitive positioning.[8]

Form a powerful guiding coalition

Major renewal programs start with one or two central proponents. But without a sufficiently powerful core of supporters, the effort will likely fail. One of the initial active supporters for climate change action must be the head of the organization. Without such top-level support, the change process will lack legitimacy. With this in mind, CEOs from major corporations have made public pronouncements of their company's commitment to addressing climate change through speeches, policy statements, congressional testimony, financial resources, and personal support.

But the powerful coalition does not stop there. While CEO support will spur broad-scale organizational support, a core nucleus of champions must include participants from throughout the organization and beyond. The larger the organization, the larger the necessary coalition. Thus, an analysis that identifies the departments or functions that will act as change initiators, implementers, and resistors is in order. Surveys have identified Accounting, Finance, and Marketing as often less supportive of climate program implementation than other departments, while the Environmental, Health & Safety and the Executive Suite (the CEO and senior executives) are most often the change initiators.[7] To facilitate greater cohesion, many companies choose to create specific departments whose function is to foster greater cross-functional collaboration on the climate change issue.

Create a vision

Even if all employees accept the need for change, it is important that they understand the goals of the initiative and their role in the process. The guiding coalition must develop a picture of the future that is relatively easy to communicate and goes beyond the numbers and figures of a standard five-year plan. This vision generally emerges from a draft developed by a small team but is fine-tuned over months to fit a format that appeals to customers, stockholders and employees. This step is often conducted in an iterative fashion with goal setting. Some companies set goals and then set a vision to achieve them; others the reverse. The precise ordering is a matter of individual management style. But, in the end, the vision includes a clear statement of the effort's ultimate goal. This, too, must be presented in a form that readily fits the culture of the organization. Some companies develop mitigation goals for emissions reductions, others for energy efficiency improvements, sourcing renewable energy, reducing solid waste, or increasing use of hybrid biofuels and vehicles. Similarly, many companies are developing adaptation goals, such as water efficiency, disaster preparedness or operational resilience.

Phase Three: Movement

Once the foundations have been laid for effectively unfreezing the organization, the actual movement—or implementation of the change plan—should be relatively easy. In fact, "the ease of implementation should be a good gauge of how well the unfreezing process has broken down any pockets of resistance to the change." Four steps comprise the movement phase: communicating the vision, empowering others to act, planning for and creating short-term wins, and consolidating improvements and producing still more change.

Communicate the vision

The transformation process is impossible unless the majority of employees, hundreds or even thousands of people, are willing to help, often to the point of making short-term sacrifices. To gain this level of buy-in, executives who are part of the management team communicate the vision of the initiative by articulating it clearly and often, and integrating it into all aspects of the corporation's goals and objectives. This includes speeches, newsletters, training programs, plant and office signage—anywhere that can remind employees of the changes that are taking place around them. An often neglected communication tool is the executives who can communicate the vision by their example. If employees hear executives say one thing and do another, cynicism will inhibit their conformance to programmatic objectives.

Empower others to act

Once begun, the transformation process involves all employees in its progress. In developing this level of engagement, poorly-designed organizational components (such as the organizational structure, the reward system, the hierarchical power system, and the accessibility to necessary information) can inhibit the full utilization of all corporate members and reduce the chances of successful transformation. Organizational inhibitors create drag which will slow momentum, divert resources from its growth and stifle creative and cooperative action. Some companies have developed financial incentives for employees to make changes in their work habits, and in some cases lifestyles, to better integrate concern for climate change into their everyday routines. But, it is important to note the "value-action gap" in creating change in both beliefs and behavior; the gap between the possession of environmental knowledge and environmental awareness, and the ability to enact pro-environmental behavior.[11] In the end, corporations set policies and incentives to guide behavior. If set properly, beliefs will follow.

Plan for and create short-term wins

Nothing builds momentum more than visible success. Short-term wins show the organization what goals it is striving to achieve and present clear examples that these goals are real. They encourage participating members to increase support and may serve to coax noncommittal employees to join the effort. To increase short-term wins, many companies are able to identify a variety of low-cost options for reducing their greenhouse gas emissions or protect critical assets. These "low-hanging fruit" opportunities often include behavioral or technological changes that improve efficiency, reduce energy consumption, enhance resiliency and signal change throughout the organization.

Consolidate improvements and produce still more change

The message of this stage is quite simple: do not declare victory too soon. While celebrating the culmination of a series of short-term wins, managers may feel inclined to relax the effort, having cleared a major hurdle, and assume the road ahead will become easier. This attitude can kill the momentum that everyone worked so hard to achieve in the preceding months. Instead, clear signs of performance improvement should be taken as an opportunity to refine original goals, integrate them deeper into the organization and strive for further change that will firmly establish itself into the organizational culture. Keep in mind that the mobilization costs in initiating the change process are high. If the objectives achieved are not progressive enough to anticipate environmental demands and successfully capitalize on them, the opportunity to correct these shortcomings will be hard to recreate.

Phase Four: Refreezing

Once the desired changes have been fully implemented, refreezing is the process of institutionalizing the new changes. Part of this process includes communicating to the employees how the new changes have helped the organization meet the business urgency of climate change mitigation and adaptation that was laid out in establishing the vision. This internal communication should be just as prominent as the publicity efforts that kicked off the initiative. Employees must be shown, in a tangible way, that they have achieved the program's objectives and what that achievement means for organizational success.

The refreezing process also involves establishing new changes within the formal structures and informal habits of the organization. The changes must be supported and maintained without the involvement and oversight of the guiding management team. In short, the artifacts that embody the organization's culture must reflect the entire organizational change effort to ensure that the cultural change process is perpetuated. In terms of tangible structures to ensure that this occurs, attention can be directed at the processes by which employees are rewarded for their job performance, initially hired, socialized into the corporation, assigned job tasks and positioned within the structure of the organization and its components.

Reward structures

Regardless of the extent of top-level speeches and corporate environmental policies, reward structures are highly influential in how individual managers will perform their job tasks, and are often misaligned.[12] Rewards can include compensation, but also job design, non-cash awards, benefits, "perks," and advancement up the career ladder. For example, many companies link climate change goals to rewards, bonuses, and public awards. Others employ novel techniques such as promoting tree planting, participation in personal greenhouse gas reduction programs, or the purchase and use of low-emission vehicles and bicycles by employees.[13]

Selection

Once reward structures are established, the criteria by which new employees are hired must reflect the type of people that will be receptive to the cultural and performance expectations of the new organization. Finding that type of individual is a matter of fit as climate awareness is becoming increasingly relevant, especially with young recruits who are increasingly concerned about the issue and a company's posture toward addressing it.

Socialization

Once selected, the task of socializing the new employee into the new culture of the organization becomes critical. A formal training and awareness process must be established to convey the organization's goals, norms and preferred ways of doing things. The training process should teach them about the company's climate mitigation and adaptation strategies in much the same way that companies teach new recruits about the overall strategy. Socialization can include several techniques such as a prescribed onboarding program, initial and ongoing training courses, making role models visible, assigning a mentor, and delineating a carefully outlined career progression that highlights the importance of climate change performance to achieving promotion.

Organizational structure

Finally, the structure of the organization must be configured to facilitate the new reward systems and organizational objectives. This structure is comprised of both the formal and informal systems of regulated decision flows. The formal structure establishes direct and formal authority, reporting requirements and responsibilities. The informal structure describes the more fluid communication patterns and power relationships that exist. While the reward structures promote a set of actions and initiatives that may favor new climate-related strategies, structural arrangements must be established that allow those strategies to be implemented. It is often the form of the organizational structure that can create the greatest obstacles to a successful organizational change process.

Resistance to Change

Organizational change will involve the unlearning of what has been ingrained over the organization's history, and this will often invite resistance. Basic assumptions about organizational procedures and the realities of the external environment can become rigidly set and are difficult to reset. At times, this rigidity can be positive, allowing the organization to react rapidly to changes that fall within the range of issues previously encountered. But it can also operate as a pattern of thought and action which can limit possibilities for action. The structural inertia this creates can take many forms: habitual routine, resource limitations, communication breakdowns, fear of the unknown, and threats to established power bases.

Habitual routine stems from both unconscious and conscious thought that builds from an individual's realization that changing what has become established will involve some form of short-term costs. While inefficient or inconsistent with long-term objectives, these established routines can become familiar, comfortable, reliably predictable and hard to change.

Resource limitations can restrict the ability of an organization to overcome sunk costs in plants, equipment and personnel. They can become psychological roadblocks that bias managers away from certain actions or responses to demands for change. Short-term demands may deny the manager any opportunity to consider long-term gains which—though encouraging—are only potential. Short-term costs predominate, thus biasing the manager to over-discount the future.

Communication breakdowns can perpetuate environmentally inefficient routines. In the face of possible cost benefits, established reward and incentive systems within organizations often mask the opportunities available through change. For example, energy costs are often paid out of one department's budget, while installation and maintenance of lighting upgrades are billed to another. Therefore, neither department will trigger the need to change due to individual departmental responsibilities and rewards.

Fear of the unknown can drive organizational inertia and the continued reliance on basic underlying assumptions. Both external and internal change can be upsetting for organizational constituents, particularly when the outcome or consequences of change cannot be predicted. In fact, psychology research shows that people are often guided by defensive perception, the belief that any change will be painful, regardless of the objective facts.[14]

Finally, *threats to established power bases* can cause resistance to organizational changes. Culture establishes a power structure that will bias the perspectives of those who benefit from the existing system. Alterations in the structure and roles of the organizational members may be competence-enhancing for some and competence-destroying for others. For example, the environmental health & safety department (EH&S) may resist the transfer of some of its responsibilities to other departments since the very act may minimize their own usefulness. Conversely, without a clear view of the overall costs and benefits, other departments may resist the addition of new responsibilities as they perceive the profitability of their individual operations diminished. In the face of such changes, self-preservation may override concerns for environmental or economic objectives. The result may be organizational confusion or battles for survival among rival departments.

Conclusion

Any company seeking to address climate change must connect the issue to its mission, values and strategy. But to find truly innovative solutions, one executive says, "you need the tension of a very challenging goal. Inspirational goals call an organization to act beyond conventional boundaries…an easy goal fails to challenge the creative potential of the organization."[15] Inspirational goals without the supporting cultural and structural changes will restrict the development of new ways of thinking about climate change and its relationship to economic competitiveness. Conversely, properly designed organizational change can unlock the capabilities of the organization and its people to find the solutions to our climate change problems.

Endnotes

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