Part IV

Pathways to sustainability: towards third wave corporations

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# sustainability

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What is change for sustainability?

This whole book is about change for sustainability, underpinned by our sustainability phase model. Our intent with the phase model is that it is a tool to meaningfully compare the progress and commitments of organizations to human and ecological sustainability and to describe the steps or stages organizations typically take in progressing to sustainability, based on our own case study research and the research of others. This chapter focuses on the dynamics of these transitions and how they can be encouraged.

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As a starting point, we acknowledge that *any* organizational change is difficult. As Beer and Nohria state:

Despite some individual success, change remains difficult to pull off, and few companies manage the process as well as they like. Most of their initiatives – installing new technology, downsizing, restructuring or trying to change corporate cultures – have had low success rates. The brutal fact is that about 70 per cent of all change initiatives fail.1

Against this background, we think that change for sustainability poses particular challenges. To use a metaphor, the change entails both hardwiring and ‘softwiring’. It requires changes to numerous (hardwired) aspects of the organization, such as strategy and business models, procurement, production, and marketing processes, incentive structures, and so on. Doing so is by no means straightforward – it will involve difficult choices and trade-offs.

In comparison, the softwiring is perhaps even more problematic. For us, this softwiring includes what is the coordination of a complex, crosscutting agenda. But this is only the start. Change for sustainability requires new ways of thinking, as we have discussed at length. We also know from our own professional experiences and research (and this is supported by extensive further academic research), that the ambiguity and complexity of corporate sustainability can frustrate gaining agreement and taking action. It follows that we need to pay attention to how people make sense of the concept, and how this is linked to their decisions and action in support of sustainability. Finally, we see this change process as inherently political. Firstly, it raises what might be unwelcome and problematic questions about organizational purpose. Secondly, there are likely to be varied, and potentially competing, values, interests and motivations among both internal and external stakeholders. It follows that the final aspect of this softwiring is to understand and seek to manage these dynamics.

Our second point, which follows from the last chapter, is that the change process must inevitably extend beyond any single organization to transforming industrial-era practices, policies, markets and institutions.2 There is of course enormous inertia restricting this necessary systemslevel change. However, like Waddock et al., we see that organizations are embedded within a network of other actors and institutions, and that organizations have a role to play pursuing positive change, both within themselves, and at the societal level.3 We have already discussed many initiatives that can have this dual impact. These include the pursuit of disruptive business models, such as the circular economy and sharing economy, rethinking valuation (integrated reporting, environmental P&L), new forms of collaboration (predominantly in supply chains), and of course rethinking purpose and ambition (Unilever’s Sustainable Living Plan, Interface Mission Zero).

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This broad-based (and necessary) societal change has been termed a *sustainability transition*.4 So what can we say about the change process at the *organizational* level, and how it can be encouraged? We start with a foundational view of change as (at least partly) planned, and consider the merits of pursuing an incremental approach and a transformational approach, and how they can be applied, singularly, or together, in the context of our phase model. Later in the chapter, we consider the implications of alternative perspectives on organizational change. As yet, there is no broadly accepted theory of change specific to corporate sustainability.5 It follows that we are not advocating any ‘one best way’ but, rather, we advocate thinking through the appropriate approach for a specific situation.

Incremental change, transformational change, or both?

For a significant part of the twentieth century, most managers used incremental change programmes to modify their organizations. Transformative change programmes were employed only in times of crisis, which were the exception rather than the rule. So, the history of the development of systematic approaches to incremental change extends throughout the twentieth century and into the twenty-first. As a result, we now have a comprehensive set of tools available to make incremental change and we know some of the key ingredients for successful change programmes of this kind.6 For some organizations, the move to sustainability will be an incremental development of corporate capabilities, cultures and practices. For example, as Orsato points out:

The majority of literature on corporate environmental management assumes reformism as the guiding principle for organizational change. Incrementalism is the basic principle of the standards of environmental management systems such as the ISO 14000 series . . . These programs assume that through incremental improvements organizations would achieve eco-efficiency and, eventually, ecological sustainability.7

In contrast, there are two main arguments for pursuing a transformational approach. We are addressing here what Robert Quinn refers to as ‘deep change’. Quinn writes:

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Deep change differs from incremental change in that it requires new ways of thinking and behaving. It is change that is major in scope, discontinuous with the past and generally irreversible. The deep change effort distorts existing patterns of action and involves taking risks. Deep change means surrendering control.8

The first argument for a transformational approach is that many organizations simply have no choice. They have been, or will soon be, subjected to unprecedented and unanticipated public pressures to make radical change. Why? Because some of their current policies or practices are revealed as plundering and polluting the planet, destroying the human capital assets of the organization or fracturing community relationships. We have given many examples throughout this book of organizations that have found themselves in such a situation and have had to respond by initiating radical, transformative change. In fact, some of today’s leading corporate advocates of sustainability, whose managers have blazed a trail to sustainable practices, have been companies whose reputations suffered at some point because of unacceptable and unsustainable practices. Nike and Shell are obvious examples. Over a number of years, Shell was targeted by communities in the oil-rich Niger Delta, claiming compensation for oil spills.9 In the example of Nike, ‘third-party’ not-for-profit groups extended their campaign around claimed human rights abuses beyond their original targets to whole industry segments.10 We are moving into a period of history when organizations engaging in unsustainable operations will have their ‘licence to operate’ questioned by activist community groups or government watchdogs.

The allied argument is that, in some cases, such as extreme weather events, the frequency and proximity of which seem related to climate change, some companies will have massive and transformative changes thrust upon them. These potentially could be disastrous for organizations. For instance, the New Orleans energy utility, Entergy, filed for bankruptcy protection following the near-complete shutdown of its operations and revenue following Hurricane Katrina. It was estimated that the company had lost its 337,000 electricity and natural gas customers, and analysts predicted that even as things improved, it was reasonable to expect that its future customer base could be smaller.11 In the face of dramatic environmental discontinuities, managers must think about the forms of adaptive capacity they need to build into their organizations.

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The second argument for a transformational approach is that the sustainability imperative demands more rapid action than can be achieved incrementally.12 For example, Hart and Milstein, in their prophetically titled article (which we introduced in Chapter 5) ‘Global sustainability and the creative destruction of industries’, argue:

the emerging challenge of global sustainability is a catalyst for a new round of creative destruction that offers unprecedented opportunities. Today’s corporations can seize the opportunity for sustainable development, but they must look beyond continuous, incremental improvements.13

Building on the work of Joseph Schumpeter, these authors view incremental change as simply maintaining the status quo. Furthermore, they argue that at some point in the future, those organizations that have changed only incrementally will fail because they did not ‘change the fundamental manner in which they provide products, processes and services’.14 In their view, the operations of current businesses are so inimical to sustainability that only radical change will create a sustainable world. The good news is that many organizations have already undergone a corporate transformation due to globalization, increasing competition, digitalization and the GFC. This means we have learned a great deal about how to reinvent organizations (and how not to). As mentioned earlier, de Geus has documented the histories of 27 companies that lasted from 100 to 700 years – companies such as DuPont, Kodak, Mitsui, Sumitomo and Siemens.15 Their ability to initiate and manage transformational change has been a major contributor to their longevity.

At this point it’s important to note that some companies may choose to change transformationally, even though they are not subjected to external pressures to do so. Some of these will be companies whose managers see the significant business opportunities that are emerging in sustainable development and who wish to lead in taking up these opportunities. To do so they may have to reinvent the organization, for example by moving from manufacturing petroleum-based products to manufacturing and recycling products based on natural fibres, while building a wholly new business operation that services and recycles. This is the story of DuPont, which has, since 1991, reclaimed millions of pounds of carpet. Some of the recycled content is used to manufacture products as diverse as carpet tiles and automobile parts.16 However, central to DuPont’s transformation has been the divestment of Conco and its shift towards life sciences investments.17 In its current incarnation, DuPont has incorporated service provision of sustainable transformations into its business model and is working to promote the development of sustainable fibres. For example, its award-winning Sorona fibre replaces a traditional petrochemical-based ingredient with a renewably sourced biopolymer. According to DuPont, the production of Sorona fibre requires 30 per cent less energy and reduces greenhouse gas emissions by 63 per cent compared to the production of an equal amount of nylon.18

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Other companies will be led by managers who are personally committed to contributing to a more sustainable world and who see their companies as instruments for accomplishing this. In this situation, the organizational transformation may involve paradigmatic change where the core values and assumptions underpinning decision-making and practices are questioned and altered. In addition, there are an increasing number of organizations whose basic corporate strategy is continually to transform or ‘reinvent’ themselves to maintain a competitive edge. Brown and Eisenhardt capture this well:

For firms such as Intel, Wal-Mart, 3M, Hewlett-Packard and Gillette, the ability to change rapidly and continuously, especially in developing new products, is not only a core competence, it is also at the heart of their cultures. For these firms, change is not the rare, episodic phenomenon described by the punctuated equilibrium model but, rather, it is endemic to the way these organizations compete.19

Those organizations that see the development of new sustainable technologies, processes and products as central to their strategic success may choose to use continuous transformational change as a way of continuously dominating their emerging markets.

Managers should adopt the kind of change strategy that suits the organization’s specific situation. Significant gaps between corporate strategy and performance, or between a culture of rejection and one of strategic proactivity, for instance, require robust transformational changes. In our view, it is often possible to bring about transformational change, and we have documented many successful cases.20 However, the magnitude of the task is often underestimated. Smaller gaps, new strategic opportunities, more minor culture shifts, capability development or changes in the workforce skills mix, however, may be achieved through incremental change initiatives.

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We also acknowledge that the distinction between incremental and transformational change is somewhat artificial. They both have key advantages, and in most successful change programmes both approaches are used. We agree with O’Reilly and Tushman, who argue that organizations need to become ambidextrous, that is, be able to manage incremental and transformational change simultaneously and/or sequentially.21 For example, applied to the context of sustainability, the development of network relationships can lead an organization out of a firm-centric impasse and facilitate transformation and change – yet developing collaborative capabilities may be an aspect of an incremental change programme.

The concept of organizational slack is also useful here. Recent studies examine the relationship between forms of organizational ‘slack’ and an organization’s ability to respond to sustainability challenges. The conventional view is that efficiency and leanness (i.e. reducing slack) are useful and functional for organizations. However, they may have a dark side that has so far been overlooked. Such organizations may lack the capabilities needed to respond to large-scale, disruptive and unpredictable events, particularly those connected with sustainability issues. Incremental change programmes may only compound this problem.22

## Incremental change

Sometimes it helps to explain a concept by first defining what it is not. For our purposes, incremental change is not large-scale transformational or revolutionary change of the kind often associated with business process re-engineering, downsizing, corporate spin-offs, mergers/ acquisitions or strategic unbundling. Incremental change does not include radical changes in strategy, structure, capability or organizational realignment. Rather, incremental change is planned and emergent, continuous and ongoing and for the most part impacts on the organization’s day-to-day operational processes.23 Incremental change includes changes to the way people work (job redesign; teamwork); changes to an organization’s business-unit processes (e.g. quality management) and changes to incentive systems, information systems and technologies. Furthermore, incremental change can be used to generate new capabilities, for example, through multi-skilling or forming project teams or creating new values and modifying corporate culture (customer service, empowerment and leadership-development programmes).

Westpac has used incremental change strategies over the last 15 years to build its capabilities and reputation in corporate sustainability. This approach was initially seen as an effective way to mitigate risk and repair consumer confidence in banks. Its approach has now grown into a comprehensive strategic programme for achieving corporate sustainability. As one former executive stated: ‘Achieving sustainability is a never-ending journey, the moment you think you are there, is probably when you are in most trouble.’24 The bank’s success at pursuing its incremental sustainability change strategy can be attributed to a variety of factors:

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 Repeated reflection on sustainability in the context of the organization’s evolving vision and business strategy. This thinking was successively codified in policy statements, business strategy and corporate reporting

 Eschewing off-the-shelf change programmes, and instead encouraging a culture of experimentation, organizational learning and innovation (for example, approaches to corporate reporting and assurance; the development of green products; reduction of the organization’s greenhouse gas emissions)

 Using benchmarking with other organizations, both within and outside the sector, external ratings and assessments (such as the Dow Jones Sustainability Index), and embracing external stakeholder engagement and scrutiny, to gain insights and to drive improvements

 Encouraging, sharing and celebrating bottom-up initiatives across the organization, in parallel with consolidating experience and learning in a small specialist central team. Encouraging and enabling change agents across the organization, in parallel with more structured approaches at middle manager, executive and board level, to drive change.

In designing incremental change programmes, managers are faced by a variety of choices and options. They could attempt to pursue sustainability initiatives by developing corporate-wide programmes – based for instance on The Natural Step25 – or they could buy off-theshelf programmes of the kind provided by consulting companies or tailor them in-house, or they could seek to encourage more organic, bottom-up initiatives where changes are initiated and trialled in pilot programmes in different parts of the organization.

These choices reflect the complexity of issues that managers face in implementing change programmes. One of these issues relates to the scope of the programme. The implementation of corporate-wide programmes can have a significant impact in raising awareness throughout the organization and lead to a variety of consistent initiatives. However, the broad scope of such programmes can also dilute valuable energies and disperse scarce resources. The result can be a loss of momentum. By contrast, pilot programmes can work spectacularly because resources are focused and the scope is limited. But they may not be subsequently diffused through the organization. Packaged change programmes offer organizations quick access to tools and methods for implementing change. After all, why reinvent the wheel? But they may not meet the needs of a particular organization and those in the organization can lose the opportunity to develop skills in change design.

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There is no one recipe for successful change, so we suggest here some principles in designing incremental change programmes. First, where possible, organizations should look internally for change agents. The knowledge and capabilities need to be internalized so that organizational learning takes place and skills are retained in-house so that they can be used for future change programmes. If external experts are required, the organization should leverage their knowledge and capabilities and transfer these to internal change agents. Second, as much of the change programme as possible should be designed internally. If ‘packaged programmes’ are used, they need to be modified to suit the organization’s unique culture and operating conditions. Change agents need a deep understanding and awareness of the culture of the organization before imposing a set of solutions on those who work there.

Finally, significant outcomes can be achieved through small interventions. Donella Meadows states:

Folks who do systems analysis have a great belief in ‘leverage points’. These are places within a complex system (a corporation, an economy, a living body, a city, an ecosystem) where a small shift in one thing can produce big changes in everything.26

## Benefits of incremental change

We acknowledge that there are potential pitfalls to an incremental approach, in addition to the obvious point that the approach may be inadequate given an organization’s circumstances. The major potential pitfall is that the gradualism of incremental changes means that they are susceptible to regression and abandonment, particularly if there is no clear link between the change programme and performance. Where success is not clearly evident, senior managers may withdraw their support from incremental changes and shift priorities for resources to other areas of organizational activity. Incremental changes do not usually occur in all parts of the organization at the same time or at the same pace. However, to attract continued managerial support, they must show significant performance improvements and clearly contribute to business results. There is also the potential for employee cynicism over sustainability initiatives being perceived as a management fad. However, most of the cases that we have presented in this book demonstrate positive examples of successful change. And irrespective of the desired outcomes from a change process, there are benefits associated with an incremental approach that may be less expected. This section outlines a number of them.

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## The development of small wins

Whether planned or emergent, incremental change strategies allow organizations to achieve what Weick describes as small wins:

A small win is a concrete, complete, implemented outcome of moderate importance. By itself, one small win may seem unimportant. A series of wins at small but significant tasks, however, reveals a pattern that may attract allies, deter opponents and lower resistance to subsequent proposals. Small wins are controllable opportunities that produce visible results.27

This strategy allows support to be built for the changes being implemented. Take, for example, the case of the Australian operations of Panasonic Matsushita. Its incremental change approach was built on the ‘small wins’ model of establishing the change programme’s credibility. Initially, its approach to sustainability started out as a series of informal meetings between a group of managers who believed that the organization could achieve savings by reducing waste and energy use. Within seven years, this informal approach had developed into a planned and structured approach to pollution prevention through recycling, energy efficiency and supplier choice. In the process, it made significant cost savings as well as process and quality improvements. Having successfully achieved its first goal, the facility then implemented an environmental management system (EMS) to assess, manage and minimize the impact of its business operations on the environment.28

Many of the efficiency gains achieved by firms such as Scandic, IKEA and Fuji Xerox relied initially upon achieving straightforward cost efficiencies. These easily gained benefits contributed to building momentum and became the basis upon which later successes were built.

The concept of small wins as a strategy can be applied to ecological efficiencies, process improvements and the development of broader cultural changes. Research shows that, even when companies start out with a pro-innovation bias in attempting to introduce sustainabilityoriented innovations, differences emerge between companies based on the ability of the change agent to draw isolated and scattered innovations into a coherent, integrated programme. Where organizations successfully make links between small wins, they create an atmosphere of learning by doing. This contributes to their ability to wind back entrenched institutional practices and creates a dynamic for deep, values-driven change. Conversely, if efforts are not made to integrate the small wins, they can be captured by existing norms, behaviours and cognitive values, and fade away.29

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## Capability development

Another benefit of many incremental change strategies is their ability to extend and develop new technical, operational and human capabilities within an organization. Technical capabilities are developed primarily through the introduction of new technologies and multi-skilling. Operational capabilities are developed by giving employees the technical skills and authority to make product and process improvements. Human capabilities are developed through up-skilling, knowledge development and empowerment.

## Culture changes

Incremental change programmes are often focused on building an enabling culture for sustainability. Conversely, an appropriate culture encourages the uptake of innovative sustainability practices. Starting with the first idea, the Network for Business Sustainability reviewed organizational practices that assist in building a culture of sustainability, defined as ‘one in which organizational members hold shared assumptions and beliefs about the importance of balancing economic efficiency, social equity and environmental accountability’. The researchers found that the practices could be mapped on two dimensions:

intent and approach. The intent dimension (vertical) refers to the dynamic between practices that encouraged the fulfilment of existing sustainability commitments, and practices aimed at innovation, that is, improving sustainability performance. The approach dimension (horizontal) refers to the dynamic between formal practices, for example rule setting, and informal practices aimed at shifting values and norms.30

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The alignment of this portfolio of practices along two dimensions highlights the inherent tensions between elements of organizational change that might support sustainability. So, for example, developing a sustainability culture and then embedding it in the mainstream of the organization requires fulfilment in the form of delivery on established sustainability initiatives as well as innovating to develop new avenues such as products or processes that are more sustainable. Similarly, with the approach dimension there are tensions between the informal changes that are required, such as in values and norms, and the more formal systems of clarification and accreditation that we have described earlier.

This portfolio of practices suggested from the Network for Business Sustainability research highlights the complexity of change for sustainability while emphasizing the multitude of practices that are available to the change agent to implement sustainability.

Turning to the second idea, particular organizational cultures influence the uptake of innovative practices in different ways. A study by Jones et al. found that corporate cultures with a ‘human relations orientation’ demonstrated higher readiness for change. This was in direct contrast to those organizations that reported hierarchical, command-and-controlstyle cultures.31

Furthermore, there is a growing awareness of the importance of the understanding of subcultures within organizations and how these subcultures in turn understand issues associated with corporate sustainability. Research indicates that different groups across organizations and across levels within an organization may share similar values, and that these values strongly overlap with understanding of corporate sustainability. One of the key implications of this research is that when it comes to incremental, values-driven change, an understanding of the culture and the subcultures within an organization may be vital to tailoring effective incremental change processes to achieve greater sustainability outcomes and wider acceptance.32

Another stream of research confirms that a positive culture is important in fostering pro-environmental behaviour in employees alongside generating other benefits for the organization. For example, promoting of positive affect has been shown to increase not only more active environmentally responsible behaviour but creativity in a more general sense. This work also highlights the importance of promoting proenvironmental attitudes if employees’ environmental behaviour is to change.33

This discussion of the interplay of culture change, values and sustainability practices relates to the role of meaning-making and of meaning change in change for sustainability. We return to this important thinking later in the chapter.

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## Development of change competencies

Incremental change programmes are an excellent vehicle to develop change-agent skills and the change competencies of managers and employees. For example, incremental change provides environmental managers not only with the technical and process skills required for further change but also the opportunity to develop important skills needed for building and maintaining coalitions, designing educational programmes, extending leadership skills for culture change and negotiating with stakeholders.34

## How to: incremental change

In this section, we identify eight generic steps involved in creating sustainable organizations through the use of incremental change strategies. These eight generic steps by themselves do not guarantee the success of an incremental change programme. A great deal depends on the support given to the changes by senior management, readiness for change on the part of the workforce, and the skill of change agents. However, omitting one of these steps can seriously affect the potential success of the change programme. A fully fledged incremental change programme normally moves through all eight steps:

*Step 1: Begin with future workshops.* The incremental changes discussed in this chapter often focus on various operational issues. However, starting a change programme at this level does not preclude having an overarching strategic aspiration. On the contrary, cases such as Scandic, IKEA and Patagonia all point to the importance of having a vision and strategic goals to drive action. A cross-functional ‘search conference’ or similar can be used to generate discussion and commitment to the developing vision for sustainability, to identify opportunity hot spots as well as problem areas, and to develop an implementation plan. Westpac has used a series of ‘Azone’ (or ‘Acceleration Zone’) workshops to help set its sustainability priorities. The Azone comprises a dedicated, flexible space designed for collaboration, located in Westpac’s Sydney headquarters, together with a structured workshop methodology. The participants are internal and external stakeholders and subject matter experts.35

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*Step 2: Assess the organization’s current position in relation to sustainability.* This step addresses the questions: Where is the organization or business unit currently in relation to sustainability practices? What are the barriers and enablers for making sustainability work? What influence will the existing corporate or unit culture have in facilitating or blocking sustainability initiatives? What are the activities that will need to be undertaken in order to shift the business unit from its present position to the aspiration formulated through the search conference? Information and employee engagement are key.

*Step 3: Evaluate the type of change programme needed.* This stage addresses the issue of the approach to be taken. Will the changes introduced be programmatic? That is, will the change programme use change tools such as engagement campaigns or a methodology such as The Natural Step workshops, or will the change approach be more about encouraging bottom-up and emergent initiatives? On the whole, we advocate progressing through organic innovations that are piloted and then diffused through a more programmatic approach, although the type of change programme needed may differ for different countries and, potentially, for different organizational subcultures.

*Step 4: Identify change agents.* We shall comment in more detail on change agents in Chapter 8. However, change agents should be enthusiastic, knowledgeable about business processes, and engender confidence and optimism. Furthermore, a team of change agents playing different facilitative, technical and coalition-building roles can have more impact than one change agent acting alone.

*Step 5: Pilot new practices and innovations.* In incremental change programmes there is usually time to pilot-test proposed changes. Once the effectiveness of pilot programmes has been established, they can be used to build broader support throughout the organization. Pilot programmes are also an ideal way to test the appropriateness of the tools, and redesign techniques and forms of participation that will be used in a broader change programme.

*Step 6: Harness further resources.* When pilot programmes have been shown to be effective, diffusion of the changes requires access to further resources: time, money, people and management support. It is often best to start where people can readily be engaged and short-term wins can be achieved; later, areas of resistance within the organization need to be progressively incorporated into the programme. These areas may require a more intensive use of resources, particularly skilled change agents with high levels of interpersonal skills. Middle managers have a particular role to play here, as we discuss later in the chapter.

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*Step 7: Communicate and extend the programme.* The success of the pilot needs to be communicated throughout the organization, and some of those involved in making the changes in the pilot situation should be used as change agents to initiate the changes elsewhere, working with line managers. At this stage, it is important that the change programme doesn’t just become a proliferation of largely unrelated initiatives in different operations, but is integrated at the strategic level.

*Step 8: Align organizational systems.* For the successful initiatives to turn into truly programmatic changes, operating systems, reward systems, information systems and reporting structures will need to be modified. These modifications should be designed to enhance the robustness of the change and to prevent regression in the pilot site and diffusion areas.

## Transformational change

In contrast with the incremental approach, transformative change involves reinventing the organization – creating a compelling image of a desirable future organization dramatically different from the current one. We can only reiterate that launching transformative change programmes is a risky endeavour, and that a great deal of the success comes from careful preparation in advance. While this preparation consumes time, it can be carried out efficiently and significantly raises the chances of a successful outcome.

## How to: transformational change

In this section, we identify seven generic steps involved in creating sustainable organizations through the use of transformational change strategies. These steps are distilled from the experience of many change agents working on a range of transformational change programmes and adapted to the task of moving organizations rapidly towards sustainability. They are a useful guide, but in reality, as we have noted, the change process will be more chaotic than this indicates. Nevertheless, the steps can help us assess our progress in managing change and they set a direction to work towards.

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## Step 1: Know where you are now

Before charging off into the future, it is important to know the starting point. This is not a minor task, particularly in a large, complex company. Organizations are not primarily buildings, equipment, finance and organization charts. Rather, they are constructs in the minds of those who work in and with them, who buy from them and supply to them. It is not enough to create a vision of the future and build an informed commitment to it. It is necessary first to build a shared understanding of the organization’s current reality and of the need to radically shift that reality.

There are two basic sources for constructing a shared view of the organization’s current situation. The first source is carefully chosen members of the organization, including, preferably, some who have left. The other source consists of representatives of key external stakeholders. This opening up of the organization to external evaluation and criticism is essential.

There are various ways in which this information can be elicited; for example, through surveys, interviews and focus groups. An important part of assessing the current reality is to identify the core cultural values of the organization and the entrenched behavioural mores that control much of day-to-day behaviour in the organization. Here a trained outsider can often make the most useful contribution by focusing a fresh, independent eye on the customary ways members of the organization undertake everyday business. The best observer is someone who is sensitive to the differences that often exist between espoused and enacted values – what people say they support versus what they actually do.

‘Telling it the way it is’ can be confronting for many members of the organization. Some organizational members will have a strong personal stake in preserving fictional views of the organization’s current reality, for their own identities are bound up in maintaining the fiction. For example, they may not welcome a realistic assessment of the organization’s impact on the environment or of the human rights issues embedded in its supply networks. They may seek to ‘shoot the messenger’ who brings the disconfirming views. We emphasize strongly here that the basis for effective transformational change is widespread consensual agreement on the current organizational reality. It is necessary to be honest, sometimes brutally honest, to bring this about. This is easier to achieve when members of the dominant elite(s) are open to acknowledge different viewpoints and willing to absorb new information, even when it challenges their traditional views. In fostering this openness, the credibility of the source of such information can also make a critical difference: respected external change agents with authority and expertise are more likely to be heard than insiders or outsiders without these attributes. A combination of confrontation by concerned community groups and, in parallel, a significant challenge from one or more sources whom executives respect and trust can provide the jolt needed to create the initial momentum for change.

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Halme points out that for any learning and change to occur around sustainability, the firm’s managers need to understand how the core beliefs, basic assumptions and values of the organization relate to the impact of its activities. Where do they stand now and where do they want to be in the future? She argues that traditional management perspectives act only as cognitive defence mechanisms preventing the emergence of sustainability-related transformations.36

## Step 2: Develop the vision

Transformative change is an opportunity to rethink the purpose of the organization. Organizations sometimes actively shape the economic, physical and social environments in which they operate; they both shape and are shaped by these forces. They sometimes lead changes in their environments; more often they lag behind. Changing an organization that has already developed a history and a culture requires a different approach from creating a new organization. We are intervening in a system that has already developed powerful properties and processes of its own, and these processes are usually deeply embedded in the minds, emotions and lives of the members of the organization and its external stakeholders. Changing the organization involves changing those in it, often including ourselves; it often also involves changing the expectations of those outside.

The first step in transforming an organization is to creatively imagine one or more future realities (scenarios) that the organization will face. This scenario planning begins with an identification of (a) the major current trends that are likely to affect the future viability, success and sustainable contribution of the organization; and (b) who the critical stakeholders are likely to be in the future, for they may be different from those the organization relates to now. Scenario planning of this type first emerged in the Royal Dutch Shell Group in the 1970s. Shell’s most recent ‘New Lens Scenarios for the 21st Century’ focuses on the food– energy–water ‘stress nexus’ and the constraints brought about by climate change. The analysis is that, from a 2013 base, demand for water, energy and food will rise by 40–50 per cent. Shell believes that dealing with this nexus will govern a firm’s licence to operate in the world over the next 30 to 50 years.37 Shell’s approach in its analysis is typical by setting out two alternative, plausible scenarios. In constructing future scenarios, it is neither necessary nor wise to eliminate alternative scenarios for one ‘most likely’ scenario. The purpose of the exercise is not simply to create a strategy for the future but also to create a purposeful process of engaging people inside and outside the organization in scoping out possible new paths ahead – to engage them in a critical debate about possible alternative futures. The aim is to build the commitment of all critical stakeholders to a challenging new future role for the organization.38

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This exercise leads into a definition of the most critical issues facing the organization. The natural next step is to ask: What will these anticipated changes mean for our organization? What problems will we face?

What opportunities will be available to us? What values will we stand for? These questions centre on defining a new identity for the organization and developing an innovative strategic intent on guiding the organization in its future decision-making. An important facet of this process is defining a set of core values in which human and ecological sustainability have a central place.

The central challenge of transformative change is to unleash the imagination of organizational members and stakeholders so that they collaborate in creating a vision that breaks out of existing cultural assumptions to create a prototype for a truly sustainable and sustaining organization. Whereas incremental change can often be successfully generated and led entirely by people internal to the organization, transformative change almost always needs input from outsiders. The outsiders need to be informed, radical, lateral thinkers who can and will challenge existing assumptions about the current organizational pattern and accepted best practice. It is only to be expected that change for sustainability will have a stronger affective component than other change programmes, with emotions such as frustration coming to the fore with more frequency.39

The vision must be spelled out as clearly as possible and personally endorsed by senior management. However, at this stage it represents a new identity, a change of direction, an idea in process to be explored, tested and progressively given shape through future action. It must also be formulated in a way that speaks to the hearts and minds of the key players in the organization and to stakeholders whose support will be needed for it to be realized. It has to have a clear relationship to the core business strategies of the organization. For example, the GE Ecomagination portfolio presents GE as a rational, scientifically informed and forward-looking company that can both help save the planet and make money for its investors.40

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## Step 3: Identify the gap

The next step is a realistic assessment of the gap between the organization’s current situation and where the new vision seeks to position it in the future. In a later section we explain the use of the sustainability change matrix as an assessment tool. This gap may be substantially different for human and ecological sustainability and may also differ from one part of the organization’s operations to another. This implies that the organization may have to pursue a complex change strategy that is a mix of both incremental and transformative change.

If the process has been well managed to this point, commitment to change will be building among key opinion leaders within the organization and significant external stakeholders. Transformative change is always a political process and a central task of change agents is to build active support among constituent groups, or at least to receive tacit acceptance of the desired changes.

## Step 4: Assess the readiness for change

For those who have been intensely involved in the diagnostic process described in Steps 2 and 3, it is easy to assume that the organization as a whole is poised and ready for change, or that, if there are points of resistance, these will simply fade away as the change proceeds. This is usually far from the truth. Intervening in an ongoing system that has its own compelling logic is a huge challenge. Even formal authority has limited validity, and we deal with the implications for leadership in our final chapter. Transformative change is also always a political process, characterized by conflict and power plays. In recognition of this, step 4 involves identifying the important internal and external organizational stakeholders whose attitudes and actions could affect the success of the proposed change programme, and working out how their interests may be affected by the changes. How can the positive value proposition be most effectively communicated to each stakeholder group? Where possible, the change programme should be modified to ensure that the interests of as many key players as possible are served by the unfolding programme of change. However, in transformative change, there are usually some groups whose entrenched interests will be threatened. If this is the case, positive alternatives can sometimes be developed to reduce the win–lose nature of the situation. If not, then conflict can be expected, and strategies developed to minimize the threat their opposition will represent for the repositioning of the organization.

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There must be a compelling intellectual agenda for change, but that is not enough to transform deeply entrenched behavioural patterns built up over years of repetitive action. People are more than minds: they have hearts and spirits as well, and the agenda for change must also appeal to people at emotional and spiritual levels. The sustainability agenda has the potential to do this, but it is a relatively new ideology and support for it cannot be assumed but needs to be won progressively. In our research and consulting experience, we have identified at least four different sustainability change drivers. These include:

1. The emotional pitch: This appeals to people’s need and desire to leave the world a better place for their children and future generations. However, this message may not appeal to all stakeholders and may not generate the conditions for change readiness.
2. The financial-risk pitch: This often appeals to senior executives and argues a case for change readiness based on the risk of losing capital and reputation.
3. The classic business case for sustainability: This is built on the premise of delivering measurable benefits (see Chapters 4 and 5).
4. The opportunity case: This case outlines the prospective opportunities that become available for organizations when they adopt a different mindset on sustainability issues (see Chapter 5).

## Step 5: Set the scene for action

There are three additional issues that need to be addressed in creating a base for effective action: awareness of the need for change; identifying change leaders; and assembling the resources needed for the change programme.

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Before change can happen, those in the organization must be aware of the need to change. In creating an awareness of the need to change, it makes sense to start where there is the most potential energy for change, that is, with those who are already aware of and committed to the changes. In today’s organizations, there are usually articulate advocates of sustainability who understand at least some of the key issues and who are impatient for change. There are also others who are aware but tend to be ‘covert’ believers, less articulate but waiting for encouragement and clear opportunities before becoming involved. The awareness-building process can start by bringing these people together and identifying the potential contributions they can make to the change process, both individually and collectively. One of their most important resources will be the informal networks of others in the organization whom they can influence, so creating a process by which the ‘ripples’ of awareness can spread out through the natural links between people in the organization.

In the early 1990s, for example, Scandic Hotels, the hotel chain in Scandinavia which we discussed earlier, embarked on a change programme to improve the environmental and economic performance of all its hotels. In the first year alone, employees identified more than 1,500 potential innovations, which resulted in significant savings and reduced the hotels’ environmental impact. In 1997 Scandic was rated in the top 100 most desirable companies to work for in Sweden and successfully attracted large numbers of environmentally conscious guests.41 By 2003, Scandic had trained over 9,000 employees in sustainability-awareness programmes as a way of institutionalizing sustainability in the culture of the organization. This example adds to the evidence that social learning is crucial to the wholesale implementation of sustainability, as it draws on a collective and collaborative approach to learning around social issues.42

Another important step in building awareness is to open windows on the world and on the future for those in the organization. The more that those in the organization can be given access to leading thinkers and organizational practices in corporate sustainability, the more compelling the case for sustainability becomes and the more engaged they will be. Lectures, seminars, site visits, articles, videos and books can all help to build a compelling case for change. They are an important part of creating an intellectual agenda for the change programme.

But effective change programmes require leadership and resources as well as ideas. The next task therefore is to identify change leaders at all levels of the organization, and bring them together around creating a practical agenda for change and to win their commitment to make the change happen. This team will become the guiding coalition driving the change programme. To be effective, this group needs to have representatives of all key power groups, formal or informal, in the organization that have the capability to make the programme succeed or fail. It needs to include at least one member of the top team to provide explicit sponsorship and to ensure its work is linked to the core business strategies of the organization. The change leaders include those who have the requisite technical knowledge in areas such as strategy, human resource management, and facilities management.

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However, even the best managers and leaders cannot accomplish effective large-scale change without the necessary resources of time, personnel support and finance. Some of the best-planned change programmes fail because senior executives believe that key personnel can simply act as change agents in their ‘spare time’ and that change programmes do not need the kinds of resources that would be considered essential to a well-run operational task of similar magnitude.

While incremental change can often be effectively undertaken with resources internal to the organization, transformative change usually requires the use of competent, qualified and experienced external consultants. Cultural shifts require a rethinking of cherished assumptions, the challenging of existing patterns of behaviour, and the generation of novel alternatives. In this process, it is valuable to have the assistance of parties who have not been socialized into the current corporate culture and who have moved across a variety of organizations in different industries. Organizations undergoing cultural change have characteristics of both chaos and order and this is becoming a normal pattern of corporate change in a much more dynamic and unpredictable world.43

## Step 6: Launch and manage the change programme

The previous steps set out the critical groundwork for a transformational change programme. Below we outline some of the success factors in a programme designed to move the organization rapidly along the path to sustainability:

 Create and communicate the main focus of the programme so that all in the organization understand the direction and rationale for change

 Establish a change coordination team consisting of executives and other strategically located change agents; clarify authority for decision-making and accountabilities against goals and timelines; pay particular attention to the roles of front-line supervisors and ensure that they have a clear role to play. Break the overall change programme down into projects that can be handled by multidisciplinary task forces led by these change agents

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 Map the main subprojects in sufficient detail to clarify for change agents how the change is expected to happen, ensuring that the link to business strategies is clear

 Monitor the emerging change trajectory and remediate where necessary; the monitoring should be of both output and process performance criteria (discussed in a later section); seek and respond to grass-roots feedback

 Create and celebrate early wins and publicly reward those responsible for them

 Progressively enlarge the sphere of engagement – go with the energy; remember that opposition is a natural part of the engagement process

(apathy and cynicism are more serious threats)

 Create momentum, feeding in resources where necessary

 Communicate and dramatize success; foster transparency and truth

 Ensure that, as the capabilities for organizational reshaping develop, they are reinforced and progressively translated into intellectual capital

 As change goals are reached, consolidate them in new operational systems under the control of committed and competent operational managers (not change agents) and operational teams

 Ensure that the operational managers achieve efficiencies as the new systems are debugged and routinized

 Check that key stakeholders perceive that the promised value propositions are being delivered; consolidate their support

 Build reward systems that reinforce and renew the core values of the new culture and reinforce the behaviours that support the emerging system. These behaviours then become the cultural norms supporting the next stage of sustainability development. It is vital that achievement of sustainability outcomes is a major criterion in employee assessment for career advancement.

## Step 7: Maintain the rage

In a dynamic world, change is an ongoing process. When the goals have been achieved, the change process may become incremental rather than transformative, but change continues. Organizations ossify unless they continue to change with their environments. Therefore it is essential to continue the processes of environmental monitoring and identification of emerging stakeholder interests around issues of sustainability. The organizational members need to ensure that the organization maintains its leading-edge position; it is easy to fall behind the leading edge through becoming complacent.

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Those organizations that move to the stage of becoming sustaining corporations can improve their performance even further by adopting the macro business models we discussed in the last chapter. Any optimistic scenario for the future depends on widespread transformational change designed to bring about a different form of economy to that existing today.

## Moving between phases

In Chapter 1, we outlined a model of the phases of corporate sustainability. This model identified six phases in corporate progression towards full sustainability. These are:

1. Rejection
2. Non-responsiveness
3. Compliance and beyond
4. Efficiency
5. Strategic proactivity 6 The sustaining corporation.

These phases emphasize that there is an enormous difference in the readiness of organizations to transition to sustainable practices. Some firms are highly advanced in terms of having sustainable human resource practices; others have scarcely given them a thought. The same is true in the area of ecological sustainability: some firms are actively working towards practices that sustain and renew the environment, while others continue to exploit the environment. Because traditionally the two kinds of sustainability have rarely been seen as connected, there can also be a lack of conjunction between an organization’s current position on one dimension and on the other.

The ideal of a fully sustaining corporation is outlined in Figure 7.1, ‘The sustainability change matrix’. The figure combines the scales of the two dimensions in the phases of corporate sustainability in a matrix. In the upper left-hand quadrant, we have those organizations with relatively few human and ecological sustainable practices, being actively rejecting, indifferent or simply minimally compliant to both human and ecological sustainability standards.

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The goal is to move corporations to the lower right-hand quadrant, which represents varying degrees of active involvement on the base of efficiency, strategic advantage or fully sustaining practices. The matrix provides a way of indicating how to move, whether the approach is incremental, transformational, or in combination. To do this, you need to plot the organization’s current position in the matrix against both the human sustainability and the ecological sustainability dimension. The Appendix in chapter 1 (‘Phases in the development of corporate sustainability’) and the final Appendix (‘The corporate sustainability checklist’) will assist with this. Figure 7.1 indicates the ‘ideal type’ incremental change scenario.

The change matrix can equally be used to plot a transformational change approach, or a combined change approach, as illustrated in Figure 7.2. This describes a notional organization that has a highly strategic approach to human sustainability (Phase 5) but is lagging in terms of compliance in the ecological sustainability area (Phase 2). Clearly it needs, at the most, incremental change in the human sustainability area.



Figure 7.1 *The sustainability change matrix: incremental paths*

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Figure 7.2 *The sustainability change matrix: what kind of change?*

Adapted from D. Dunphy, J. Benveniste, A. Griffiths and P. Sutton, *Sustainability: The Corporate Challenge for the 21st Century*, Sydney: Allen & Unwin, 2000, p. 256.

But its transformational change programme needs to centre on ecological sustainability, where it has a lot of ground to make up before it reaches its ideal position at or near point B. The gap between the current phase and the desired future phase defines the bridge the organization must cross in order to emerge transformed.

## Setting performance criteria

Irrespective of the approach taken, if the change programme is to be seen to contribute significantly to the core business of the organization and to the well-being of the community and the environment, then we need to define the criteria for performance. There are two kinds of performance criteria to use; the first is ‘output criteria’. What are the outputs we are seeking in terms of such factors as decreased waste or community contribution? The second kind of performance criteria is ‘process criteria’. What characteristics of the process of change are we seeking to create (for example, the progressive engagement of key interest groups in the change programme or a more collaborative set of relationships between different organizational units)?

Many change programmes fail to define performance criteria at all and, as a result, they falter or fail. If we don’t know what we are trying to achieve, or fail to reach agreement on the goals of change, confusion and chaos will reign. Most successful change programmes define output criteria and this helps to keep them on track. But in our experience few change programmes define process criteria. However, the quality of the developing change process can be critical in achieving sustainable performance. For example, there is a tendency in transformative change programmes to sacrifice the quality of the change process in the interests of achieving the desired performance outputs quickly. The result can be resentment, cynicism and a failure of key groups to engage and commit to longer-term performance.

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Output criteria relate to the following kinds of performance for existing products and services:

 Reduced costs, increased profitability, increased market share

 Added quality

 Innovation, flexibility, and speed of initiation and response to market shifts.

In addition, other criteria may relate to the process of strategically repositioning the organization:

 Development of new products and services; entry to new markets

 Industry leadership

 Enhanced public profile and reputation Creation of a new industry.

Beyond these traditional measures of effective business performance, other criteria might be:

 Significantly reducing the organization’s ecological footprint

 Building workforce capability and commitment to build future sustainability performance

 Contributing to strengthening community relationships

 Increasing stakeholder support, including licence to operate and increased trust.

Process criteria are ways of assessing whether the change process itself is generating the quality of relationships and capabilities needed to sustain future change. Criteria that may be used here include:

 Progressive engagement of key individuals and groups, both internally and externally

 Development of concrete, actionable plans for delivery of the outputs above

 Progressive development of skilled and committed change leaders at all levels

 A climate of trust and more collaborative relationships between organizational subunits

 A culture of non-defensive learning.

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An important issue to be addressed in regard to process quality is the style of change leadership that will be adopted to bring about the desired transformation. Research on change programmes shows that as the scale and speed of change increase, there is a shift to more directive styles of leadership.44 In addition, the research also shows that the majority of organizational members understand the necessity for this and support it. So, in large-scale transformational change, it is not necessary or appropriate that all decisions be made participatively. Similarly, the change team should decide what kinds of decisions will be made participatively, that is, where individuals, groups, stakeholders or their representatives will be encouraged to participate, influence or determine outcomes. The rationale for this decision-making approach needs to be clearly understood throughout the organization. We return to these issues in the next chapter.

## Major issues in the movement between phases

In this section, we illustrate the movement between phases through both incremental and transformational trajectories.

## Moving from rejection to compliance (transformational)

The organizations in most need of change are those in the rejection and non-responsiveness phases. In our view, the movement from rejection (phase 1) to compliance (phase 3) is a transformational change. We want to stress here that securing compliance with legal requirements and the legitimate expectations of stakeholders is the necessary base from which transformational change to more advanced stages must be made. No matter how urgent the need to move the organization forward to other stages of sustainability, it is dangerous to skip this stage – dangerous because failure to comply with legal requirements for health and safety, for example, could lead to costly lawsuits and a damaged corporate reputation. It is not only dangerous to skip this stage but also irresponsible because the health and safety of employees, of the community, and the environment is the first responsibility of any organization in the twenty-first century. In addition, transformational change inevitably creates disorder that can increase the risk of noncompliance. Consequently, it is important to create clear guidelines for compliance first, and to build a tight control system that is actively maintained at a grass-roots level. This needs to be backed up by clear managerial accountability to hold compliance in place when everything else is changing. It is vital to ensure that compliance norms are internalized and to create a working set of operational procedures to reduce corporate risk to a minimum.

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It is not only compliance with legislation that is important: as we have previously pointed out, companies must also meet the strong expectations of stakeholders, even if these do not have legal standing.

Compliance is the base platform on which sustainability can be built. We outline here the necessary tasks to be performed in achieving compliance:

 Identify potential risks through undertaking a risk analysis

 Establish the priorities for risk reduction

 Decide who will take charge of the compliance-generating process, keeping in mind that this is an opportunity to begin to identify and develop change leaders for later stages in the path to sustainability. Create a task force to plan and guide the process

 Estimate the resources needed to achieve compliance and assemble these resources

 Develop a coordination and communication plan that links line and staff responsibilities

 Set criteria for success and construct an ambitious schedule for completion

 Establish a monitoring and review process that is understood, transparent and widely reported.

In a transformational change process, the priority is to achieve compliance effectively and rapidly. This can be accomplished by creating a number of task forces in important areas of sustainability such as OH&S, Equal Employment Opportunity, water and energy conservation, and then having these task forces operate in parallel. In comparison, in an incremental change programme, these key compliance areas might be tackled sequentially. The cost of organizing in parallel lies in the need for greater coordination across the teams to ensure that the end result is a well-integrated and mutually consistent set of policies and procedures. Therefore there is a need for an effective liaison role in linking the teams together as they work on their focal issues.

## From compliance to strategic proactivity or beyond (transformational)

With an effective compliance base in place, it is now time to put the organization into fast-forward mode. There are two possible transformational change paths to take at this point: to attempt to take the organization in a leap forward either to Phase 5: Strategic Proactivity, or to Phase 6: the Sustaining Corporation. Obviously, the latter is the goal involving the biggest stretch, but both involve moving rapidly through Phase 4: Efficiency. This has significant implications; for instance, it may be possible to pick up some of the key achievements of the Efficiency Phase along the way but there is a real risk that transformational change of this order will actually work against making efficiency gains, at least in the short term. The speed and extent of largescale transformational change often brings significant inefficiencies because of the level of disorganization involved.

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The critical questions to be answered in this step are: Where are we going in terms of sustainability? How fast must we make the changes? Can we assemble the resources needed to make this schedule realistic? Where are the critical gaps in our expertise that we must fill? Where is the most resistance likely to occur? How will we know we are succeeding? Other useful questions are: Can we identify positive models for the changes we need to make – either within our own organization or in other organizations? What other organizations have attempted to travel this path? Can we access them and assess their level of success? Were their attempts successful or unsuccessful? Where they were successful, what can we learn from their achievements? Where they were unsuccessful, what can we learn from their mistakes? Site visits are often useful in making these assessments and maximizing learning from the experience of others.

In drawing up the programme for change, it is vital to ensure that the sustainability goals adopted are integral to the overall business plan for the organization. Sustainability must be a business imperative, not simply an add-on or option.

## Moving from non-responsiveness to compliance (incremental)

So far, we have discussed potential transformational trajectories. Now we turn to incremental trajectories. Some organizations will be able to pursue an incremental approach to move from Non-Responsiveness to Compliance (phase 2 to phase 3). Non-responsive organizations tend to disregard the impact of their actions on the natural environment, the communities in which they are located and the value of their human capital. These corporations are economically, socially and ecologically blind or blinkered. Generally, business activities in these firms are concerned primarily with short-term profits, to the detriment of broader societal and environmental responsibilities. They may be willing to dump waste, clear-fell old-growth forests, engage in poor occupational health and safety (OH&S) standards and hide facts from the public about the damaging nature of their activities and/or products. This may be across all the organization’s activities or in particular areas. For example, some corporations don’t apply the same ‘home base’ standards to their activities in other parts of the world, particularly third-world regions and countries.

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However, there are many examples of organizations which once acted in this way abandoning these approaches and supporting significant sustainability initiatives. Given the willingness of the board, CEO, senior managers and major financial investors, these organizations can make the shift from non-responsiveness to compliance, using incremental change strategies. How is this to be achieved?

 Where there is organizational reluctance to initiate change, by bringing external pressure to bear on the organization through public protests, court action and third-party scrutiny or, increasingly, through pressure from institutional investors, either directly, or via disclosure initiatives such as the Carbon Disclosure Project discussed in previous chapters

 By ensuring that someone in the organization with authority, credibility and integrity takes charge of the change process

 By making a comprehensive evaluation of legislative and commercial obligations. The survey should cover legislative requirement areas such as pollution, waste and licensing, and OH&S and other workplace codes. Similarly, the organization needs to develop an understanding of its insurance risks, potential liabilities and obligations to bodies such as securities commissions. These obligations might be unexpected. For example, some international agencies refuse to lend capital for development projects in third-world countries if the corporations involved cannot demonstrate that they are attempting to build local capacity and meet sustainability expectations

 By undertaking an audit of existing operations to see whether and where they fail to comply with the legislative requirements. Areas requiring immediate action are then targeted and resources allocated. It may be necessary to design and run training programmes and management awareness sessions, to institute searches for new technologies, and to establish measurement and reporting systems. In some cases, decisions may be made to disengage the company from activities that involve future risks or are not cost-effective to operate

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 By using the human resources system to link management performance to these new goals in order to ensure that programmatic changes, such as OH&S initiatives, are accurately monitored and measured. Timelines and specified performance goals are set for the changes to be implemented. This phase requires standard projectmanagement skills

 By putting feedback loops in place in critical compliance areas to ensure that compliance is monitored and managers are rewarded according to their performance against these standards

 By using external auditing bodies to review and monitor corporate progress against plans. This may also involve the use of international agencies, such as the International Standards Organization and its ISO 14000 series as a basis for environmental management systems.

This approach to incremental change is unusual because it is directive in character, a style more often associated with transformational change. However, in ensuring compliance, significant responsibility for shifting the organization and its operations lies with senior management, who must institute and support clearly defined standards and rules.

## Compliance to efficiency (incremental)

For many corporations, the incremental shift from compliance to efficiency is a natural extension of the capabilities, knowledge and practices developed in the earlier phase. For instance, compliancemonitoring systems – particularly attempts to reduce emissions – often result in organizations also implementing process improvements and installing new technologies that enable the organization to move beyond compliance. Similarly, we find that organizations investing in compliance activities also start to invest in resources, specialist knowledge and skills (developing environmental managers; shifting from a narrow personnel focus to a broader HR management focus) and new technologies (monitoring systems; human resource information systems). Such a transition involves a shift in focus away from issues such as pay scales and legislative compliance activities and towards the development of a more strategically orientated human resources function that contributes to gaining competitive advantage.

What are the incremental steps involved in shifting organizations from compliance to efficiency?

 Efficiency programmes often start on the periphery of an organization as innovative line managers use their business units to experiment with such practices as job redesign, teamwork or reorganization of the supply chain. This often occurs in problem areas – the poor performers – and is part of a push to improve performance. Sometimes, however, efficiency programmes may be initiated by a senior manager or CEO who develops a particular commitment to sustainability, inspired by programmes such as The Natural Step

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 Learning from the pilot experiments is normally brought together and evaluated. Successes and failures are talked about and initiatives extended. Managers who lead the changes in these business units ‘walk the talk’. Their actions and commitment are matched by their willingness to utilize the knowledge of employees, question current organizational orthodoxies and push responsibility down the line

 In both HR and ecological areas, incremental change results in an increased emphasis on capability development. Typical initiatives include education programmes, cross-sectional problem-solving teams, reviews of barriers and enablers, and a willingness to try new ideas and suggestions. Meanwhile successes are monitored in both a tangible form (costs; waste; quality) and in an intangible form (stories; shifts in culture and values). These shifts often become

part of the organization’s folklore and help employees to develop a ‘can do’ attitude

 We often notice that there is a point where the confidence-building activities, the devolution of authority, the education programmes and capability development all begin to crystallize. This becomes a critical leverage point. At this time there is the opportunity to shift the programme from a series of isolated small wins and to grow more independent support for organization-wide change. It is important to seize the opportunity and provide the resources needed to significantly expand the programme.

When this critical mass for change is harnessed, the programme develops its own momentum: for instance, efficiency gains are diffused to other parts of the organization. New problem areas become open to influence and change. After benefits of the efficiency changes have been demonstrated, the programme is championed by senior management and extended throughout the organization. As this happens, it is useful to celebrate successes and reward key contributors to the change programme.

## Efficiency to strategic proactivity (incremental)

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With each additional incremental step, organizations can build increasing depth of technical and human capabilities. We also see changes in the organization’s culture, such as increasing employee commitment, and more indicators of its movement towards high-performance activities. There is often also a direct attempt to increase diffusion of sustainability practices to suppliers and customers. For instance, in the HR area there is usually active recruitment and more retention of highly skilled people with strong sustainability values; challenging executive development programmes are developed and delivered, and new opportunities are created for exciting and meaningful careers. In the ecological area, we see the emergence of strategic alliances with suppliers and customers and active engagement with community groups in the establishment of new products and services.

Our case study analysis indicates that the following characteristics assist in shifting a firm from efficiency to strategy by incremental processes:

 Senior level recognition that the efficiency gains achieved through value adding, and the capabilities developed along the way, are sufficiently valuable to be further integrated into the core strategic activities of the organization. The diffusion of strategic goals for sustainability to all key business units and managers within the organization. Responsibility for the attainment of sustainability goals is integrated into management reward and performance systems

 The allocation of significant corporate resources into key areas such as research and development, knowledge management, alliance formation, industry networking and social partnerships

 Suppliers are accountable for the impact of their products and processes on sustainability outcomes. Training and resources are provided to those willing to change

 Finally, corporate strategies are revisited in light of the performance of products and services; new directions are initiated; there is openness to third-party auditing and systematic assessment of the impact of the organization through its value chain.

## Strategic proactivity to the sustaining corporation (incremental)

Incremental change can also facilitate the shift from strategic sustainability to the Sustaining Corporation phase. We view these changes as cumulative. In becoming sustaining corporations, organizations do not abandon the strategic approach or the capabilities that they have acquired and built as they moved through prior phases. Rather, the shift from strategic sustainability to the sustaining corporation requires an expansion and modification of the value base of the organization. In particular, we identify three key changes:

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 Change programmes that focus on shifting the behaviours and values of organizational members. These are designed to produce extensive culture change

 The use of external parties (such as NGOs) to monitor, evaluate and encourage future performance: while not essential, this helps to create momentum for further change. Third parties can also be used to challenge prevailing assumptions and organizational complacency. The sustaining organization will also start to challenge others within its industry by benchmarking, or within its supply chain to diffuse sustaining practices

 A focus on design for environment, product and service innovation, and the education of consumers and supply-chain members on the role that they can play in creating viable alternative business models for sustainability and a sustainable society.

## Further change perspectives

So far, we have set out our foundational view of change for sustainability. In this section, we supplement the incremental and transformational change approaches with other thinking around the nature of organizational change.

## Why meaning matters

Our phase model speaks to both the hardwiring and softwiring required in change for sustainability. We have already emphasized the softwiring aspects of human resource management and cultural change processes. In this section, we discuss an *interpretive* perspective, which is all about the role of meaning making and meaning change.

Shanahan and Maria state:

we know that story-telling – particularly when used in industries heavily entrenched in rigid mental models – can succeed in removing obstacles to strategy development and process improvement when other methods fail.45

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Storytelling and other culture-change programmes can open up lines of communication, create integration opportunities, commitment to new values and personal empowerment.46 In *Dancing with the Tiger*, Nattrass and Altomare highlight the importance of stories for creating and generating values change. ‘Stories help us make sense out of our experience.’47

Looking beyond story-telling specifically, the underpinning idea here is that change only occurs with a shift in meanings. Meaning-making and meaning change are critical aspects of change for sustainability. Firstly, because of the new mental models required,48 and secondly, because of the inherent ambiguity and complexity of the concept (for example, the nature of the problem, what constitutes success, and the contradictions and trade-offs). This can give rise to a plethora of interpretations (sometimes unsurfaced) and claims about what sustainability is and isn’t, and the range of issues and aspects of business practice it should concern. Conversely, gaining a shared understanding is a prerequisite for action.

One implication is that managers confronted with this ambiguity and uncertainty will both seek more information to deal with the uncertainty, and share interpretations through debate and sounding each other out to gradually create meaning and resolve the ambiguity in their minds.49 It is also clear that individuals can influence the meaning-making of others, either by managing the context in which it occurs, or through more direct ‘sensegiving’ tactics such as storytelling or issue-selling.50 This is not just an opportunity for leaders and change agents (as we discuss in Chapter 8). All middle managers have a particular role to play, because they interpret and mediate the meaning-making between senior and frontline colleagues and can also have more contact with external stakeholders compared to most senior managers. This means that they also mediate meaning-making across organizational boundaries.51

## Politics, power and emergence

We have already proposed that change for sustainability is inherently political, especially in the context of a transformational change approach. In this section, we discuss this suggestion more fully, gaining insights from a processual change perspective. Processual change models are not new (they emerged in the 1970s) but we think that they have been somewhat neglected in the context of change for sustainability, and that they should be revisited.52 On the basis of these models, change for sustainability will involve core beliefs, structure and strategy, and this will be a social, political, and contested process. They suggest that, whether change is more incremental or more transformational, change is ongoing and dynamic, and that this change will be emergent, and more a function of multiple social actors than a top-down imposed process.

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There are two main ideas here that resonate with our own thinking. The first idea is of change as *emergent*, what Weick defines as “ongoing accommodations, adaptations, and alterations that produce fundamental change without a priori intention to so do.”53 While we acknowledge that change can be planned to some extent, equally we recognize that emergent change and innovation-led transformation will be highly relevant to sustainability.

The second idea is the focus on politics and power. Of course, internal interests and power relations are inherent in all contemporary organizational life. The important point is that, whereas our phase model may imply that common agreement over change can be reached, there is likely to be a struggle between competing internal values and interests, and given that sustainability is imbued with a high degree of uncertainty, the legitimacy to act may be unclear and contested. Equally, trade-offs among the various elements of sustainability will depend on the power and influence of various external stakeholders and their interests.54 These dynamics are exacerbated by social and political contexts, where (for example, in Australia), many sustainability issues such as impacts of climate change, have become intensely politicized and polarized.

Taking the politics of a sustainability change programme, for example, into consideration, is clearly essential, given the range of stakeholder interests and spheres of influence. For example, different levels of government, lobby groups and NGOs are all involved in many decisions that need to be made by business leaders, particularly in relation to certain sectors.

As a last point, there are usually individuals and groups who have a significant stake in the existing order, the status quo, and whose interests are threatened by change. It would be naive not to expect active and passive resistance from them. What is often harder for change agents to accept, however, is the resistance that often comes from some of those who are disaffected by the status quo and who stand to *benefit* from the proposed changes. Some people cannot project themselves into a future world, cannot assess realistically how their interests will be served by change, or actually prefer to remain locked in, complaining, to the security of a known if debilitating role, rather than break the chain and be free. We cannot make people change: we can only provide opportunities for them to change themselves.

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## Complexity and systems dynamics

Within the more recent change literature, emergence is increasingly addressed from the perspective of complexity theory.55 This complexity perspective addresses unplanned and emergent change outcomes resulting from the internal dynamics and properties of the modern organization. One particular approach is to understand organizations as complex adaptive systems. The organization is understood as an assemblage of individuals or units which interact, mutually affect each other, and lead to novel outcomes for the system as a whole.56 These dynamics refer to the flow of information, knowledge and actions between multiple hierarchies and individuals and teams.57 These dynamics give rise to three common characteristics. The first characteristic is self-organization. The large number of interacting agents and rich patterns of interaction and feedback lead to a dynamic and relatively unstable system. This occurs in the absence of deliberate design. The influence of any single agent is limited, and each agent can only understand the immediate sphere of influence, not the whole system. The second is emergence. The multiple interactions lead to local adaptations which may give rise to novel properties at a system level. When this leads to greater fitness and resilience, the system is said to be adaptive.58

Viewed in these terms, sustainability issues are an ‘adaptive challenge’. Change for sustainability can be understood in terms of emergence as knowledge, innovation, adaptability and new patterns of behaviour. However, the third characteristic is that, while such beneficial properties can emerge, these outcomes cannot be predicted, and this change essentially occurs bottom-up.

This complexity perspective is contentious and may seem somewhat at odds with our phase model (there are particular implications for leadership, which we discuss in Chapter 8). However, the two can be connected by considering holistic, systems-based perspectives on change for sustainability beyond the specifics of complexity models. In the previous chapter, we emphasized how systems thinking underpins our conception of the sustaining corporation. In that context, systemsthinking recognizes the scale and interconnectedness of sustainability issues, with the organization and its environmental, social and economic context conceived as a single system.

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We can also apply systems thinking to the dynamics of the change process required within organizations. Ultimately, we think that substantive change, and especially transformational and radical change, requires systems thinking. Although there will be many perspectives on what constitutes the system and its boundaries, the core idea here is again that the system comprises interrelated parts or subsystems that affect each other and also depend upon the whole to function, and that the change or intervention must occur at this system level.59

Porter and Córdoba consider the insights that might be gained from three different systems frameworks – functionalist, interpretive, and complex adaptive systems – without seeking to integrate them theoretically. We think that this is a powerful idea, with practical implications that connect with our phase model, with the other perspectives discussed in this chapter, and with how leadership can drive sustainability transitions, as discussed in Chapter 8.60

The first framework is a functionalist perspective which understands sustainability as a predominantly technical problem, amenable to topdown management and a planned approach. Conceived in these terms, the system is readily comprehensible. Throughout the book we have already discussed many change interventions which fit with this systems perspective. The interventions include new policies, and activities such as extending governance arrangements to employee participation, and the systematic inclusion and representation of stakeholders’ interests, objective-setting and reporting, and a wide variety of frameworks to guide decision-making and management practices.

Some aspects of corporate sustainability will be well suited to this datadriven approach. However, this systems perspective fails to accommodate the systems of meaning construction by internal and external stakeholders. This is better addressed by the second, interpretive perspective, which we have already discussed in this chapter. The goal here it to understand the mental models in play, and how and where meaning-making occurs. Once again, we have discussed relevant change interventions throughout the book, such as systematic stakeholder engagement, strategy-setting workshops, and cross-functional middlemanager councils. These interventions can surface the various interpretations, and help with building a broad-based understanding as the basis for action.

The third complex adaptive system perspective and its core concepts of self-organization and emergence offers a rather different proposition, as we have already discussed. It calls into question the efficacy of planned, top-down interventions, instead emphasizing the role of small teams, and encouraging bottom-up innovation and learning. The opportunity is to deliberately exploit the inherent nature of complex systems by focusing on the processes of interaction, for example fostering networks and supporting the emergent desirable behaviours and initiatives through incentive structures. This perspective suggests that change could be pursued through self-organized teams, for example around sustainability product development and experimentation with business models.

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To conclude, in this chapter we have outlined some of the key characteristics of successful incremental and transformational change programmes. We have noted that incremental change strategies are useful for organizations seeking to move between one phase of sustainability and the next. However, as we pointed out earlier in this chapter, not all organizations will be able to move forward fast enough on the path to sustainability by using incremental change strategies. We have outlined transformational change strategies – that is, strategies that change the mindsets, cultures, structures and products of organizations in radical ways to obtain sustainability outcomes. Finally, we have considered the insights from additional change perspectives. Whatever change approach is taken, leadership is a decisive factor that determines whether we succeed, and we turn to that next.

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