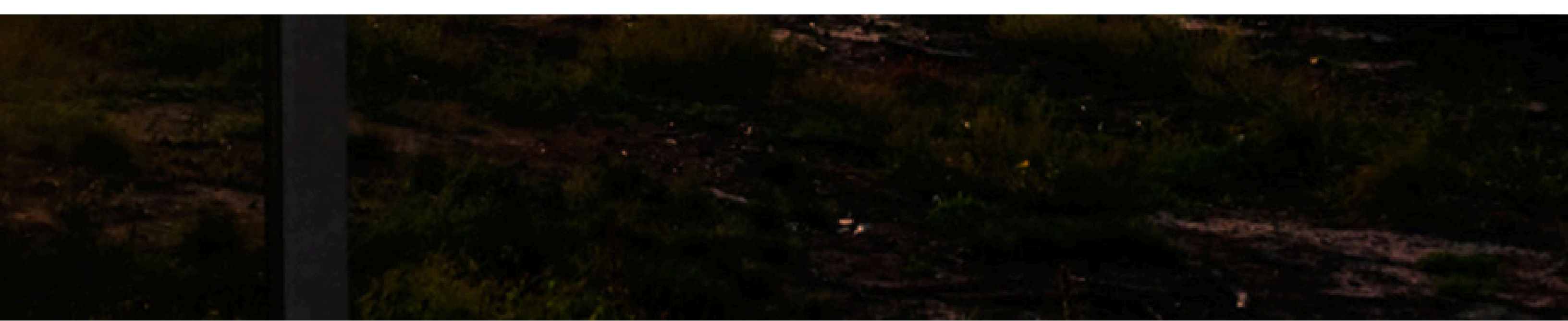
The Association of
Accountants and
Financial Professionals
in Business

Increasing Employee Engagement In Organizational Sustainability Efforts



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Increasing Employee Engagement in Organizational Sustainability Efforts

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Summary

Organizational sustainability has become a priority on many corporate agendas. But engaging employees throughout the organization in sustainability efforts remains a challenge. This report highlights insights from an IMA-sponsored research study that speaks to this challenge. Using experimental scenarios, we gauged employee inclination to pursue environmental performance objectives relative to financial ones and whether this inclination was enhanced when compatibility with financial objectives and stated core organizational values were emphasized. Findings suggest simply specifying and rewarding environmental objectives in line with financial objectives is sufficient to engage a majority of employees (roughly 69%). This is a straightforward but impactful point since only 25% of the study participants indicated their employers tied reward to sustainability performance. Yet a bias towards financial performance objectives (a form of status quo bias) is also evident. We will also discuss implications for effective performance management with regard to organizational sustainability.

Key Findings and Implications

Environmental sustainability is now a priority for many organizations as public interest in firm performance has widened beyond economic outcomes. Yet while sustainability has clearly been embraced by organization leaders, recent surveys and anecdotal evidence indicate a lack of traction throughout the remainder of the organization. To investigate this issue, we presented hypothetical performance objectives to a wide cross-section of employees (400 respondents) in the United States and assessed their inclination to pursue environmental performance objectives relative to traditional financial performance objectives. Important insights for employee engagement in organizational sustainability efforts were gleaned:

- Our findings suggest that simply specifying and rewarding environmental objectives in line with financial objectives is sufficient to engage a majority of employees. Moreover, 69% of respondents in our study chose to pursue an environmental performance objective when it was explicitly presented as a rewarded area of performance among traditional financial performance options.
- But it seems organizations are not typically addressing environmental objectives in their performance management systems. Only 25% of the respondents indicated their current employers tied rewards to sustainability performance.
- Environmental objectives that are aligned with traditional financial objectives appear more likely to garner employee engagement. Respondents were significantly more inclined to pursue environmental objectives that were stated to also contribute to financial savings for the organization when cost savings was an explicit organizational value.
- Counter to common logic, organizational concern for the environment is not an apparent driving factor of employee sustainability engagement. Respondents were not more inclined to pursue environmental objectives when sustainability was an explicit organizational value. Instead many respondents reported a persistent belief that organizational profit was the overriding priority.

The following report provides a more detailed discussion of these insights, preceded by an overview of the topic and its related research, and an explanation of the study procedures. Despite a past IMA imperative regarding the integration of environmental impact to employee performance evaluation systems, the attention of managerial accountants has largely remained focused on the broad interpretation of sustainable performance for CEOs and external stakeholders[1]. The

1 IMA® (Institute of Management Accountants), Statement of Management Accounting (SMA), " Implementing Corporate Environmental Strategies," Montvale, N.J., 1995.

insights provided herein underscore the need to address this gap.

Concern for Organizational Sustainability from Top to Bottom

Concern for organizational sustainability—a people-planet-profit paradigm—has taken hold among organizational leaders. A 2010 survey by McKinsey & Company revealed that more than 50% of organizations consider sustainability initiatives to be very to extremely important.[2] An annual investigation by the Boston Consulting Group and MIT Sloan Management Review of how organizations handle sustainability efforts revealed that it has become a permanent element of many company agendas. As of 2013, nearly 50% of the companies in the survey reported they had changed their business models to take advantage of sustainability opportunities.[3]

While sustainability has clearly been embraced by many at the executive and board levels, whether the traction continues to subsequent levels of organizational members remains a question. There is some belief that employees inherently want to engage in these activities in their job, yet a national survey of U.S. companies conducted by the Society for Human Resource Management in 2011 found those leading the organization (boards of directors, CEOs, and executive-level employees) were much more likely than manager-level and nonmanager employees to view sustainability as an important business practice. Even engagement in basic environmental sustainability behaviors (such as reducing the use of plastic water bottles) appears to occur more frequently among top-level managers relative to those lower in the organizational hierarchy.[4]

There are reasons why nonexecutive employee attitudes toward corporate sustainability efforts tend to differ from that of the organization's leaders. These employees are often bounded by their immediate work responsibilities and absent sufficient exposure to corporate discourse regarding the goals and benefits of sustainability may lack an understanding of its strategic impact. Also, they are likely to find the long-term goals of sustainability clashing with the short-term metrics on which they are evaluated. Consequently, successful organizational implementation of sustainability initiatives must consider the trade-off considerations made by nonexecutive employees in the evaluation of their own personal utility. Consistent with the above, practitioners and scholars have suggested that engagement of nonexecutive employees in organizational sustainability efforts requires performance management systems that specifically encourage their support. But past experimental findings show employee engagement in sustainability initiatives is far from assured even when individual financial incentives are attached to sustainability objectives at the operational level. We recently completed an experimental study to better understand employee attitudes and motivations in this context.

Investigating Employee Inclination and Influencing Factors

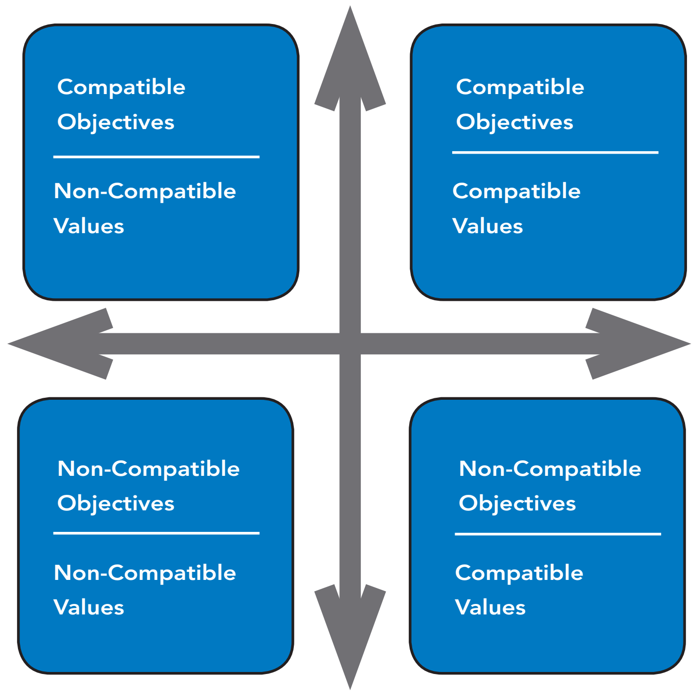
By using experimental scenarios we gauged employee inclination to pursue environmental performance objectives relative to financial ones and whether this inclination was enhanced when compatibility with financial objectives and/or compatibility with organizational values were emphasized. Environmental performance objectives are considered compatible with financial performance objectives when the pursuit of the former

2 McKinsey & Company, "How Companies Manage Sustainability," McKinsey Quarterly, March 2010, www.mckinsey.com/insights/sustainability/how_companies_manage_sustainability_mckinsey_global_survey_results

3 David Kiron, Nina Kruschwitz, Knut Haanaes, Martin Reeves, and Eugene Goh, "Innovation Bottom Line: Findings from the 2012 Sustainability & Innovation Global Executive Study and Research Report," *MIT Sloan Management Review*, February 2013.

4 Society for Human Resource Management, BSR, and Aurosoorya, "Advancing Sustainability: HR's Role Survey Report," April 2011.

Figure 1: The Four Hypothetical Conditions



has benefits for the latter: "Doing well by doing good." For example, adopting energy efficient lighting in a hotel may reduce the cost of operations. On the other hand, retooling a manufacturing plant to reduce carbon emissions may reduce the profit margin, at least in the short run. Our experimental conditions made this compatibility across performance objectives more personally salient by establishing that individual pay incentives were indirectly higher for compatible environmental objectives. Economically rational individuals should prefer the environmental performance objective under these circumstances.

Compatibility with organizational values was established by describing a hypothetical organization focused on sustainability. Noncompatibility, or at least less compatibility between environmental sustainability and organizational values, was established by describing a hypothetical organization focused on cost savings. Prior research suggests employees that perceive the organization as having a strong organizational commitment to the environment demonstrate greater engagement in environmental initiatives. This may, again, represent economic rationality on the part of employees since making choices consistent with an organization's values is likely to result in more steady advancement throughout the organization than is acting in ways not consistent with these values. We would therefore expect individual preference for the environmental performance objective to be greater when organization values emphasize concern for sustainability.

Following the above logic, preference for an environmental project should be greatest when the project is compatible with both organizational values and financial objectives, versus compatibility with only one facet or, especially, with neither facet. The four hypothetical conditions described for our experiment are summarized in Figure 1.

A cross-section of U.S. employees were surveyed to determine their inclination to pursue environmental performance objectives relative to traditional financial performance objectives. The 400 study participants (100 per each of the four conditions above) represented a wide range of ages, jobs, and industries—in order to enhance generalizability of the results. (See Table 1 for a summary of the sample's demographic composition.) It is noteworthy that only 25% of the participants' current organizations tied rewards to sustainability performance. Participants were asked to choose which performance objectives to pursue based on limited investment dollars. Choice was constrained such that only two of three objectives could be pursued: one cost savings objective in combination with either a second similar cost savings objective or in combination with an environmental sustainability objective. Participants also provided explanations of their decision making process via an open-ended question.

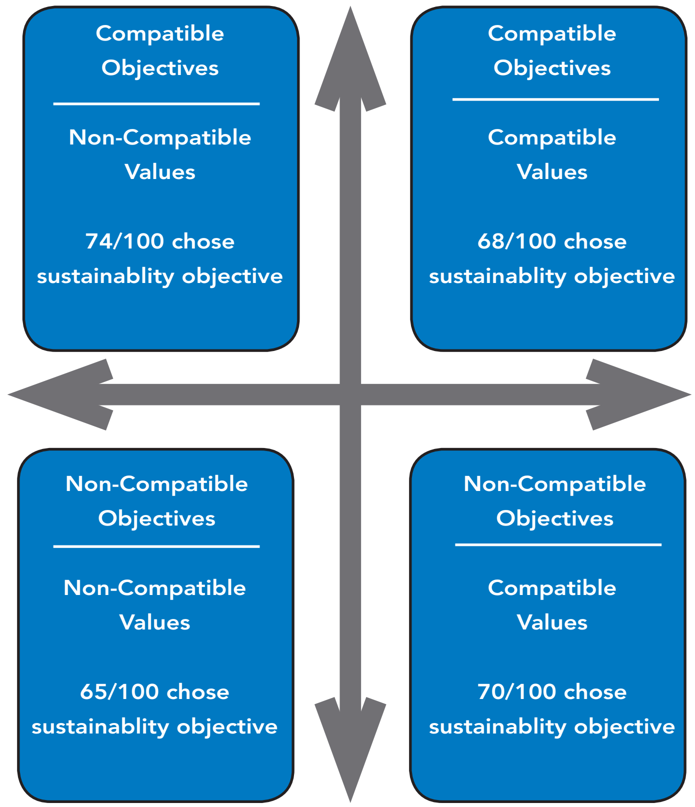
Table 1. Demographic Composition of Respondents

Participant Characteristics	Number	Percent
Current employer ties rewards to sustainability	100	25%
Total Work Experience		
1-2 years	22	6%
3-5 years	28	7%
6-10 years	47	12%
> 10 years	301	75%
Gender		
Male	212	53%
Female	188	47%
Occupation		
Administrative/clerical	64	16%
Management	95	24%
Professional (nonmanager)	74	19%
Sales	26	7%
Service	42	11%
Technical	28	7%
Other	71	18%
Age		
18-24	27	7%
25-34	124	31%
35-44	91	23%
45-54	86	22%
55-64	43	11%
> 64	29	7%

Unexpected Findings

To assess the efficacy of our experimental manipulation for organizational values, we asked participants about an experimental scenario. The

Figure 2: Results of Survey



respondents were asked to rate the degree to which the company was highly concerned with the environment and with profits, using a scale of 1 (strongly disagree) to 5 (strongly agree). Perceived organizational concern for the environment varied roughly as expected across the experimental conditions. Perceived organizational concern for profits, however, remained consistently high across all four experimental conditions.

In other words, respondents did not perceive a company with an emphasis on sustainability as less concerned with profits than a company with an emphasis on cost savings. This suggests, perhaps unsurprisingly, that financial concerns are an assumed priority of for-profit organizations regardless of the explicit values an organization conveys.

Overall, approximately 69% of our subjects across all four conditions were inclined to pursue the sustainability performance objective. Recall that each participant was constrained to choosing two of the three performance objectives. This choice structure implicitly required respondents to pair a cost-savings objective with either a second cost-savings objective or a sustainability objective. The results indicated a consistent favoring of the environmental sustainability objective across all four conditions, as shown in Figure 2. This suggests employees are apt to engage in environmental objectives when organizations explicitly include them among evaluable performance objectives, a favorable implication for performance management practices. From a self-interest standpoint, however, choice for the environmental objective should be even greater when it represents the more personally instrumental choice for employees—when it is compatible with financial objectives and/or organizational values. Again it seems that employees put more priority on financial performance than our experimental conditions would predict. Further, preference for the environmental sustainability objective was unexpectedly highest when presented as compatible with financial objectives while also coupled with organizational values that emphasized cost savings. In keeping with participants' perception of consistently high organizational concern for profits, it seems sustainability projects are most attractive when they are clearly linked to a financial mission.

Implications for Engaging Employees in Sustainability

Our experimental findings suggest simply specifying and rewarding environmental objectives in line with financial objectives is sufficient to engage a moderate majority of employees. Yet it seems few employers address sustainability performance in this fashion—only 25% of the employers within our study. The relatively few companies that do use employee rewards to encourage green behavior tend to do so with recognition and prizes rather than pay, according to 2009 survey by Buck Consultants[5]. Attaching incentives to environmental objectives at the operational level is, of course, one way that organizations may link employee pay to organizational sustainability. Inclusion of sustainability performance as a dimension on employee performance reviews is a broader and more consistent way of doing so. Accordingly, managerial accountants must shift their emphasis from the broad interpretation of sustainable performance for CEOs and external stakeholders to include the operational aspects most relevant to nonexecutive employees.

Another important point for performance management in the area of sustainability emerged from our study. A status quo bias toward financial performance objectives was evident among employees. Even when organizational values emphasized concern for sustainability, many employees explained their preference for financial performance objectives in strong terms (see Table 2).

5 Buck Consultants, "The Greening of HR Survey Results," January 2009, www.buckisgreen.com/pdfs/Go_Green_Survey.pdf.

Table 2. Responses from Individual Employees

"Because [cost-savings objectives] will truly help the company succeed, unlike the carbon footprint BS."
"The first two [cost-savings objectives] show a black and white dollar amount of savings. The third shows no saving. I know it's important to do all we can to reduce pollution, but I don't think I'd get this one past the stockholders. I could see it now: 'We're going to reduce our carbon footprint by 30%...but it's going to cost us $100,000.' I'd be on the street corner selling apples."
"Green Consumption is not a priority."
"My first obligation is to make the company as reasonably profitable as possible. The increased profitability will then allow us to invest in "good citizenship" type considerations."
"Companies are in business to make money and grow."
"I chose A and B [cost-savings objectives] because they will result in the most savings to the company (although less bonus/incentive pay for me)." "...it would be difficult to choose an option that means less of a savings to the company unless the company fully supported this."

Conclusions

It is reasonable that financial objectives would represent the status quo since profitability is historically the primary way stakeholders evaluate these organizations. Sustainability objectives, on the other hand, are a more recent and novel consideration and therefore likely perceived by employees as different from (and possibly in conflict with) the status quo. To the extent this is true, even when two projects result in the same expected performance bonus, employees will tend to choose the project that addresses financial objectives because it is more familiar to them (it is the status quo).

The implication is that in order to motivate more employees to undertake sustainability investments, it may be necessary to frame sustainability objectives in financial rather than, or in addition to, the less familiar—and potentially competing—sustainability terms. For example, instead of stating that redesigning a product's packaging (such that less packaging will be needed) will reduce the firm's carbon footprint, a firm could emphasize that less packaging will save the firm money. In this way, a sustainability project is actually consistent with the status quo.

Framing sustainability objectives in financial terms, however, does nothing to overcome employees' status quo bias for financial objectives. Explicitly stating that an organization values sustainability is also unlikely to overcome the bias, as our results indicate. After all, perceptions pertaining to the status quo are by definition deeply held and not something that changes easily or quickly. An organization may be more effective in overcoming this bias over time through continued emphasis of sustainability objectives in line with financial objectives. Internal reporting on the "triple bottom line" of people, planet, and profits is an obvious means to provide this needed continuous emphasis. Management accountants, therefore, are in a pivotal role to ultimately influence employee support of organizational sustainability.