CHAPTER 9

# Sustainability as an Organizational Effectiveness Tool

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Sustainability initiatives are widely recognized to impact both costs and revenues via corporate value drivers including reputation, operating expenses, tenant attraction and retention, and risk management. Eccles, Ioannou, and Serafeim (2014) present evidence that sustainability adoption improves stakeholder engagement and long-term financial performance. Savitz and Weber (2013) discuss ways sustainability enhances innovation, collaboration, and employee engagement. When companies connect employees' work to a positive social mission, morale and motivation improve (Winston, 2014).

For real estate companies with organizational structures that disconnect firm leaders from the front lines, sustainability can also help improve organizational dynamics and effectiveness. Executives who are removed from the rank and file often can't see organizational issues or the associated profit-enhancing opportunities, and sustainability professionals with

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strong soft skills are well-positioned to help them understand and strengthen organizational function to maximize value creation.

Real estate companies hugely impact the built and natural environments, human communities around the world, and millions of employees. Their optimal function and the wellness, actualization, and performance of their employees have the potential to significantly improve public health and general societal welfare. A holistic approach to sustainability that includes a broad range of social and governance issues, including organizational excellence, maximizes the financial and social benefits from sustainability adoption.

This chapter discusses ways the sustainability enterprise can, in addition to highlighting a company's social purpose, help address organizational inefficiencies that reduce productivity. After two real-world examples, this chapter describes several features of sustainability work that make it a strong tool for improving organizational effectiveness and then discusses additional real-life examples from companies in the building sector.

Nicholas Stolatis held leadership positions with one of the world's largest real estate investment managers for more than 30 years, but it wasn't until he became head of sustainability 22 years in that he was able to systemize organizational effectiveness. In the asset and portfolio management roles Stolatis held during his first two decades with the firm, he was responsible for quarterly financial results. When his responsibilities were shifted to create a new sustainability program, his capacity to work on non-urgent but important priorities that impacted long-term investment performance increased. In addition to achieving an impressive 22% reduction in energy use and $102 million in avoided energy cost during his nine years as global head of real estate sustainability (N. E. Stolatis, personal communication, March 29, 2017), he essentially became his company's de facto head of operational excellence.

Stolatis developed a property management governance platform that standardized operating practices across the firm and thereby improved returns and pleased compliance auditors. The platform addressed the full spectrum of management activities from acquisitions to dispositions, including building operations, risk management, tenant satisfaction, and environmental reporting. It encouraged active management of properties and monitored and improved timeliness and accuracy of operating reports. The platform also spurred best practices sharing and continuous improvement of the firm's policies and procedures manual: eliminating extraneous content and simplifying operating policies and procedures improved their usability and effectiveness.

At its core, the effort was about extracting maximum value from existing resources by learning how to operate more effectively. The standardization of firm-wide operational excellence caught the attention and earned the approval of internal compliance auditors. The firm's research team evaluated how the program impacted financial performance and validated absolute improvement in total returns. As this example illustrates, utilizing sustainability learnings to improve organizational effectiveness can dramatically increase the value sustainability brings a company.

In a second example, a real estate owner's human resources staff was kept so busy with payroll administration and legal matters that it lacked capacity to address bigger-picture needs such as orienting new employees or helping them integrate into the culture of the firm. The company's sustainability director created an employee onboarding program that included telling new hires the company's founding story. The program's success led firm leaders to expand the sustainability role to include oversight of internal and external communications and some employee relations activities (personal communication, March 17, 2017).

With the assumption of these additional responsibilities, the sustainability director was promoted to Vice President, Strategy and Sustainability, and formally added to the firm's Executive Committee. In this hybrid strategy and sustainability role, he guides initiatives ranging from legislative affairs to corporate mission and visioning. His influence on corporate strategy and operations increased, allowing him to impact organizational decisions and processes.

At one location, he observed challenges with coordination and communication among a group of extremely diverse operations professionals. Property managers, accountants, maintenance technicians, construction managers, building engineers, and leasing agents worked in silos and had difficulty communicating effectively. Each function had different goals and priorities, making it difficult for the property manager to lead the group as a cohesive team. There were even some personality conflicts and relational tensions that were keeping staff from doing their jobs effectively.

The property management role is complex and challenging even without such interpersonal friction. In addition to managing staff, keeping up with tenant needs requires much leg work and human interaction. It is a demanding and physically active job at which individuals can remain successful only if they maintain high levels of engagement. A step removed from this complexity and daily grind, those focused on sustainability remain or become semi-outsiders and can often more easily see coordination and communication challenges and formulate potential improvement strategies. If a sustainability leader's station within an organization affords him sufficient power to act upon the opportunities he sees, he can put his insight to work.

This sustainability executive conceived an idea to rotate employees to shadow functions very different from theirs. For example, an accountant would spend a day in the field shadowing property and facilities managers. Accountants usually have nine-to-five desk jobs in which they sit in a company's corporate office. This rotation would allow them to experience the daily challenges field staff face in a way they never could from their desks. Increasing an accountant's understanding of the pressures of an on-property job would help them work better with individuals in such roles. In this manner, inviting sustainability practitioners to share their observations and recommend solutions can be a powerful method for company leaders to improve organizational effectiveness.

## 1 Features That Make Sustainability a Strong Organizational Effectiveness Tool

Sustainability is long-termism regarding all aspects of human welfare, including financial, workforce, community, and environmental health. For those interested in long-term financial performance, sustainability is good business. Sustainability efforts can help companies function better at a basic level. They promote good management; considering the long-term impacts of business decisions builds management capacity and improves operational efficiency, quality, and profitability.

When executives examine company processes through the lens of sustainability, challenges with those processes and opportunities to improve them become apparent. Sustainability work has a way of shedding light on areas of suboptimal function and possibilities to improve overall organizational effectiveness. Those who work on sustainability thus have unique insight into organizational inefficiencies and potential solutions. This extends to systems, relationships, and leadership. The following sections discuss several ways in which sustainability work is uniquely suited to both identify and address organizational issues.

### *1.1 Long-Term Orientation*

Many policies and best practices, including those related to environmental management but also in other areas, benefit the bottom line if fully implemented but are rarely managed closely. Increasing attention on these non-urgent but return-impacting priorities can improve long-term financial performance (O'Dell & Grayson, 1998). Real estate firm leaders who are focused on delivering quarterly and annual financial performance have limited capacity for time-consuming efforts that pay off only over the long term (Davies, Haldane, Nielsen, & Pezzini, 2014).

Adding the energies of a professional, whether internal or consultant, who has real capacity to invest in long-term organizational improvement efforts can correct this inefficiency that firms experience. Sustainability employees and consultants are essentially champions of long-termism. No one is better positioned to see and articulate the value of general management improvement than a professional with responsibility for long term rather than quarterly performance.

### *1.2 Change Agency*

Sustainability work is organizational change work. Its core function is to change corporate behavior to increase long-term value creation. There has been a tendency, encouraged by the individual building certification model developed by the U.S. Green Building Council in the 1990s, for real estate companies to focus resources on the sustainability of a subset of "lowest hanging fruit" buildings at the expense of doing the more difficult and impactful work of altering organizational processes to design and operate entire real estate portfolios sustainably. But there is untapped long-term business value in changing company systems and processes. Doing so is an excellent way to not only integrate sustainability considerations but also improve organizational effectiveness.

Doing sustainability right requires revising company systems, processes, and procedures to include environmental, governance, and other social considerations. This takes significantly more upfront time than adopting separate policies and developing independent processes and systems to address sustainability issues. But the former uncovers operational improvement opportunities that can be leveraged across the entire organization while the latter creates redundancies and consumes more organizational resources over the long term.

Pursuing efforts to, for example, operate buildings more resource-efficiently leads sustainability practitioners to examine companies' general operational management practices. Those driving sustainability change efforts delve into existing policies, processes, and systems and gain intimate knowledge of them, including knowledge of ways in which they are inefficient or ineffective. Addressing such issues can increase time- and cost-efficiency, reduce employee stress, and improve firm performance (Allen, Rogelberg, & Scott, 2008; Altinkemer, Ozcelik, & Ozdemir, 2014). The normal course of sustainability endeavors thus brings opportunities to improve productivity across business functions.

The time and effort required to study policies, systems, and processes to integrate sustainability considerations makes it efficient for sustainability practitioners to lead policy, system, and process optimization. This approach expands the scope of sustainability, but the additional value it creates can more than offset the increased volume of work (Altinkemer et al., 2014).

Change is hard, and sustainability efforts ask a lot of people within companies. Pursuing sustainability goals requires learning new terminology, systems, and processes, collecting new data, trying new technologies, and significantly altering job responsibilities. Those implementing change therefore encounter challenges and issues early and often. As sustainability attempts to alter existing processes to include new considerations, it easily comes across organizational weaknesses and tensions. Some departments are open-minded, responsive, and easy to work with. Others resist change. By driving change, sustainability tests and learns about each department's capacity to deal with challenges. Because change brings tensions and inefficiencies to the surface, sustainability initiatives can be potent catalysts for organizational improvement.

An organization's ability to integrate sustainability initiatives is a litmus test for management capacity. The ease and speed with which a group or organization adopts new processes or technologies reveals important information about its resilience and ability to learn and improve (Pinkse & Dommisse, 2009). Slowness to, for example, begin tracking newly needed data can indicate low adaptability.

Likewise, the success of sustainability efforts is a strong indicator of agility. Organizations with high levels of interpersonal respect and accountability and low overextension and burnout are much more able to adopt new efforts seamlessly and without resistance or interpersonal struggle. If challenges are encountered, they can become opportunities to make companies more agile and capable. Attending to pockets of resistance can allow executives to address underlying issues and lead their firms to operate more efficiently and profitably.

Sustainability work requires its practitioners to raise uncomfortable questions and challenge existing practices and modes of thinking. Sustainability leaders who can serve as agitators while retaining the trust of executives and workers are most effective at improving environmental and social performance. This prepares sustainability practitioners well to lead organizational change efforts. It is a natural step to extend the sustainability role to include development and execution of strategic agendas beyond the classic scope of environmental, governance, and other social issues.

### 1.3 Presence on the Dance Floor and the Balcony

Most senior executives spend little time performing front-line tasks, working through processes, or interacting with software systems or property teams. For this reason, it is common for firm leaders to develop blind spots in areas of organizational dysfunction (Geiger & Antonacopoulou, 2009; Sala, 2003). Sustainability efforts require digging into policies, processes, and data systems as well as working with employees up and down the ladder.

George Washington University School of Business professor Jennifer Griffin describes sustainability as "on both the dance floor and the balcony" (personal communication, March 24, 2017), borrowing language from Harvard Kennedy School Center for Public Leadership founder Ronald Heifetz (Heifetz & Linsky, 2002). Interacting with workers and processes can increase senior executive awareness of organizational issues such as role clarity and process deficiencies. Working directly with rank-and-file employees can shed light on cultural and psychological issues such as dissatisfaction and fear of job loss. In this way, taking on sustainability initiatives can bring firm leaders onto the dance floor and help them better understand and manage organizational function.

Sustainability professionals who are not at the senior executive level, and are treated accordingly, receive the same responsiveness and quality other rank-and-file workers commonly experience in working with each department. Further, employees of all levels are more likely to share frustrations and observations with those outside their reporting chain of command, which includes many sustainability practitioners. Most with access to senior firm leaders interact only with lower-ranking employees for whom they have management responsibility, whether directly or several steps up the ladder. In contrast, sustainability practitioners work closely with employees up and down the ladder over whom they do not have management authority. These factors put sustainability practitioners more fully on the dance floor than most senior executives, lending them an advantage in learning about and helping improve organizational weaknesses.

Sustainability also provides its practitioners, from dedicated sustainability professionals to front-line workers and even middle managers, a firm-wide perspective that can help them see organizational challenges and opportunities they otherwise wouldn't. Tactical workers and managers don't normally view a firm from the vantage point from which sustainability operates, so sustainability provides these employees a unique "balcony" perspective.

Because sustainability professionals inherently inhabit both the dance floor and the balcony, they can provide a useful link between the C-suite and the front lines. Translating between the two is a natural role for many sustainability professionals but one that few firm leaders ask them to play. Chief executives can dramatically increase the value sustainability professionals provide by asking them what they hear and see on the front lines and seeking their input on broad organizational health and strategy.

### *1.4 Need for Data*

To conduct sustainability reporting, real estate sustainability professionals require vast amounts of data that are generally not utilized by anyone else within a company. Interacting heavily with company data management systems leads sustainability professionals to develop a thorough understanding of weaknesses in such systems and opportunities to improve them. Reliance on company data collection processes and general management mechanisms to obtain data needed for sustainability purposes also gives sustainability professionals a window into strengths and weaknesses in those areas.

In line with the "dance floor and balcony" nature of sustainability work described earlier, those who manage sustainability are often uniquely in touch with both data systems and firm leadership. Senior executives rarely utilize data management systems directly, but sustainability leaders usually have relationships with top executives. Sustainability professionals also interact with data systems more intimately than most others with connections to the C-suite, positioning them to share insights about data systems with firm leaders. Because others with direct contact with data systems are usually either responsible for data system performance or don't interface with chief executives, this type of information sharing may not occur as efficiently through other organizational chains of command.

Improving corporate data quality, efficiency, accessibility, and ease of use has implications far beyond environmental management and can improve the capabilities and agility of companies across the real estate lifecycle from acquisitions due diligence to marketing assets for sale. This is another way in which sustainability is uniquely positioned to help improve organizational effectiveness.

### *1.5 Cross-Functional Nature*

Contributing to the "balcony" perspective they cultivate is the fact that sustainability efforts by nature require working with nearly all departments within a company as well as with all regions and a variety of project and building sites. Corporate sustainability expert Andrew Winston sees sustainability as "the most cross-functional role in an organization, giving it an uncommon firm-wide view of what works and what doesn't," (personal communication, February 23, 2017).

Sustainability both requires collaboration with and serves as a resource to accounting, finance, marketing, legal, leasing, asset management, property management, operations, engineering, information technology, development, construction, and service providers. By interacting with such a wide range of business areas, sustainability practitioners gain unique insight into interdepartmental dynamics and the capability, responsiveness, and agility of each department. Exposure to a diversity of functions allows those carrying out sustainability efforts to see tensions and relative strengths and weaknesses between departments. A company-wide view of business practices, communication, and how departments interface with each other is a powerful tool in improving organizational effectiveness.

Such understanding has proven so valuable to companies that Winston considers Chief Sustainability Officer roles excellent CEO training grounds. In the words of Hugh Welsh, President of DSM North America (personal communication, April 7, 2017), "Smart companies are working to future-proof their organizations by adopting sustainable practices in operations and strategic planning, applying circular economic principles in deciding how to deploy capital, develop new products, and do mergers, acquisitions, and divestitures. As a consequence, future CEOs will come not necessarily with a finance, operations, or sales background, but with a sustainability background."

Beyond sustainability practitioners, the parties that need to collaborate to achieve sustainability goals often aren't accustomed to doing so, such as accountants and building engineers. Sustainability asks departments to work together in new ways, often coordinating cross-functional efforts larger than ever undertaken previously. This kind of change has the side effect of forcing increased and eventually improved communication between departments.

Along the way, sustainability change focuses attention on interdepartmental tensions and then provides opportunities to iron them out. This is a chance to increase trust between departments. Sometimes the involved parties are aware of tensions before sustainability comes along. But often they have accepted tension as inevitable and buried their awareness of it. People commonly give up on improving imperfect situations. The introduction of new sustainability efforts presents a large opportunity to boost interdepartmental cooperation.

### *1.6 Insider-Outsider Perspective*

It is natural for rank-and-file workers and senior executives alike to become accustomed to whatever norms exist within a company. Because sustainability work necessitates focusing on externalities from business activities as well as the impacts of global issues on a company, it naturally helps employees of all levels and functions understand how those outside the company see it. Savitz and Weber (2013) refer to this as "outward focus" and note that sustainability can inspire closer collaboration with customers, suppliers, distributors, and other stakeholders (p. 23). The outsider perspective can expand senior executives' view beyond internal business pressures, allowing them to see opportunities that are less visible from the inside. This is related to the long-term orientation and balcony perspective described earlier.

Even longtime employees who lead sustainability efforts operate to a degree like external consultants, working closely with employees who don't report directly to them, struggling to understand others' challenges and motivations, and collaborating with various departments to implement initiatives. This can provide a perspective on an organization that's closer to the way an external consultant would see it than the way employees typically do. Thus, sustainability practitioners, whether focused fully on sustainability or integrating sustainability into preexisting roles, bring a fresh set of eyes that more easily see organizational issues, including relational, structural, and leadership tensions.

### *1.7 Inclusion of Personnel Issues*

While many firms initially focused on sustainability as encompassing only environmental issues, the term is now widely used to describe a broader set of social issues including employee and occupant health and wellness as well as corporate governance. As firms have moved beyond a strict environmental sustainability scope, the function has begun to address employee relations, benefits, and satisfaction as well as leadership diversity and pay equity.

This chapter generally argues for expanding the role of sustainability to include advising on organizational challenges and improvements. But if sustainability covers social issues by definition, adding organizational effectiveness to its purview is less a departure than a natural maturing as the function comes to assume its full responsibilities. Workplace culture, communications, relationships, stress, leadership capacity, emotional intelligence, role clarity, process efficiency, and reporting structures greatly impact employee health and well-being. Involving sustainability professionals in efforts to improve "human resource sustainability" is an appropriate development (Savitz & Weber, 2013).

## 2 Opportunities for Sustainability to Improve Organizational Effectiveness

The features described earlier allow the sustainability function to provide a comprehensive organization-wide lens that can help sustainability professionals and firm leaders understand and strengthen a company. Integrating sustainability concerns and approaches into business practices can lead to improved organizational efficiency and benefit employee well-being and firm profitability.

The integrated design process (IDP), one of the hallmarks of the green building movement, is itself an organizational fix: it corrects a communication disconnect in the standard design and construction process by encouraging collaboration between all stakeholders, including owners, occupants, architects, engineers, and builders, in the very early stages of a project's life. Many other sustainability efforts can improve organizational function. To round out the examples at the start of this chapter, additional real-world scenarios follow.

### *2.1 Process Improvement*

One Real Estate Investment Trust (REIT) was plagued by utility invoice late fees due to inefficiencies in its accounts payable process. While totaling to a somewhat significant amount of money across hundreds of buildings, the late fees were far from the most pressing business matter. Managers had given up on addressing the issue and were focused on other priorities, but the company was unnecessarily losing money to late fees (personal communication, March 15, 2017).

While exploring the possibility of automating energy and water consumption data upload to ENERGY STAR Portfolio Manager, the company's sustainability director learned of the late fee situation. Some of the automation providers the company was considering also offered utility bill pay services. Bundling bill pay with benchmarking automation services would eliminate the late fees paid to utility companies.

The sustainability director's goal was not to reduce non-consumption related energy costs. But pursuing environmental benchmarking led him to delve into the REIT's utility bill processes, which revealed an opportunity to reduce general, unrelated costs. The late fee problem went unaddressed until sustainability refocused attention on utility bills in general. Sustainability encourages proactive management that can improve general business operations beyond the social issues that typically fall under its purview.

### *2.2 Productivity Impediment Removal*

There was more to the bill pay story at the REIT described in the immediately preceding section. The accounts payable employees who worked directly on seeking approvals and issuing payments for utility invoices had been aware of cost-effective bill pay services for years. The bill pay systems would have reduced costs for the REIT and would have also altered the invoice approvals process to eliminate late payments and therefore late fees. But the accounts payable administrators had not pursued or shared such options with higher-level staff out of fear that adopting these systems would lead to the elimination of accounting jobs (personal communication, March 15, 2017).

Fear that improving productivity could lead to layoffs prevented this company from taking advantage of an efficiency-improving solution. Accounting employees saw better systems as a threat to their job security. So, when they encountered software that would improve their team's performance, they looked the other way. The company's accounting managers wanted to innovate but were not aware of the bill pay solutions or the culture of fear among their staff members.

The firm's sustainability executive began discussing utility bill processing with accounts payable staff as part of his effort to automate upload of utility data to ENERGY STAR Portfolio Manager. By interacting directly with rank-and-file staff, he became aware of the dynamics in the department. Insight into the thought processes of their team members allowed accounting leadership to address their anxieties and explicitly assure employees that improving productivity would not lead managers to shrink the team. Managers explained that reducing manual data entry would allow existing staff to spend their time on more productive and engaging activities such as identifying and correcting billing errors and working with property managers to reduce utility costs.

In this example, intelligence collected by sustainability in its normal course of business allowed a company's large accounting group to clear a cultural and communication barrier that was keeping it from operating more effectively. It was the sustainability director's ability to be "on the dance floor" with the accounts payable administrators that allowed him to learn about the personnel anxieties. His connection to senior managers, his "balcony" access, enabled him to put the knowledge he gained to use to improve his company's performance.

### *2.3 Tenant Service*

For as long as employees could remember, their property management company spent thousands of dollars each year on holiday decorations in office building lobbies. This expensive winter holiday cheer was so ingrained and taken for granted that employees assumed that building occupants valued it highly. When the sustainability group observed how wasteful of materials the annual effort was, they asked how much the company spent on it (personal communication, April 3, 2017).

At first, their inquiries were dismissed as non-starters for questioning a practice held dearly by executives, occupants, and property management employees. But a curious property manager began raising the issue with tenants in casual conversation. She discovered that many occupants, especially corporate real estate decision-makers, found the holiday decorations annoying and judged them as wasteful. It turned out that tenant representatives were happy, and in some cases enthusiastic, to forego elaborate decorations for the sake of cost savings and environmental-friendliness. Lease structures at many properties were such that ownership did not benefit in a direct financial way from the resulting cost savings, but the change generated tenant goodwill and loyalty.

The experience led the property management firm to develop a formal process for collecting information on which building services tenants most valued and aligning operational spending with tenant priorities. The company created an electronic survey that included actual amounts spent on various amenities and asked tenants how they would reallocate dollars. The firm then began to make spending decisions based on gathered information rather than assumptions and old ways of doing business.

This made the company more responsive to customer desires. It also increased cost-efficiency; the firm could spend less while keeping tenants happier. At some properties, this change freed up budget dollars for energy efficiency projects that further reduced operating expenses and generated more tenant goodwill and loyalty (personal communication, April 3, 2017). This is an example of a sustainability initiative that not only reduced waste but also improved fundamental organizational performance by leading the company to become more efficient and effective at serving its customers.

### *2.4 Occupant Satisfaction*

A residential developer assigned an employee the task of reviewing and integrating efficiency technologies into home designs. As a high-end developer with a reputation for quality, the firm was concerned about user experience with systems such as motion-activated lighting, water-efficient showerheads, and tank-less water heaters. The company's culture of focus on occupant satisfaction led the job to evolve into a hybrid resource conservation and user experience role. Making the same professional responsible for both these priorities alleviated concerns that the former would be sacrificed for the latter (personal communication, April 13, 2017).

When defined broadly to include social issues, sustainability encompasses customer satisfaction. Occupant experience, natural resource costs, and environmental impacts all affect customer satisfaction and therefore long-term value creation. Focusing on all these factors upfront improves firm reputation and profitability. Considering diverse sustainability issues in concert can maximize organizational effectiveness.

### 2.5 *Policy Usability and Compliance*

The opening of this chapter described Nicholas Stolatis' efforts to shorten and simplify operating policies and procedures to improve their use and effectiveness. Similarly, a nationwide construction company's new Director of Corporate Responsibility quickly found herself working to streamline company policies. When she joined the firm, it had four different Code of Conduct documents, some up to 20 pages in length (personal communication, March 24, 2017). No one within the firm had been attending to them. The senior executive overseeing corporate responsibility tasked the new director with managing the codes of conduct. She consolidated them into one highly readable, four-page document that is now used much more frequently and effectively.

Ethics policies are outside the purview of the traditional energy or environmental manager but included when sustainability is defined broadly to include corporate governance or personnel issues. When human resources, legal, or compliance departments lack capacity to manage such policies, a sustainability professional can be the first that is able to give them the attention they deserve.

Corporate policies are crucial to the healthy functioning of companies. Efforts to make them relevant and accessible are a powerful way for firm leaders to improve organizational effectiveness. Assigning someone responsibility for maintaining and optimizing policies is an investment in long-term corporate welfare. Because traditional functions are often consumed by pressing business priorities and sustainability practitioners exist expressly to manage long-term priorities, the latter can be a natural fit.

### 2.6 *Dumb Money to Smart Money*

Many large investment managers, which collectively manage hundreds of billions of dollars of real estate on behalf of institutional investors, want to impact the environmental performance of development projects in which they invest (personal communication, March 28, 2017). But investment managers typically play a "dumb money" role in these projects, leaving the decision-making to trusted development partners.

Assigning responsibility for managing development projects to partners benefits investment managers and their investor clients. But transferring authority along with that responsibility does not serve investment managers or investors well. Relinquishing authority diminishes the ability of investors and investment managers to pursue their own priorities and desires for development projects. Some employees of investment managers think that investors and their agents abdicate more power to development partners than is in their interests.

Pursuing sustainability involvement is an opportunity for investors and investment managers to reclaim their authority over development projects. Elevating investment managers' roles in these projects would allow them to contribute more value throughout the development process. More active management would improve general development project outcomes and performance. This is an example of a sustainability issue offering an opportunity to correct an organizational inefficiency to the benefit of investors.

### 2.7 Leadership and Compensation Issue Identification

The sustainability department of a privately held real estate owner and operator asked multiple departments to collect employee travel data so they could calculate scope 3 climate emissions. Three departments did it with no problem but a fourth submitted incomplete and error-ridden data (personal communication, March 15, 2017). The head of sustainability mentioned it to the firm's Chief Financial Officer (CFO) in a routine meeting. The CFO decided to investigate.

After examining records and talking with members of the team that submitted inaccurate data, the CFO discovered that employees in that group were submitting exaggerated vehicle mileage reports to increase the reimbursements they received. It turned out that the department head informally encouraged this practice to boost what he perceived as unfair compensation discrepancies between his group and others in the firm. The financial loss was relatively minimal but obviously represented a leadership issue and the department head was let go.

The sustainability team, performing its routine work, implemented change and uncovered a leadership issue that needed to be addressed. By simply requesting new information, sustainability drew attention to travel reimbursement data and a normally overlooked administrative process and organizational weaknesses were swiftly addressed and improved. This work also highlighted potential issues with respect to the perceived fairness and equitability of the compensation structure that may have broader implications on retention, employee engagement, and overall productivity.

### *2.8 Interdepartmental Teamwork*

When a publicly traded REIT hired its first sustainability manager in 2011, the firm's property management group was extremely decentralized. Each of several regions had its own Director of Property Management (DPM), but there was no corporate property management executive. Each DPM reported directly to the firm's Chief Operating Officer (COO).

The company's construction group, on the other hand, was highly coordinated across all regions. A Vice President (VP) of Construction led the 20-person team from the company's headquarters. Construction managers, located in each region, traveled to headquarters for monthly team meetings.

The discrepancy in central coordination between the property management and construction groups led to interdepartmental friction. The VP of Construction had strong ideas regarding how property and construction managers should work together. He had a clear vision of the tasks property managers should handle, what the role of construction managers should be, and how the two should work together. He consistently communicated this vision to his own staff, but coordinating with property management was more difficult.

Coordinating with property management required communicating with four different leaders, one in reach region. Keeping up with four busy individuals was challenging, and the difficulty was compounded by turnover in the DPM positions. Structural issues thus prevented the VP of Construction from effectively communicating protocols to property managers. Consistency in expectations among property managers across regions remained elusive even while the VP of Construction instilled clear expectations in his own staff. This resulted in much frustration in both departments.

Construction managers began to anticipate difficulty every time they worked with property managers. The clear vision they shared with their boss and teammates created expectations that were dashed when they tried to coordinate with property managers. A culture of prejudice toward the property management group developed within the construction group.

Construction staff aired frustrations with each other behind closed doors. They complained openly in construction team meetings that property management did not follow processes and procedures. Their assessment was accurate, but they lacked a productive outlet for their criticisms. Without a healthy way to express concerns directly, construction manager discontent spilled out in interactions with property managers. They acted annoyed, condescended, and sometimes treated property managers with disrespect. They often became rigid, insisting that property managers follow processes they had not agreed to or worked to create.

Property managers concluded that construction managers were inflexible and unhelpful. They described construction managers as "not being team players." Relationships deteriorated further from there, with each side judging and criticizing the other, unable to find a way to improve the situation.

The COO and CEO were either unaware of the situation or did not know the full extent of it. But the friction between these two departments was costing the company in employee motivation and productivity. Because the sustainability manager worked closely with both departments, she was privy to the murmurings and complaints on each side. She could easily describe and explain the situation and articulate the views and needs of each department. If utilized as such by senior management, sustainability is a valuable source of insight into organizational tensions and methods for ameliorating them.

## *2.9 Agility*

A REIT's sustainability manager completed lighting retrofit projects within months of beginning her employment with the firm. But after three years, she was still struggling to impact lighting choices made as part of tenant fit-outs. Installing high-performance lighting as part of a larger renovation that is occurring anyway is more time- and cost-efficient than conducting a project solely to upgrade lighting. But construction managers, who controlled the tenant construction process, resisted making changes to their processes to consider more efficient lighting. And because retrofit projects addressed only lighting, they moved forward independent of the firm's construction managers. The complexity and challenge of coordinating construction managers thus prevented the firm from installing high-performance lighting efficiently and consistently even though doing so would have benefitted its long-term bottom line.

Similarly, a large retailer orchestrated multiple solar installations on existing buildings with a real estate partner but missed opportunities to integrate solar into newly developed properties with the same real estate partner. This occurred even though designing a solar system into a new roof is both safer and more cost-effective than adding solar panels to an existing roof that was not designed to carry their weight. The retailer's construction managers had little capacity to attend to changing priorities. They were so overwhelmed with their regular duties that they did not read procedure manuals and thus missed crucial points at which solar would be considered during the design process (personal communication, January 28, 2017).

The REIT's sustainability manager and the retailer's solar manager, a member of its sustainability team, both encountered a weakness in adaptation capacity. They each witnessed low agility lead to missed opportunities and suboptimal decision-making. Inability to adapt to sustainability change is the tip of an iceberg. It indicates much broader and deeper potential performance issues. Sustainability professionals routinely have insight into such organizational dysfunction and can serve as valuable assets to firm leadership in identifying opportunities to improve their companies.

### *2.10 Lifetime Cost Over Low-Bid Procurement*

A vertically integrated owner-manager's sustainability director reported into its construction department. He managed lighting retrofits according to the firm's standard three-bid construction process and noticed change orders leading lowest bids to result in final project costs that exceeded higher bidders' total fees. He suggested tracking final project costs and comparing them with proposal costs. His team found that actual costs from low bidders often exceeded projected costs from higher bidders (personal communication, March 8, 2017). This applied not only to efficiency-improving sustainability projects but also to general construction projects managed by others on the construction team.

Sustainability encourages analysis of lifetime rather than upfront costs, which calls into question the lowest-bidder procurement convention. The downsides of lowest-bidder procurement go far beyond energy efficiency but are nonetheless ingrained in many real estate organizations. Environmental advocates easily see financial losses resulting from lowest-bidder approaches and can drive examination of such practices, shedding light on their long-term costs and driving organizational change.

### *2.11 Talent Attraction and Retention*

Commercial real estate companies' commitment to valuing their own product—physical space that employees inhabit every day to perform their work—may lead them to resist the remote work arrangements that many industries now embrace. This can cost real estate firms access to some of the best and brightest millennial workers, who value flexibility more highly than previous generations.

The environmental benefits of telecommuting make it attractive to sustainability practitioners. If sustainability proponents contend with resistance to telecommuting, they can help shift real estate organizational culture to meet modern professional norms and reduce this talent attraction disadvantage.

Sustainability initiatives such as the California State Teachers' Retirement System's Responsible Contractor Policy (2015), which aims to ensure fair wages and benefits for workers, may help establish industry-wide compensation levels that enable sufficient attraction and retention of workers in trades with labor shortages. This represents a correction to an organizational challenge and market inefficiency that can affect companies across the building sector.

## 3 Integrating Sustainability and Organizational Effectiveness

As the earlier examples illustrate, sustainability efforts can be potent tools for improving organizational function and companies can benefit from the organizational insights of sustainability practitioners. Firm leaders can access these insights by inviting sustainability practitioners to share the full range of what they see, beyond the issues that are typically under the purview of sustainability. Seeking recommendations on organizational matters from sustainability, practitioners can unlock tremendous organizational effectiveness value that is currently underutilized. Interacting with those who are in the trenches on sustainability can provide a CEO or board member an edge in knowing and improving their company.

A powerful positive feedback loop exists between sustainability and organizational effectiveness: pursuing better consideration of the long-term implications of business activities is a potent method for effecting positive organizational change. Sustainability initiatives can increase quality and effectiveness across a company, in all functions and departments. In turn, improving organizational effectiveness makes companies more sustainable both financially and socially: well-run companies are more profitable and perform better on environmental and other social issues. The more that company leaders, including board members, fully recognize this interplay, the more highly they will prioritize sustainability efforts and the more they will capture the full business value of sustainability.

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