Green power: How one person can turn a company green

"Greening" is the catchphrase of the day, but its implementation often depends on a single actor, the CEO, say Judith Walls and IESE's Pascual Berrone.

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Companies like Ford and Toyota, IKEA and Zara have been making important strides in reducing their environmental footprint. And they are getting positive press coverage for these efforts.

But it's not just the global brands: corporations of all sizes and across all industries are feeling pressure to do more than create great products — many now want to do so with greener processes and policies.

And although most businesses are feeling societal pressure to go greener, some are embracing environmental initiatives more enthusiastically than others. As co-authors Judith Walls of Nanyang Business School and **Pascual Berrone** of IESE discover in their research, the degree to which a corporation adopts green initiatives is usually down to one key player: the CEO. In promoting true sustainability, they conclude after examining 267 companies, it really is about the power of one.

Their paper, titled "The Power of One: How CEO Power Affects Corporate Environmental Sustainability," was included in the Academy of Management (AOM) "Best Paper" Proceedings of 2015 and accepted for publication in the *Journal of Business Ethics* (forthcoming).

Formal + informal power

From the job title alone, the CEO has a certain degree of power — that is, formal power.

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"Formal power" is defined as the power coming from impersonal structures, such as the company hierarchy, access to resources and the ability to mete out rewards and punishments. Meanwhile, "informal power" is that which is developed through an individual's personal characteristics and abilities.

"Both types of power allow individuals to influence the behavior of others, but in unique ways," the co-authors explain, drawing on previous research. With informal power, CEOs share their expertise and experiences to influence people to buy into to corporate policies — such as environmental sustainability efforts.

And so, the co-authors hypothesize that "CEOs' informal environmental power is positively associated with corporate environmental performance." Then, analyzing more than 1,300 observations of 267 public companies in the United States' mining and manufacturing industries, from 2001 to 2007, they find strong supporting evidence for this hypothesis.

On the flip side, they also find that CEOs who lack this informal power on environmental issues do not tend to pursue green initiatives, even if shareholder activists try to push them.

The measures of CEO power

But how can CEO power be measured or assessed? The author considers a range of criteria for measuring formal power including:

- CEO tenure.
- The proportion of the top management team appointed by the CEO.
- Whether the CEO was chairman of the board, founder of the company or a relative of the founding family.

Factors considered in assessing informal power, meanwhile, include:

- CEO involvement in environmental activities at non-corporate institutions such as foundations, NGOs, government bodies and local communities.
- Honors or awards received for environmental actions.
- Previous occupations, directorships and other corporate appointments.
- Official environmental responsibilities in previous posts.
- Prior membership in board committees focused on environmental issues.

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The squeaky wheel

In the research sample, the best environmental performers tended to be in the building/construction, printing/publishing, industrial machinery, electronics and measuring instrument industries. What's more, results within these companies were consistent with the idea that informal power matters.

Environmental expertise in a CEO is key to demystifying environmental strategies — which are often very complex and results may not be visible for a long time. This expertise, combined with formal power — particularly formal power over the board of directors — is much more likely to produce green outcomes, the co-authors find. Informal power plus formal power is a winning combination for greener policies, they conclude.

The results of the study are relevant in thinking about executive training. Business schools can have a positive impact by building up environmental knowledge in executives, especially those occupying the top seat.

The study confirms the importance of a single person to make the world a better place — especially when that one person is the CEO.

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