Global Knowledge Brief

Sustainability

Part 3: Change Management Strategies for Successful Sustainability Governance

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Mandi McReynolds

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Mark Mellen

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Introduction

Internal audit inclusion advocacy

From both a regulatory and cultural perspective, few risks have evolved more rapidly than those related to sustainability. Indeed, organizational culture has evolved — especially through the pressure of investors and government policy — to where many organizations today feel a social responsibility for their role in the global movement toward a cleaner, more sustainable, and more equitable future. This shift takes the form of detailed sustainability reporting practices, direct measures to improve factors such as carbon footprints and wasteful practices, and updated corporate governance structures.

However, even with an overall willingness to address sustainability risks, there still can be challenges in the early stages. While sustainability is hardly a new concept, its scale can cause uncertainty — and from such uncertainty can come delays or even resistance. Part 3 of The IIA's Global Knowledge Brief Series on sustainability highlights the form some of these changes might take, as well as examines internal audit's vital role in supporting the organization through the change process.

Sustainability Goals

The goal is the journey

Understanding the drivers of change

The push to create a sustainable organization often begins when the company starts receiving pressure from one or more of the three main areas:

1. Regulators.
2. Investors.
3. Customers and stakeholders.

In previous years, the push would be for general action. “I’ve had some interesting conversations with both large companies and academics in the marketplace regarding how companies historically have just sort of been rolling things forward on sustainability,” says Mark Mellen, industry principal at Workiva. “That’s better than nothing, but that’s not really achieving anything.”

Today, however, the conversation has advanced to include action toward a measurable goal. The clearest example can be seen on climate goals. “A lot of the regulation currently regarding corporate sustainability is climate first, which is why I think we’re seeing a trend of climate-first goals,” Mellen says. “And even if the regulation doesn’t specifically require goals to be set, I think it’s forcing companies to look at setting goals, because it is meeting expectations for investors that look at not just standardized disclosures, but also how companies set goals and manage performance.”

Although climate-focused goals are most obviously applicable to certain sectors such as energy and heavy industries, boards should realize sustainability goal setting is becoming an expectation that manifests in some form regardless of region, organization size, or industry. “I’ve worked in this space for 15 years, and I’ve seen this trend permeate every industry,” says Mellen. “Even if companies don’t have a real great opportunity to have an impact on the climate space, there’s still an expectation that they set goals and manage what they can. Even something like carbon emissions produced by running computers has relevancy.”

Forms of change

Organizational responses to meet established sustainability goals vary. Approaches may encompass:

- Creating standalone sustainability strategies.
- Integrating environmental, social, and governance (ESG) goals into the overall strategy.
- Incorporating sustainability in remuneration KPIs.
- Making sustainability part of ongoing strategic and operational controls.
- Including sustainability in reporting schemes for internal and external stakeholders.
- Forming separate organizational units for sustainability goals.
- Developing policies addressing various aspects of sustainability (e.g., waste management, emissions).

Regarding any of these approaches, the first steps involve the implementation of various strategies, processes, and procedures. Often, these can be augmentations of pre-existing strategies and policies through some form of program management. According to Mellen, such management will include its own system of governance processes, reporting procedures, and best practices to monitor program statuses. Over time, monitoring also can be leveraged to adjust — or completely reset and recast — established goals.

Time is of the essence to make these adjustments, especially regarding climate disclosure rules. According to the current state of the U.S. Securities and Exchange Commission's new Climate Disclosure Rule, large accelerated filers will be required to report on S-K and S-X disclosures by the beginning of fiscal year 2025, with Scope 1 and 2 emissions following fiscal year 2026 (for more details on other filers (see Exhibit 1). In Europe, the Middle East, and Africa regions, climate reporting has been mandatory since 2022, while the Asia Pacific region adopted a phased-in approach that was fully implemented in fiscal year 2023.

Exhibit 1:

Compliance Dates Under the SEC Climate Disclosure Rule

	S-K AND S-X DISCLOSURES	ITEM 1502(D)(2), ITEM1502(E)(2), AND ITEM 1504(C)(2)	SCOPE 1 AND 2 EMISSIONS	LIMITED ASSURANCE	REASONABLE ASSURANCE	iXBRL™ TAGGING
Large Accelerated Filers (LAF)	Fiscal Year Beginning 2025	FYB 2026	FYB 2026	FYB 2029	FYB 2033	FYB 2026
Accelerated Filers (AF)	FYB 2026	FYB 2027	FYB 2028	FYB 2031	N/A	FYB 2026
Non-Accelerated Filers, Smaller Reporting Companies, & Emerging Growth Companies	FYB 2027	FYB 2028	Not Applicable	N/A	N/A	FYB 2027

Source: Executive Summary: A Snapshot of the SEC's Climate Disclosure Rule | Workiva

Forms of risk

Although there should be a degree of familiarity with elements of sustainability-related changes such as reporting policies and structures due to policies already in place, there are inherent risks involved that could cause uncertainty. For example, concern could arise around related reporting variables, including:

1. New data gathering methodologies.
2. Data analyses.
3. Establishment of organizational buy-in.
4. Resource management.

In addition to these areas, a more subtle risk also exists regarding long-term competitive advantage. "Competitive advantage is defined by an organization's ability to outperform its competitors and deliver added value to customers," says Matej Drašček, assistant professor at the University of Ljubljana, Faculty of Economics, in Slovenia. "This principle should also apply to sustainability. Sustainability initiatives must be linked to what the organization does best, which would also lead to financial gain, and finally should enhance the organization's competitive advantage."

"Goals aren't driven by compliance," agrees Mandi McReynolds, vice president of global ESG at Workiva. "They're informed by the environment, the regulation, but in the end, they're working towards what is the performance of the company. Investment in sustainable innovation, reducing emissions to provide cost savings, investment in innovative energy saving technology — this is where the new economy is going."

While all these areas should be relevant to the ongoing sustainability conversation, the most relevant risks — especially early — are in the planning and implementation of strategies and policies.

During early implementation of strategies, ownership might be of particular relevance for many organizations, largely because of a lack of understanding of the shared responsibility of sustainability initiatives, says Mellen. "A lot of organizations today have suitable governance systems in place in some shape or form, but the question is do they leverage that and the right representatives from each part of the business to be involved," he says. "It's a question of communicating shared ownership. For example, if we're talking about a strategy to get to net zero, that might be owned by one person, but a lot of people are responsible for helping attain the success of that goal."Drašček agrees. "The goal is to embed sustainability into everyday processes and significant decision-making," he says. "This integration can often be achieved without major changes, ensuring sustainability is incorporated into every major business process. I view sustainability as akin to ethics: It should not be confined to a separate policy or department but should permeate every aspect of the organization."

In the ESG realm, establishing that shared ownership mentality also should go beyond just the boundaries of the organization. This should include the establishment of clear communication lines between all stakeholders, including supply chain partners, applicable communities, and external audit parties, among others. For initiatives such as data gathering for reporting, these lines are particularly critical.

"I think that's part of what's really unique when we think about ESG," says Mellen. "From an ESG perspective, that data comes from so many different places, even beyond the organization's four walls. When you begin to understand that, you start to see these governance structures with representation from every part of the organization."

The larger and more complex the organization is, obviously the more intricate these lines can be, which in itself should be considered a risk. "From a size perspective," Mellen says, "if you have 500 locations that have to help in achieving net zero, that obviously should also factor into how the organization might put robust processes into place."

Internal Audit Roles

Where to contribute the most value

Looking for opportunities

As with any risk, internal audit's unique place in the organization allows it to provide value that no other function can easily accomplish. Internal audit can provide value in a consulting role, and as a traditional assurance provider. For example, as a consultant, internal audit can identify critical success factors for sustainability implementation. According to Drašček, these can include:

1. Leadership buy-in and support.
2. Skilled implementation.
3. Alignment between specific initiatives and general strategy.
4. Effective planning.
5. Good communication.
6. Ability to manage organizational change.
7. Adequate funding for strategy implementation.

Another one of internal audit's most important roles in this space, Mellen says, is in the ongoing communication of governance structures, including structures both for meeting specific goals (such as net-zero emissions) and the general ESG program overall. This can include not just clarification of existing structures to the board and audit committee, but also communication of new governance structures as ESG-related risks necessitate new committees composed of executive leadership.

Senior management also benefits from ongoing internal audit communication. For example, internal audit can clarify sustainability-related questions to management such as:

- Do we have a clear view of all sustainability risks and opportunities, including compliance risks and regulatory expectations?
- Are we prepared to address future legislation or regulatory expectations?
- What is the organizational maturity of our current sustainability culture, and where should it be?
- What public commitments does the organization have regarding sustainability, and do we currently have the data to support such commitments?

Additionally, it can advise on risk management systems related to the sustainability program, including the processes and controls that should be in place. This is key not just at implementation, but also well after so that ongoing monitoring can be done in a repeatable, transparent fashion.

To provide this value when planning and executing on established risk management processes, internal audit also must commit to an ongoing program of continual learning. Areas of understanding can include:

- How controls should work.
- Testing processes.
- Regulatory environments.
- Relevant data analytics.

Although some resource management might need to be considered, relevant tools and data needed to fulfill these criteria often are already in house. “It depends how mature an organization is, but often minimal additional resources will be needed,” says Mellen. “The organization may have the data already, whether it’s broad ESG data or energy and emissions data in a system today, and you can automate the extract of that kind of information into an analytics engine. Organizations that are in those heavy industries, for example, will have technology in place that would enable internal audit to go in and look at anomalies and energy consumption to help establish carbon footprint ratings for reporting.”

Beyond tools in the organization, it is also easier than ever — thanks to artificial intelligence — to find additional relevant resources online. Drašček, for example, recommends internal audit stay abreast of the sustainability-based research being continually published in academic journals. “To avoid spending excessive time on reading research,” he says, “internal auditors should leverage AI tools to summarize articles and distill key information. Some AI tools focused on academic research include Jenni, Scite, Scholarcy, and ChatGPT.”

Peer relations

Sustainability is a shared responsibility that should unite parties both within and outside the organization. This mindset, especially when it comes to initiatives such as climate change, can even unite competing organizations through a mutual sharing of knowledge and best practices. This is something where internal audit – via its own communication channels established through initiatives such as quality assurance assessments – can play a key role.

“Because ESG and things like carbon accounting are newer to organizations, there’s more of a willingness to share best practices amongst organizations and even talk about it in front of auditors,” says Mellen. “The reality of any potential of attaining many of the 2050 goals cited by regulations requires industries to work together to solve a lot of these problems.” Many of these goals, he also says, are likely insurmountable for an organization on its own.

Independent third parties should also not be discounted for their ability to both share knowledge and help forge inter-departmental relations. For example, third-party input through the evaluation of a pre-assessment, or “readiness assessment” conducted by the internal audit team can be extremely valuable. “We did this within our own organization,” says McReynolds, “then we had a third party provide verification and limited assurance. This was a really good step for our team, because it allowed the internal audit team and the sustainability team to come together to learn from one another to work through a process together.”

Conclusion

Establishing buy-in

Sustainability is a complex subject and is only becoming more so by the day, so it is unreasonable to expect internal audit to be a subject matter expert on the topic overnight. However, the key through line of all internal audit-related value is not so much educating stakeholders on sustainability itself, but rather educating stakeholders on the *importance* of sustainability. In other words, internal audit is instrumental is establishing buy-in.

An essential aspect that ties into all these steps is the need to be politically savvy within the organization when it comes to sustainability, says Drašček. Sustainability is often perceived as a pet project, a regulatory/compliance issue, or merely a good PR strategy. Internal auditors should leverage their organizational power — without which change is impossible — to convince decision-makers that sustainability is not only an ethical business practice, but also a sound financial strategy.

For those meeting resistance, there are a few simple strategies internal audit can use. One is through straightforward documentation on the priority of the risk. "I would suggest assembling a list of all of the relevant regulations that are coming down the pike related to the organization or related to the customers of the organization, and share that kind of information with executives," Mellen says.

Internal audit can communicate both issues and potential benefits in equal measure, which caters to the profit mentality that often drives businesses on a basic level. Sustainability is not something that just has to be done, but something that the organizations should actively want to do.

For example, according to a 2022 report from the IBM Institute for Business Value, customers are considering sustainability more than ever before in their buying habits. Findings include:

- 51% of survey respondents said environmental sustainability is more important to them than it was 12 months ago.
- 49% said they have paid a premium for products branded as sustainable or socially responsible in the last 12 months.

Beyond direct monetary advantages, there are more downstream benefits to consider as well, such as:

- Increased appeal for new hires, especially younger generations.
- Improved organizational resilience through removal of organizational inefficiencies.
- Increased innovation.
- Increased appeal from potential investors.

The road to sustainability is a journey, one not without challenges as the organization commits to change. But through positive, regularly involved internal audit support, it should be clear to every stakeholder from the C-suite down that it is a journey well worth pursuing.

About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 245,000 global members and has awarded more than 195,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

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Workiva Inc. (NYSE:WK) is on a mission to power transparent reporting for a better world. We build and deliver the world's leading cloud platform for assured integrated reporting to meet stakeholder demands for action, transparency, and disclosure of financial and non-financial data. Workiva offers the only holistic, unified SaaS platform that brings customers' financial reporting, Environmental, Social, and Governance (ESG), and Governance, Risk, and Compliance (GRC) together in a controlled, secure, audit-ready platform. Our platform simplifies the most complex reporting and disclosure challenges by streamlining processes, connecting data and teams, and ensuring consistency. Learn more at workiva.com.

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