Measuring the Impact of ESG Initiatives

Project Management Institute.

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Illustrations by Eglė Plytnikaitė

Ambition Quantified

To unleash the real power of ESG initiatives, organizations must set the right targets and track where they're delivering — or faltering.

In a time of grave challenges to people and the planet, companies face increasing expectations to look beyond the bottom line and ensure their initiatives create a better world for all. Whether their projects address a worsening climate crisis or global economic and educational disparities, it's clear that companies need to do more than set ambitious goals for environmental, social and governance (ESG) progress.

This awareness, fueled by growing interest in ESG as well as dire projections on long-term outlooks for benchmarks like greenhouse gas emissions and income inequality, is driving a fundamental rethink of how project leaders and their teams define and measure outcomes.

That means developing rigorous plans to identify, track and analyze the most critical elements that deliver deep and meaningful ROI — and align with the organization's long-term ESG vision. Yet many organizations see an uphill battle: 63% of decision makers report feeling unprepared to meet their ESG goals and government and regulatory reporting mandates, according to a 2022 global survey by Workiva. On top of that, 72% lack confidence in the data reported to stakeholders, the survey says. That leaves a huge gap when it comes to tracking performance — and keeping stakeholders in the loop, including investors who expect transparency in data and insights from ESG initiatives.

The increasing attention on ESG presents opportunities but also raises the stakes for project leaders quantifying the impact of ESG initiatives. External pressure to track impact with greater rigor is on the horizon — and organizations need to start preparing for those requirements now. As noted in *The ESG Imperative*, the United States recently proposed new government mandates for climate disclosures for publicly listed companies — following the lead of the United Kingdom, Japan, New Zealand and Singapore. Additionally, new funding for the U.S. Environmental Protection Agency (EPA) will help create standards for companies' climate commitments and plans to reduce greenhouse gases. The agency also will press for greater transparency from companies about their progress toward meeting these commitments.

As governments set ambitious climate goals

63%

of decision makers report feeling unprepared to meet their ESG goals and government and regulatory reporting mandates.

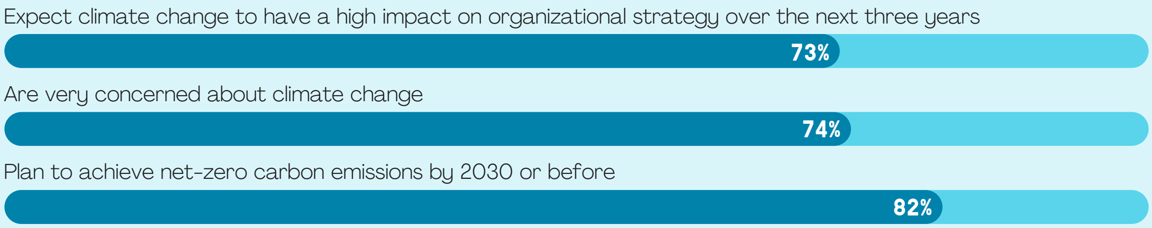
Source: Workiva

and organizations look to supercharge their ESG initiatives, project leaders are best positioned to help them carry out a reality check on that progress — or to what degree it's lacking. One telling stat: While a strong majority of executives, government leaders and sustainability experts see an increased focus on achieving sustainability goals, less than half (46%) of project managers agree, according to a 2022 report by PMI strategic partner Green Project Management (GPM).

Project managers are well positioned to use their skills to identify opportunities to move the needle on ESG initiatives — and quantify that impact through effective measurement. Perhaps just as importantly, they can also serve as the first line of defense if those projects aren't delivering as intended.

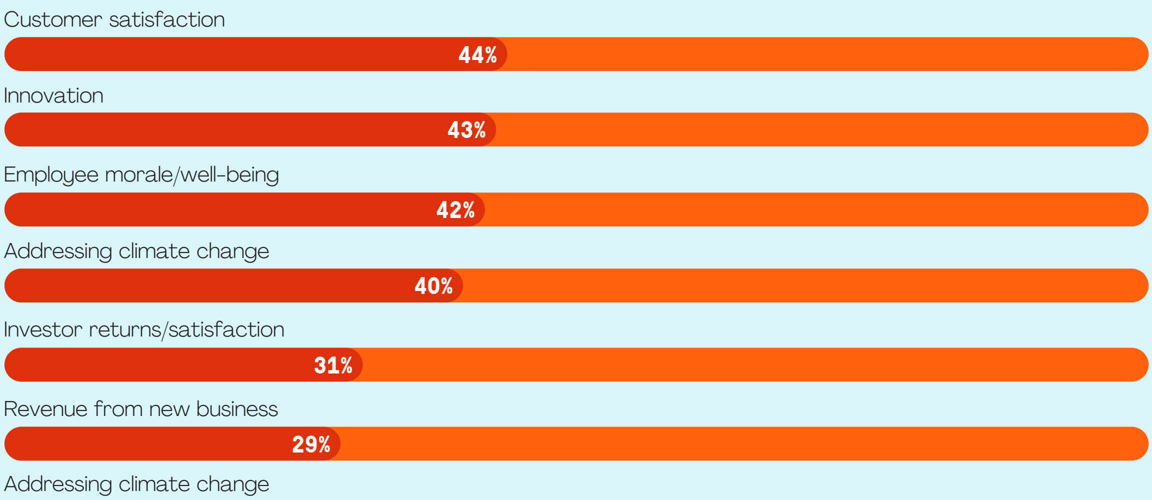
First-Mover Mindset for ESG Issues

Prioritizing ESG initiatives doesn't just impact the here and now. That's why companies need to be future-focused to maximize the benefits. Here's how organizations emphasizing sustainability are achieving their goals:

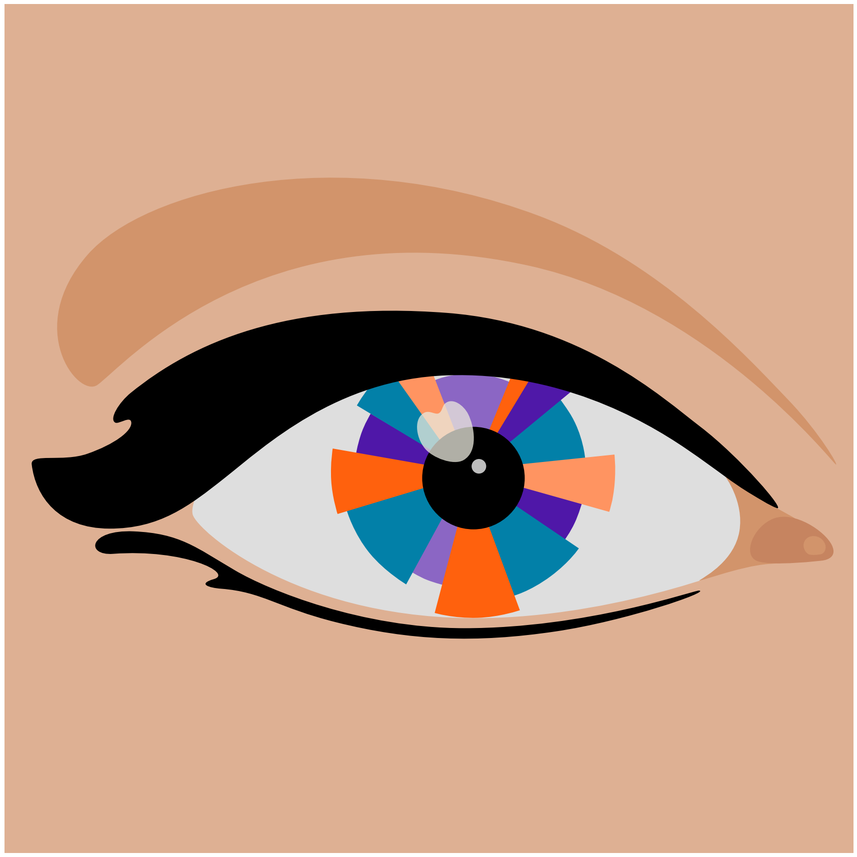


Source: Deloitte 2022 CxO Sustainability Report

Organizations that prioritize sustainability believe their efforts will have a positive impact in critical categories:



Source: Deloitte 2023 CxO Sustainability Report



Identify and Align

What does ESG progress look like? Mapping the intended impact of ESG initiatives starts long before execution begins. Project leaders must define which goals and objectives teams need to achieve, then establish which key performance indicators (KPIs) will frame how they measure ESG impact.

One starting point: Understand the organization's ESG priorities and integrate them into planning processes at the portfolio, program and project levels. Engage with sponsors and other stakeholders to establish clear goals in sync with internal guidelines or legal requirements, such as government regulations and disclosure mandates, and a clear picture of the impact to schedule, budget, scope and resources. These conversations can also explore whether any NGO accelerators fit the organization's larger vision for ESG. For example, which United Nations Sustainable Development Goals (UN SDGs) might align with project goals? Once these drivers are clear, benefits realization management approaches can help project managers define a project's sustainability goals from the outset and then design the appropriate workflows to deliver on those expected benefits.

Risk management practices enable project managers to identify and mitigate potential negative impacts up front, including environmental and social impacts and anticipated regulatory changes. For instance, construction project managers need to assess how the team's work might negatively impact the environment — such as how the work might disrupt natural habitats. By building a risk register to flag potential issues, project leaders can develop workarounds or carve out which red flags will require monitoring throughout the project.

Bolstered with that information, project leaders can carefully incorporate those targets into the business case and project plan, says Joel Carboni, Ph.D., president of GPM, Detroit, Michigan, USA.

"Have a conversation with project owners and say, 'Is this important to you, to your clients, your stakeholders?' Project sponsors should be partners with project managers to deliver projects sustainably."

As they develop ESG goals, project leaders should collaborate with stakeholders at the highest possible level, says Africa Rubio, sustainability services director for Mexico, Central America and the Caribbean at global commercial real estate services firm Cushman & Wakefield, Mexico City, Mexico. If project managers want to ensure their ESG benchmarks are a priority for the whole team, they need to secure the support of the CEO or a director.

"That person needs to be convinced, because the commitment needs to spread to the entire company," Rubio says.

ESG IN ACTION:

Data-Driven Results

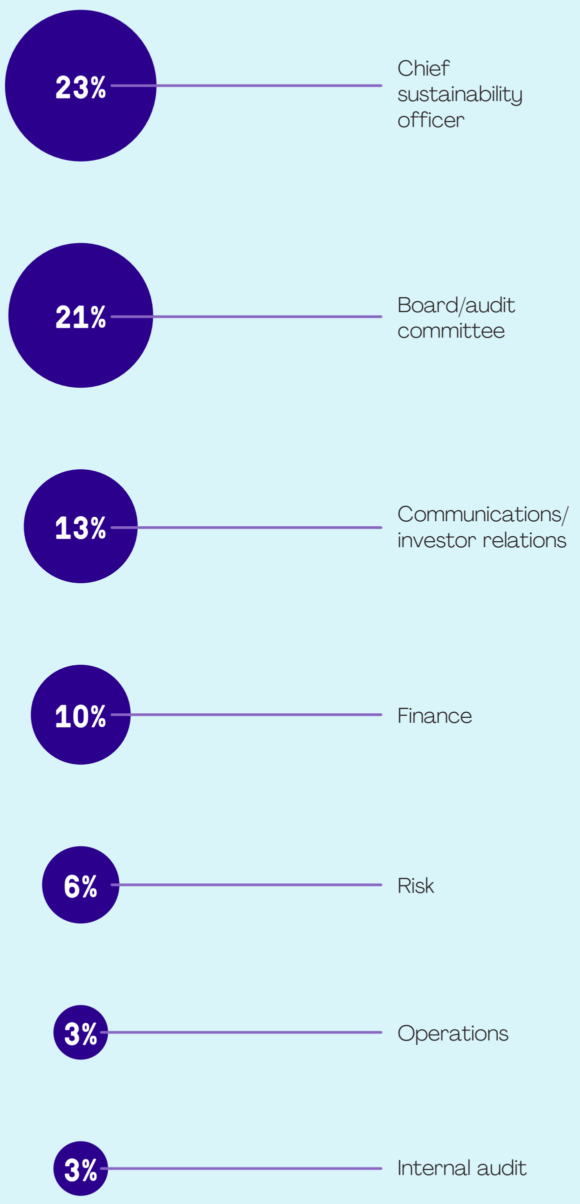
To track progress on its goal to achieve carbon neutrality in its own operations by 2025 — and across its supply chain by 2050 — German manufacturing giant Adidas is turning to tech. The company analyzes data from across the enterprise to calculate a "monetized environmental footprint" that covers everything from raw material production to waste disposal. While the tool helps build internal and external reports that support ESG assessments, the company is working to upgrade the system so it can capture real-time data. The move would accelerate the measurement of ESG impact and help project leaders know more quickly when to pivot or stay the course.

"The ESG agenda is a change agenda, a transformation agenda."

—Orlando Nastri, FIA Business School, São Paulo, Brazil

A Boost from ESG Influencers

The stakeholders who help project teams identify KPIs span many roles and departments. Which have the greatest focus and input for shaping the company's ESG reporting strategy?



Source: The ESG Journey to Assurance, KPMG, 2022

And that means selling the value of the ESG target — and how it will get done. "We try to communicate with the client that ESG scores measuring your performance are, of course, good for the planet, but the companies want to hear how it's financially feasible."

Grand ambitions require stringent frameworks. An example of this kind of broad ESG initiative is Cushman & Wakefield's commitment to achieving net-zero greenhouse gas emissions by 2050. To get there, the company follows guidelines defined by the Science Based Targets initiative. The company screens for emissions across its value chain, which includes those generated from management of client facilities and properties. Cushman & Wakefield also works with clients to reduce indirect emissions generated through use and management of real estate.

More broadly, organizations and their project leaders can emphasize the value of meeting ESG targets through training or project-specific workshops that foster knowledge-sharing and collaboration across the enterprise to identify best practices and lessons learned. As part of a continuous improvement approach, these collaborations can facilitate the replication of successful sustainable practices across the organization and the refinement of strategies to address risks and identify opportunities.

For instance, project leaders can help teams understand the distinctions between quantitative and qualitative KPIs. At Cushman & Wakefield, quantitative KPIs for construction projects often focus on energy-consumption metrics such as electricity usage and transportation. For qualitative KPIs, Rubio and her team use tools, such as surveys and focus groups, to help determine

“Project sponsors should be partners with project managers to deliver projects sustainably.”

—Joel Carboni, Ph.D., GPM, Detroit, Michigan, USA

whether a company is meeting its goals for diversity, equity and inclusion (DE&I), which in turn can boost employee satisfaction and talent retention.

In one recently completed mixed-use development project in Latin America, the client organization had environmental goals that could be measured quantitatively. But it also had a qualitative objective to be accepted by residents of the vulnerable community where the development would be located. Cushman & Wakefield helped create a plan to involve community members in the construction, providing jobs and the resulting income. The building also was designed to be entirely accessible to people with disabilities, another way to demonstrate the client’s commitment to DE&I.

Such metrics tell a story that can show momentum and build support. “The ESG agenda is a change agenda, a transformation agenda,” says Orlando Nastri, a professor at FIA Business School and an ESG project consultant in São Paulo, Brazil. “We can have pragmatic metrics — for example, the number of women or Black people in leadership roles. We can look at the numbers of promotions in certain departments. But it’s also really important to measure the atmosphere, how the organization is moving.”

Nastri recently worked with a client on a full week of events to engage and mobilize more than 10,000 employees to collaborate toward ESG goals. The training included discussions on aligning projects with the U.N. Global Compact. Nastri says one way to track buy-in from employees is to conduct surveys that measure the willingness of respondents to recommend the ESG efforts to others.

Reporting ESG Impact: Room for Improvement

ESG initiatives can’t happen in a vacuum. Project leaders need to report the impact of their outcomes, yet many organizations haven’t developed adequate strategies for doing so.

30%
have developed a reporting strategy and have issued at least one report.

28%
are in the process of developing an ESG reporting strategy.

15%
are reassessing existing reporting strategies.

13%
have not developed a reporting strategy.

6%
have developed a reporting strategy but have yet to implement it.

Source: The ESG Journey to Assurance, KPMG, 2022

Track Impact

Projects have the power to drive positive impact, but organizations won't know the extent of such impact unless they have performance data based on clear and unbiased metrics. Solid governance at the program level helps ensure that ESG priorities are integrated into processes for making decisions, setting targets and monitoring progress toward sustainability goals. Applied to an individual project, those priorities can translate into KPIs to track the number of jobs created in underserved communities, improvements in native species populations or reductions in on-site accidents. And in many cases, teams use digital tools to capture and synthesize that data to measure the impact more accurately.

To track progress toward its environmental goals, for example, Rubio's team employs digital tools that measure performance in energy and water use, waste, carbon dioxide emissions, the human experience and other dimensions. This helps Rubio and her team to better assess how effectively a project is achieving its ESG targets.

Her team also creates monthly reports for clients. By tracking and analyzing the data for those reports, the team knows in real time whether any particular metric is falling short of goals.

Yet simply reporting an issue isn't enough. "You need to have the results, but you also have to solve the problem," Rubio says. To help clients identify the right solution, the team typically designs several options, calculating the impact of each, and presents a menu of strategies that can best achieve ESG outcomes.

It's up to project leaders to continuously monitor data — and be ready to pivot when metrics indicate that KPIs are trending in the wrong direction. And they must keep stakeholders informed, too. Nastri says setting expectations for the frequency and purpose of touchpoints — whether it's a daily stand-up or a monthly report — can help ensure everyone is in the loop on how the project is advancing.

That kind of consistent communication is particularly important to cement partnerships with nonprofits or in cases where the association is voluntary.

"You need to have the results, but you also have to solve the problem."

—Africa Rubio, Cushman & Wakefield, Mexico City, Mexico

ESG IN ACTION:

AI Reality

Dutch financial firm Rabobank is collaborating with Microsoft to roll out a platform that helps the farmers they invest in to track their carbon output. Using remote satellite sensors and AI algorithms, the technology helps farmers track their carbon production — and mitigate it. Any time farmers sequester more carbon than they produce, it can be sold to companies looking to offset their own emissions. Such tech-driven metrics have increased the productivity on those farms by at least 15% and increased their income by 20%.

"I cannot oblige them to do something," Nastri says. "In these projects, even though it's more difficult, we need a clear target to reach and clear touchpoints. Otherwise, we cannot move forward."

Even established ESG initiatives require ongoing metrics to demonstrate that they continue to meet expectations. Case in point: UNICEF's Learning Passport, which designs digital platforms powered by Microsoft to provide portable educational materials to nearly 2.5 million students in 26 countries. To ensure the program is still delivering on its goals, the team works with UNICEF's independent research team in Italy to measure how well students are learning. Data include how often students log in and how many units they complete, as well as qualitative user feedback, which the Learning Passport team can then use to iterate and improve.

The research team "will poke holes in your stuff," says Mac Glovinsky, global program chief of Learning Passport at UNICEF in New York, New York, USA. "We use them as a reality check to say, 'This is what's happening, this is what's not happening.'"

In one recent case in Sierra Leone, the education ministry worked with Learning Passport to design a pilot allowing students to take practice exams. The goal was to test online methods of studying for national exams and analyze the impact and effectiveness of online preparation for those exams. The pilot was aimed at hundreds of children in 20 schools. After hearing about the program, thousands of students outside of the pilot used the Learning Passport to study for exams.

When the pilot was completed, the research team captured data about how the students used the technology and how they felt about it.

"We use [metrics] as a reality check."

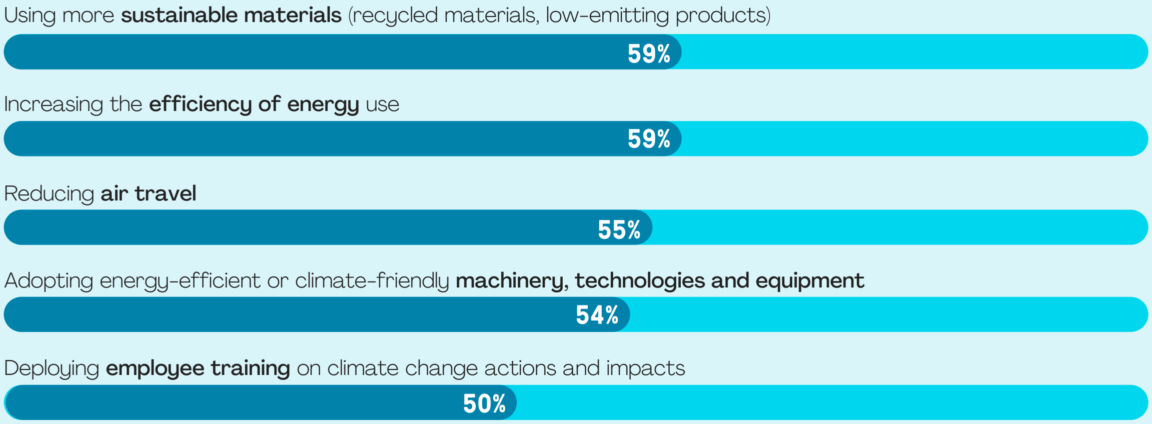
—Mac Glovinsky, UNICEF, New York, New York, USA

Teachers unanimously reported that they found the tool useful and would recommend it to other instructors, and 92% of students found the program to be effective. As researchers and Glovinsky's team use those results to design the next round of testing, they will also ensure any changes align with UN SDG 4, which helps the team define quality education.

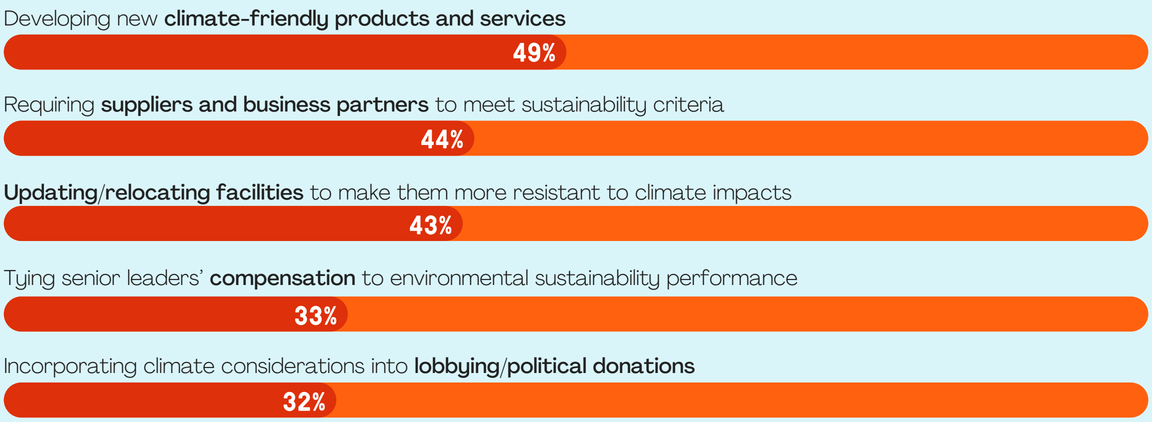
"Improved learning can look like a lot of different things," Glovinsky says. "Are you teaching digital skills? Can children read? Can they understand numbers? Are they ready to learn? From a global level, foundational literacy and numeracy are critical to UNICEF. At the same time, we work to meet the needs that individual countries have articulated."

Which Sustainability Action Plan Speaks the Loudest?

Executives understand they must take meaningful steps to deliver true environmental impact. Here are some of the most common actions:



These actions are harder to implement but can move the needle even more, executives say:



Source: Deloitte 2023 CxO Sustainability Report

Get the Word Out

By reporting and sharing outcomes of ESG initiatives, companies can increase visibility for a project's impact, create buy-in for the greater ESG vision and ensure future ESG projects achieve maximum value. But documentation needs to be customized so that myriad stakeholders — from sponsors to community members to project teams — can easily digest and act on the insights that matter to them most.

That takes strong knowledge management and communication processes that take all stakeholder needs into account. Project professionals must create reporting processes and templates that allow team members to share information more easily — and to do so in ways that align with any regulations or requirements. They also must determine who's responsible for updating documentation so that long-term outcomes are captured well past the project life cycle.

For instance, a construction project might take up to three years from conception to operation, Rubio says. During that time, multiple team members and project leaders might come and go. Even the project owner might shift. "The ESG policies need to stay in a document

ESG IN ACTION:

Inclusive Outcomes

To achieve its goal of building and maintaining a diverse workforce, consumer products powerhouse Procter & Gamble is developing an inclusive leadership assessment tool and investing in analytics to help the company measure both the depth and breadth of progress. Walmart, meanwhile, is capturing employee feedback on its DE&I initiatives and workplace well-being via an app. To encourage full participation — and ultimately boost the accuracy of ESG metrics — the company distributed free smartphones to 740,000 store associates in 2022 so they had reliable access to the app.

"ESG policies need to stay in a document that belongs with the project records and not with the people managing the project at that time."

—Africa Rubio

that belongs with the project records and not with the people managing the project at that time," she says.

Once there's a collection process in place, those tangible ESG goals and outcomes can be promoted. For instance, Cushman & Wakefield shines a spotlight on the approval of its net-zero target by the Science Based Targets initiative and its inclusion in the 2022 Bloomberg Gender-Equality Index. The company also highlights amending its revolving credit facility to add incentives linked to sustainability features, based on its greenhouse gas emission-reduction targets.

Rubio's team also helps building owners use ESG metrics to tell their story to stakeholders, including investors, prospective tenants, the community at large or even future project collaborators. By using the data to develop marketing materials and investor relations messaging, project teams can help owners address questions about which ESG measures were incorporated and why. Such data dives increase transparency and authenticity for ESG initiatives. In the process, teams can mitigate the possibility of ESG actions being dismissed as having a greater positive impact than what's true, or being perceived as propping up initiatives with misleading claims, also known as greenwashing.

"For example, people might say, 'Why don't you have a green roof?' For some cases that could be a very greenwashable thing, in my point of view," says Rubio. Having clear metrics helps her team justify ESG decision-making and show, for instance, why a solar reflective roof coating might have a greater impact than a green roof when it comes to achieving the larger goal of reducing an urban area's heat-island effect.

"We can show the real calculations on the impact — we can do the comparison and we can show the comparison," she says. "With the numbers, you can never lie."

Communication with shareholders, executives and the board of directors about outcomes not only shows how a particular project contributes to larger ESG goals, but also builds momentum for future projects, Nastri says. And that communication of ESG success stories — whether through social media, a podcast, a newsletter or a case study — must extend outside the company so stakeholders across the community understand the impact.

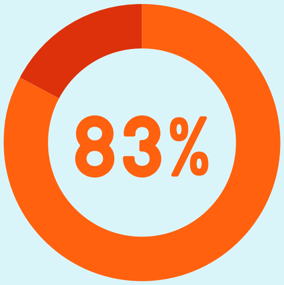
When communicating outcomes, don't overlook a crucial stakeholder group — the project team members. "They need to have the evidence and own the results," Nastri says. "It makes people happy to know that they achieved something together."

"[Team members] need to have the evidence and own the results."

—Orlando Nastri

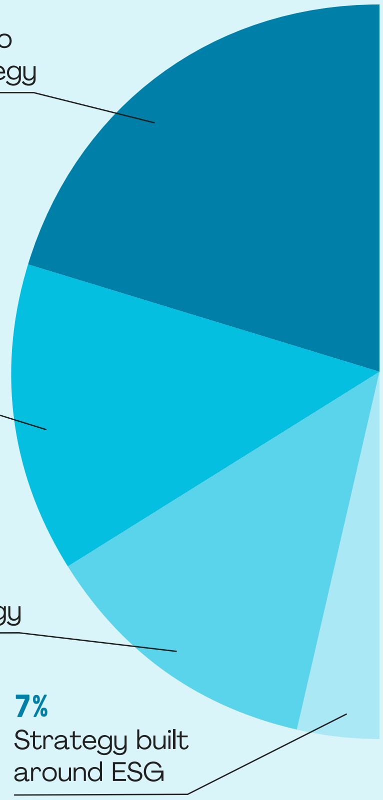
A Call for an ESG Action Plan

The need to focus on environmental, social and governance (ESG) issues is urgent. The good news: Companies increasingly see the value of prioritizing ESG initiatives.



of executives believe focusing on ESG will make a business better.

But organizations vary in their commitment to making ESG a strategic priority:



Source: The ESG Journey to Assurance, KPMG, 2022

The Right Way to Measure Impact

To turn ESG ambitions into reality, organizations need a rigorous plan to track the impact of their projects — and adapt when necessary. Strong project and program management practices enable project leaders and teams to proactively identify what to measure, ensure the metrics align with the strategic vision and document outcomes in ways that sustain commitment and deliver results that translate the organization's ESG goals into reality.

Visit [PMI.org/esg](PMI.org/esg) to learn more.

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