



The professional's guide to Sustainability and ESG

Royal Bank of Scotland's Expert Q&A with Julia Hayhoe, founder of Hayhoe Consulting.

Julia Hayhoe is founder and managing director of Hayhoe Consulting, which advises professional services firms on achieving strategic sustainable growth. Here, she discusses the opportunities and responsibilities that sustainability presents to the sector.

How seriously are professional services taking sustainability?

Professional services firms have tremendous opportunities and responsibilities when it comes to sustainability and are increasingly taking it seriously at executive levels. There is, however, still confusion as to what sustainability really means. A useful definition from the UN Global Compact [an initiative designed to encourage business sustainability] is that sustainability is the overarching term for when businesses strive to deliver long-term value in financial, environmental, social and ethical terms. And, importantly, this is delivered with, and for, its material stakeholders.

The clients of professional services firms are utilising the UN's Sustainable Development Goals (SDGs) to determine the most material ways they can create long-term value and mitigate risks with their stakeholders to achieve a more sustainable future for people and planet. Many professional services are in turn doing the same.

While sustainability is not new, it is now elevated to a fundamental business imperative for professional services. This is a core finding from a series of research projects I've been doing with the World Economic Forum, the Managing Partners' Forum and the Law Society. It is causing a significant leadership mindset shift, with many firms rethinking their purpose, reviewing their strategic priorities, realigning their business model and client and talent propositions.

The environmental, social and governance (ESG) lens is then a way for professional services to bring a more granular focus to these three pillars, which are at the heart of sustainability – seeking value, mitigating risks, and measurements and reporting. I consider governance as the lynchpin for enabling ESG progress. Unless a firm has sustainability at the heart of their strategy and board agenda, how does it guide executive decision-making around sustainable growth?

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Julia Hayhoe, founder and managing director, Hayhoe Consulting

Driving the sustainability agenda is a unique convergence of a broad set of stakeholder demands that have never come together before. This includes the societal shifts in expectations on business, such as Climate Action, Black Lives Matter and MeToo, combining with greater media scrutiny on professional services. Meanwhile, the investor community is increasingly activist in lobbying for change and in providing new, varied sources of sustainable finance. Younger generations of the talent base seek out purpose-driven businesses, generating higher levels of attraction, engagement and retention. Finally, clients' expectations are changing dramatically, both in terms of their need for professional advice on how to enable their own sustainable transition and in what they expect from the values alignment of their core advisers.

What are professional services firms' priorities in their efforts to achieve sustainability?

It starts with a shift in leadership mindset that is anchored in longer-term value creation. Leaders must think about why sustainability matters for their particular businesses. Progressive leaders are shifting their emphasis from mainly risk mitigation, to seeing sustainability as a value creation opportunity and source of future growth for their clients, people and communities.

Implicit in the leadership mindset is that the leadership teams need to build their own ESG literacy through reading, learning and challenging their own assumptions. This translates into the wider firm by incorporating ESG into learning and development and employee engagement and communications.

Stakeholder engagement is key, stepping back and asking how have the needs and expectations of material stakeholders (clients, people, communities, suppliers) changed? What impact are you having on the planet? Having listened to those groups, it's then about rethinking your client, talent and communities' value propositions.

One of the most material ways a firm can impact sustainability is to enable its clients' transition and contribute to policy forums. While professional services need to get their own firm in order, they have a disproportionate impact in their advisory services to enable the corporate landscape to transition into more sustainable businesses. The final aspect is the need to collaborate with other firms, clients and organisations to solve these complicated problems.

How is changing client behaviour driving professional services firms?

Professional services are increasingly seen as part of their clients' supply chain – do you want to be a source of value or risk to your clients? Firms are expected to mirror their client organisation's values and walk the behaviours in their own strategy and practices. A significant recent change is that procurement teams require more data disclosure – on your race to net-zero pathway and race to diversity, equity and inclusion (DEI).

Some of the more advanced buyers are asking for disclosure around governance and succession processes to advance minority professionals. And some include penalties if firms do not meet their ESG expectations; they're deducting fees. Most of the buying pressure has been on the social aspects of DEI, but I predict we'll shortly see buyers bringing together their ESG into cohesive sets of metrics, in the same way as is happening at the corporate level.

There is a huge opportunity for professional services firms around their advisory capabilities and enabling clients to achieve their sustainable growth strategies. But there's also great responsibility to get their firm in shape and ensure they can line up with clients' values and expectations.

What are the common mistakes professional services make when approaching sustainability?

It's essential to embed sustainability into firm strategy, not to have it as a separate CSR [corporate social responsibility] programme. This is where professional services are getting caught out. Because with the best intent in past years, firms have created CSR programmes where they cut out a chunk of money to do good things, but have not fundamentally adapted their own business and how they're going to market. Sustainability must be embedded into strategy because this is how it becomes integral to decision-making, setting strategic priorities, and achieving meaningful change.

The aspect professional services struggle with most is moving at pace, to build diverse and inclusive cultures, leadership pipelines, and hearing from voices less heard. Firms are still hierarchical and time served in selecting for leadership roles, committees, client teams and public speaking. More creative approaches and longer-term talent-pipeline planning with robust board level behavioural role modelling is needed to progress younger generations and minorities forward, bringing in fresh and diverse perspectives on the business opportunities and challenges of our times.

Has Covid-19 had any impact on firms' approach to sustainability?

The pandemic has accelerated, and made more visible, the underlying drivers of sustainability – social inequalities and climate change. There was a concern that climate awareness may decline from the agenda, but actually we see the reverse. Given the increased awareness and scrutiny by the media, public, clients, investors and regulators, with the UK hosting both COP26 and the G7 – all these factors are accelerating sustainability as a key business imperative for professional services – and their clients, people and communities.