ESG
EUROPE

Why law firms need to invest in ESG, now

As climate change issues and global uncertainty continue to pose significant challenges, Dentons' ESG leadership team highlights why law firms need to start investing in ESG now to secure the future of their business and their clients long-term

Organisations are under mounting pressure to evolve their ESG efforts from a necessary step to comply with regulations into a strategic pillar to secure the resilience of their business. However, short-term costs continue to deter businesses, including law firms, from investing in ESG because of competing financial priorities and the challenges in demystifying how – and when – those investments could pay off. Still, the reasons for law firms to start prioritising ESG investment are growing – and highlight the need to shape corporate decision-making though an ESG lens in order to understand the long-term value to their business.

As climate change issues and global uncertainty continue to affect the world, it is important for law firms to assess relevant factors and commit to ESG investment to address their environmental footprint and impact on society. Clients are looking at how law firms are engaging in best practices and will lean towards those who align with their own ESG goals and brand reputation in these areas.

Client-driven demands

This is a key factor in the motivation for investment. Increasingly, clients want to work with conscientious vendors who have an understanding of regulatory obligations and reporting standards – and are transparent about the challenges in reaching sustainability goals. Clients also want to work with law firms who are demonstrably engaging with employees to embed principles – not only providing legal ESG counsel, but also practising what they promote within the organisation.

PwC's Global Investor Survey cites that nearly 80% of 325 global investors surveyed claim ESG is an important factor in their investment decision-making, and 75% said companies should address ESG issues – even if doing so reduces short-term profitability. A strategy aimed at environmental consciousness, social impact and clean governance can be fuelled by consumer demands and expectations – which in return, signals profit for organisations. This increases positive brand reputation for both the client and law firms to make it not only an ethical stance, but also a strategic investment.

A firm which is actively engaging in self-assessment and benchmarking progress will have a real understanding of risk management, to, in turn, identify and mitigate potential environmental, social and governance risks to their clients.

Integrating responsible business into the DNA of a law firm gives clients a sense of improved trust, transparency and partnership – particularly for those organisations which embody these principles in their scope of work due to consumer expectations. A business focused on producing low-emission products will want to ensure sustainability is at the forefront of their business, even if that means higher costs up-front, safeguarding their regulatory obligations and commitments to their customers. This responsibility drives them to work with law firms and other vendors in their supply chain that have also integrated ESG and sustainability best practices into everything they do, and adds credibility to the client's operations.

Mindset shifts

Investment may appear to be the primary challenge for meeting regulatory compliance, but a key consideration for leaders and executives is also to shift mindsets into a broader view of the organisation's impact and reputation – often, ideal ESG standards seem to sit. Rather, ESG lives between what current legal requirements are and what those requirements ought to be.

Businesses should focus on:

- effective assessment and clear goal-setting of their ESG targets and determine how this can generate a return on investment for their business and be measured in their reporting;
- promote and deliver on their ESG strategy bolstered by policy and framework to go hand-in-hand with their business development goals and;
- invest in people to drive the agenda on different aspects of ESG – including sustainability and diversity, equity and inclusion – this will be key in implementing ESG principles and practices while driving teams to expand the business further for their clients.

Clients and investors will pay attention to how an organisation improves and delivers on their commitments year over year, and consequently, tangible results will translate into strong reputational impact for organisations. This in return also means strong business and profits for organisations.

The next generation

Among those paying attention to a law firm's ESG goals are also future law students and lawyers who are taking notes on organisations committed to ESG and their actions. The next generation is entering the market in turbulent times, with the consequential threat of climate change and social justice crises affecting communities in different parts of the world. The next generation will see the real-world impact of environmental neglect and is looking for purpose-driven opportunities at organisations that genuinely adhere to green principles. **With one in three 18 to 24-year-olds rejecting a job offer based on a firm's ESG record**, leaders need to demonstrate these priorities at the operational level in their organisation to attract and sustain top talent.

Clients and the workforce are evaluating a law firm's societal responsibility with the same importance as its environmental policies. The **recent fatigue** around diversity, equity and inclusion (DEI) in corporate organisations continues to swirl – but law firms should hold fast to practices which ensure DEI is an essential part of their fabric. Building a resilient DEI culture can help to survive periods of fatigue and makes hurdles easier to identify and address.

First-mover advantage

Global law firms have the scope to demonstrate the arc that results in authentic ESG thought leadership – which needs to begin with initial investment and recognition so it will sustain the integrity and performance of the firm, well into the future. For the 'early adopters' of ESG strategy, as the focus shifts from assessment and establishing a framework to demonstrating execution and results – a long-term view needs to be adopted to ensure the appropriate level of financial and stakeholder investment is secured. For those that did not get ahead of regulatory obligations, or that have regarded ESG as a tokenistic marketing exercise, the hill is far steeper. Governments are closing in on the rise of '**greenwashing**'- notably in the EU where a stringent **greenwashing ban** will come into effect in 2026, designed to eliminate false sustainability claims on their products and services.

Climate change is affecting how clients do business, and firms must find ways to prioritise sustainable practices and ensure clients have access to legal advisers with expertise in ESG and its legal challenges. Firms also need to prioritise key principles and fund sustainable and societal initiatives that reflect what clients seek in their trusted partners. Investors continue to pay close attention to ESG goals and deliverables, and so law firms need to invest in ESG strategy to attract and sustain future clients and talent, and to comply with increasing pressure from regulators.

The overall maturity of ESG awareness and investment is coming up a curve and it is likely organisations will be at varying stages depending on their size, locale, finances and culture. However, investing in ESG leadership and addressing client needs through an ESG lens allow a firm to lead its own agenda and embed best practices into every level of their operations.

The need for long-term ESG performance is here to stay. Not least because it is a shared responsibility to our people and our communities, but for securing the future success of any business.

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