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PROFESSIONAL SERVICES

Research Brief

SASB’s Industry Brief provides evidence for the material sustainability issues in the Professional Services industry. The brief opens with a summary of the industry, including relevant legislative and regulatory trends and sustainability risks and opportunities. Following this, evidence for each material sustainability issue (in the categories of Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance) is presented. SASB’s Industry Brief can be used to understand the data underlying SASB Sustainability Accounting Standards. For accounting metrics and disclosure guidance, please see SASB’s Sustainability Accounting Standards. For information about the legal basis for SASB and SASB’s standards development process, please see the Conceptual Framework.

SASB identifies the minimum set of sustainability issues likely to be material for companies within a given industry. However, the final determination of materiality is the onus of the company.

Related Documents

- [Professional Services Sustainability Accounting Standards](#)
- [Industry Working Group Participants](#)
- [SASB Conceptual Framework](#)

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Companies in the Professional Services industry provide a wide range of critical services, mostly to businesses in other industries but also to individuals. The Professional Services industry is an important part of the Services sector, which is playing an increasingly large role in modern society and contributes significantly to the economy. In the U.S., the Services sector has grown from 70 percent of GDP in 1990 to around 80 percent in 2011. Professional and business services companies, such as those in the accounting, legal services, and payroll management segments, accounted for more than 12 percent of the U.S. GDP in 2011.

Human capital represents the greatest asset to companies in the industry. Therefore, important sustainability issues revolve around attracting and retaining the best talent available. Employment and temporary agencies play a significant part in connecting workers with employers and create a mutually beneficial relationship between the two.

Financial and non-financial information services companies may have clients in industries that have strong licenses to operate, such as utilities, energy, and financial services. Negligence and failure of professional services companies to provide high quality information may result in significant social externalities. Therefore, professional integrity issues including avoiding conflicts of interest, preventing negligence, and ensuring data accuracy are of a high importance for the industry.

Management (or mismanagement) of material sustainability issues, therefore, has the potential to affect company valuation through impacts on profits, assets, liabilities, and cost of capital.

Investors would obtain a more holistic and comparable view of performance with professional services companies reporting metrics on the material sustainability risks and opportunities that could affect value in the near- and long-term in their regulatory filings. This would include both positive and negative externalities, and the non-financial forms of capital that the industry relies on for value creation.

Specifically, performance on the following sustainability issues will drive competitiveness within the Professional Services industry:

**SUSTAINABILITY DISCLOSURE TOPICS**

**SOCIAL CAPITAL**
- Professional Integrity
- Data Security

**HUMAN CAPITAL**
- Workforce Diversity & Engagement
- Avoiding conflicts of interest and negligence in services provided and ensuring data accuracy;
- Ensuring the security of the increasing amount of data used and stored; and
- Managing a diverse workforce and engaging employees to ensure the highest level of productivity and retention.

**INDUSTRY SUMMARY**

The Professional Services industry includes companies that rely on the unique skills and knowledge of their employees to provide services to a range of clients. The services are often provided on an assignment basis, where an individual or team is responsible for the delivery of services to clients. Offerings include, but are not limited to, management and administration consulting services, such as staffing services and executive search, legal, accounting, and tax preparation services, as well as financial and non-financial information services. Non-financial information service companies provide services on an array of topics such as energy, healthcare, real estate, technology, and science. Financial information service companies include credit and rating agencies as well as data and portfolio analytics providers. Customers of the professional service providers range from private and public for-profit institutions to non-profit organizations.

The industry’s workforce is highly qualified. For example, of Booz Allen Hamilton’s 24,500 employees, 80 percent hold bachelor’s degrees, 40 percent hold master’s degrees, four percent hold doctoral degrees, and 76 percent hold government security clearances.

The global Professional Services industry generates approximately $280 billion in revenue, with more than $215 billion generated by management and administrative consulting companies, legal services firms, and other professional services companies. Another $65 billion is generated by financial and non-financial information services providers. Management and administrative consulting services make up the largest segment of the industry, accounting for almost $180 billion in annual revenue. The segment includes employment agencies and temporary help companies that generate approximately $44 billion and $60 billion in revenue respectively. The general management and consulting subsegment accounts for $30 billion of the industry’s revenue.

In 2013, the median operating margin for companies listed on U.S. exchanges or traded OTC was 6.8 percent, and the median net profit margin was 3.7 percent. Companies in the information services segment have higher operating and net profit margins—15.1 percent and 10.3 percent respectively—than

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1 Industry composition is based on the mapping of the Sustainable Industry Classification System (SICS) to the Bloomberg Industry Classification System (BICS). A list of representative companies appears in Appendix I.
management and administration consulting service companies, which have operating and net profit margins of 4.9 percent and 3.3 percent respectively.\(^5\)

Given the dependence on highly skilled labor, wages are a significant portion of operating expenses in the Professional Services industry. They represent 15.8 percent of revenue for financial information service providers, 57.5 percent of revenue for management and administration consulting companies, and as much as 82.3 percent for human resource management companies. Consulting firms also have higher travel, marketing, and sales expenses relative to the other segments in the industry, as consultants may have to frequently fly to the client offices.\(^6\)

Demand in the Professional Services industry is driven by corporate profits and the health of the economy. The market is primarily mature, though the post-recession economy offers room for growth. Economic recovery increases the need for qualified workers, fueling growth of employment agencies. Furthermore, the industry is highly fragmented.\(^7\)

Office staffing and temporary agencies represent the largest segment of the Professional Services industry. These companies supply temporary or full time workers to businesses across the world.\(^8\) Services provided by employment agencies include temporary staffing, contract-to-hire, payrolling\(^9\), and recruiting. In the case of supplemental staffing, contingent workers are employed and paid by the staffing agency, but management and supervision is done by the client.\(^9\) In 2013, industrial and factory staffing and clerical staffing accounted for the largest demand for this segment, representing 26.7 percent and 23.1 percent of the industry revenue in the U.S. respectively. Demand for temp workers has increased over the past five years as companies recover from the recession and remain cautious about hiring full time employees. Moreover, recent changes to the U.S. health care system related to Patient Protection and Affordable Care Act (PPACA) may have a positive effect on temp agencies. The PPACA, under the risk of penalties, requires employers with more than 50 workers to offer affordable healthcare coverage to their full-time employees (those working on average 30 or more hours per week). Therefore, to reduce their costs, employers may turn to temporary workers as a replacement for full-time employees. Temporary employment as a percentage of total employment is currently at an all-time high.\(^10\) Temporary employees have been and are likely to remain a permanent fixture in business strategy as they provide companies with greater flexibility over the amount of help they need.

\(^{11}\) An arrangement in which a company chooses workers, but asks an agency to organize their pay and to prepare all the official documents needed when hiring workers.
Large publicly-held companies in the employment and temp agencies segment include Manpower, Kelly Services, and Robert Half, while the largest companies not listed on global exchanges include Swiss Adecco and Dutch Randstad Holding. The segment is characterized by low levels of globalization due to complex employment laws and regulations that differ from country to country. The staffing segment has a low level of concentration, with the four largest companies accounting for only 12.7 percent of market share. Large firms in the segment provide a full range of employment services, while smaller companies specialize in providing services for particular industries.\(^{11}\)

The financial information service providers segment provides clients with pricing data, news and analytics, or creates indices. The main customers include financial institutions such as investment banks and asset managers, as well as securities brokers and commodity contract dealers.\(^{12}\) The largest companies in this segment include privately and publicly held companies such as Thomson Reuters, Dow Jones & Company, and Bloomberg LP.\(^{13}\) Performance of this segment of the industry is directly linked to the health of economy. As trading and other financial activities ramp up, the need for financial information increases accordingly.\(^{14,15}\) Since the recent recession, financial industry regulations have become more stringent, driving up demand for regulatory information services and boosting revenue by 9.1 percent in 2012. Furthermore, post-downturn restructuring has increased demand for professional services, fueling the continued growth of the financial information services segment at a rate of 5.2 percent annually.\(^{16}\) This segment is experiencing some degree of consolidation, including the notable acquisition of Reuters by Thomson and the purchase of RiskMetrics Group by MSCI. The top four financial information service providers generate a cumulative 82.5 percent of that segment’s revenue.\(^{17}\)

Despite high concentration in the market, large companies in the financial information services segment experience intense competition. Due to the homogenous nature of their products, these companies compete on price and quality of provided services. Lack of a reputation is one of the main barriers to entry in the financial information service providers segment. Major players in the segment have well established brand names and have gained market presence through acquisitions and strategic alliances. These companies tend to have long-term relationships with their clients and many of the companies that use financial data are already their customers. Therefore, high barriers to entry leave opportunities for only those small firms that offer niche, high-value products and services.\(^{18}\)

Performance drivers in the non-financial information service segment are very similar to those in the financial information service segment. Companies provide services including market and company research and analytics.
Therefore, increases in research and development and advertising expenditures have a positive impact on the profits of non-financial information service providers. The segment is mature and companies compete on the breadth and quality of services they provide. Non-financial information service providers need to constantly improve their understanding of clients’ needs, and to be able to adapt to changing markets. The growth often occurs through mergers and acquisitions. For example, in 2013, Nielsen, the largest company in the segment, acquired Arbitron. Nevertheless, the level of concentration in the segment remains low, with the top four companies accounting for less than 25 percent of market share, and plethora of small businesses making up the rest. The largest companies are Nielsen Holdings, GFK, Gartner, and Costar Group.¹⁹

The market for big data and analytics is expected to grow, indicating opportunities for financial and non-financial information service providers. At the same time, increasing use and storage of customer data introduces risk of cyber-attacks. Therefore, companies in the industry have to have strong data security frameworks.²⁰

Other segments of the Professional Services industry include accounting and tax services provides, legal services, and patent and notary services. Major companies include H&R Block, CBIZ, CRA International, and PRGX Global.²¹

The Professional Services industry is expanding internationally, with the growth of its clients and the globalization of capital markets. For example, 64 percent of Manpower Group’s 2012 revenues came from Europe, and 20 percent of 2012 Nielsen’s revenues came from developing markets like Africa, Brazil, Russia, India, and China, where a rising middle class and increased trade are creating the potential for significant growth.²², ²³

LEGISLATIVE AND REGULATORY TRENDS IN THE PROFESSIONAL SERVICES INDUSTRY

As described above, the industry has many diverse sub-segments, some of which are subject to state and federal regulations related to data protection, copyright, and a variety of tort laws. Other sub-segments face virtually no direct regulations. The following section provides a brief summary of key regulations and legislative and self-regulatory efforts related to this industry.³

Professional services companies work with extensive amounts of customer data, therefore, they may be subject to emerging cyber-security laws. Forty-six U.S. states, the District of

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¹¹ This section does not purport to contain a comprehensive review of all regulations related to this industry, but intends to highlight some ways in which regulatory trends are impacting the industry.
Columbia, Puerto Rico, the U.S. Virgin Islands, and Guam have enacted legislation that requires companies to notify their customers when security breaches of personal information occur. U.S. intelligence officials’ warnings about the threat of electronic attacks have led to other legislative actions, including an attempt to enact the Cyber Intelligence Sharing and Protection Act (CISPA) to protect companies from lawsuits when they voluntarily share information with each other and the government. The House of Representatives recently passed CISPA, but the legislation faces opposition from the White House and activist groups due to concerns about inadequate privacy protections.

Most states have regulate only a limited number of professions, such as law and accounting. The Delaware Department of State’s Division of Professional Regulation, for instance, administers 35 boards and commissions that oversee 53 professions and trades. However, industry associations provide ethical guidance and professional standards. For example, the major market research industry associations—the Council of American Survey Research Organization and the Market Research Association—and their members adhere to codes such as the International Code of Marketing and Social Research Practice. The code helps ensure that market research participants’ information will be totally confidential, restricts businesses from selling products or services to participants as part of the survey, and limits the release of participants’ names and personal details.

Similarly, the American Bar Association Model Rules of Professional Conduct and the American Institute of Certified Public Accountants’ Code of Professional Conduct provide guidelines for professional conduct. These guidelines address issues including conflicts of interest, minimizing undue influence, and the compromise of professional judgment from financial or personal considerations. These professional associations are sometimes overseen internationally, in the accounting industry, for example, by the International Ethics Standards Board for Accountants. Furthermore, industry associations generally advocate for federal equal opportunity laws and fight against discrimination over ethnicity, race, and gender, pushing for legislation like Title VII of the Civil Rights Act of 1964.

For credit rating agencies (CRAs), the issue of professional integrity that is discussed below pertains particularly to avoiding conflicts of interest. In September 2006, the Credit Rating Agency Reform Act was enacted “to improve ratings quality for the protection of investors and in the public interest by fostering accountability, transparency, and competition in the credit rating agency industry.” The law amended the Securities Exchange Act of 1934 and required nationally recognized statistical rating organizations (NRSROs) to register with the SEC. It also required NRSROs to establish
and enforce written policies and procedures to prevent misuse of nonpublic information and manage conflicts of interest. The Credit Rating Agency Reform Act aims to prevent alleged abusive practices of CRAs such as aggressive sales of unsolicited ratings; notching, defined as lowering or threatening to lower a credit rating, or refusing to rate securities or money market instruments issued by an asset pool, unless a portion of the assets in the pool also is rated by the NRSRO; and modifying or threatening to modify a credit rating to make an issuer purchase additional services from the agency.33

Office staffing and temp agencies are mainly self-regulating. The American Staffing Association represents companies accounting for about 85 percent of the segment’s revenue, and provides a Code of Ethics, Good Practices guidance, and standards regarding applicants, integrity, employee qualifications, and the law.34

Companies that use the intellectual property and content of other firms, as many do in this industry, must adhere to copyright law. In the U.S., the Berne Convention Implementation Act amended the 1976 Copyright Act to protect authors and grant exclusive rights to the use and distribution of individual work for a limited or unlimited period of time. The Berne Convention was an international agreement first established in 1886, which required its signatories to recognize the copyright of works of creators from other signatory countries.35

More recently, the Digital Millennium Copyright Act of 1998 addressed copyright infringement on the Internet.36 This legislation will impact many sub-segments of the Professional Services industry, particularly financial data service providers that use large amounts of third party information and intellectual property.37

The U.S. regulatory framework for professional services is stringent compared to international standards. For example, countries in Europe and Asia require licenses and registration with a government agency to enter the employment services market, and impose record-keeping and reporting requirements.38 Under China’s most recent regulations, companies are not allowed to have temporary workers account for more than ten percent of their workforce. Under the Labour Contract Law, agency workers can only be used for temporary, auxiliary, or substitute positions.39

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SUSTAINABILITY-RELATED RISKS AND OPPORTUNITIES

Industry drivers and recent regulations suggest that traditional value drivers will continue to impact financial performance. However, intangible assets such as social, human, and environmental capitals, company leadership and governance, and the company’s ability to innovate to address these issues are likely to increasingly contribute to financial and business value.
Broad industry trends and characteristics are driving the importance of sustainability performance in the Professional Services industry:

- **Use of significant amount of sensitive client information:** Increasing use of data by professional services companies makes the issue of cyber-security more relevant. Failure to ensure safe use and storage of customer information may damage a company’s reputation and result in loss of clients.

- **Reliance on a highly skilled workforce for value generation:** The Professional Services industry is highly dependent on generating advice, knowledge, staffing, and analytical services that require significant human capital. Retaining talent and maintaining diversity is a key driver of growth for many professional services companies. A diverse workforce increasingly contributes to innovation and customer empathy, even as the industry faces challenges in improving the proportion of women and minorities in the workforce and recruiting workers from STEM disciplines. Diversity of contingent workers within employment agencies is likely to help companies to satisfy needs of a broader group of employers.

- **Fiduciary relationship with clients and professional liability:** Companies that operate in professional services must operate with integrity and provide services that meet the highest professional standards. Professional service providers should avoid conflicts of interest, ensure the accuracy of data provided, and take steps to prevent misconduct. Failure to meet these standards may result in reputational damage and complicate a company’s ability to attract and retain clients.

As described above, the regulatory and legislative environment surrounding the Professional Services industry emphasizes the importance of sustainability management and performance. The following section provides a brief description of each sustainability issue that is likely to have material implications for companies in the Professional Services industry. This includes an explanation of how the issue could impact valuation and evidence of actual financial impact. Further information on the nature of the value impact, based on SASB’s research and analysis, is provided in Appendix IIA and IIB. Appendix IIA also provides a summary of the evidence of investor interest in the issues. This is based on a systematic analysis of companies’ 10-K and 20-F filings, shareholder resolutions, and other public documents. It is also based on the results of consultation with experts participating in an industry-working group convened by SASB.
A summary of the recommended disclosure framework and accounting metrics appears in Appendix III. The complete SASB standards for the industry, including technical protocols, can be downloaded from www.sasb.org. Finally, Appendix IV provides an analysis of the quality of current disclosure on these issues in SEC filings by the leading companies in the industry.

**SOCIAL CAPITAL**

Social capital relates to the perceived role of business in society, or the expectation of business contribution to society in return for its license to operate. It addresses the management of relationships with key outside stakeholders, such as customers, local communities, the public, and the government. It includes issues around access to products and services, affordability, responsible business practices in marketing, and customer privacy.

Financial performance in the Professional Services industry depends on companies’ ability to attract more customers and expand market share. Management of issues related to social capital will position companies to deal with emerging regulations and public and customer concerns about the use and protection of customer data. Even though most customers are businesses, some of them may operate in sensitive industries such as the financial industry, utilities or health care. Therefore, a loss of sensitive personal information may result in significant social externalities. Performance on the issue of data security is likely to influence whether companies can attract and retain customers and build brand value.

For professional services companies, maintaining the highest level of professional integrity determines their ability to maintain their position in a competitive market. Professional integrity includes, but is not limited to, avoiding conflicts of interest, bias, and negligence.

**Professional Integrity**

The business model of professional services companies is dependent on the development of trust and loyalty with clients. To ensure long-term, mutually beneficial relationships, companies need to provide services that satisfy the highest professional standards of the industry. Professional integrity is an important governance issue, as a single organization can make the detection and prevention of conflicts of interest or negligence more challenging. Therefore, companies in this industry should take measures to avoid conflicts of interest and negligence, including training employees adequately, precluding engagement with clients’ competitors, and implementing policies and procedures to provide advice and distribute data free from bias and error. At the same time, professional integrity pertains to following a code of ethics with respect to transparency and disclosure. These measures are important both for strengthening a
company’s license to operate as well as for attracting and retaining clients.

Many professional services are rendered under a fiduciary or agency relationship, where the professional owes its client a duty of loyalty and care, and whereby a client can expect a level of professionalism and code of conduct commonly held by those in the profession. In some segments of the industry, companies have the potential to influence the decisions and judgment of their clients. This is the case when strategic consulting companies give their clients additional credibility or when the involvement of lawyers is necessary for negotiations and company transactions. Because of the potential for social harm from malpractice, the law requires many professional services like architecture and accounting firms to operate with a state or professional license. In cases where fiduciary relationship is present, the influence on third party decisions and society implies that operating at the highest levels of professional responsibility is important for companies to maintain their formal or social licenses to operate.

To maintain professional integrity, employment agencies must provide training and ensure the highest level of competence among contingent workers. By placing an incompetent worker, a staffing agency may create a risky environment, not only for the contingent worker, but also for the agency itself, as well as the employees and customers of the client. Negligence of temporary employees may expose employment agencies to adverse material impacts.

In general, failure to comply with professional standards can cause significant impacts on a corporation’s value, and could result in negative social externalities. Such actions can harm not only shareholders, but also the clients who rely on the training, advice, data, and key services these companies provide. These companies could not only face legal penalties, but also incur significant negative impacts on revenue from reputational damage.

Company performance in this area can be analyzed in a cost-beneficial way internally and externally through the following direct or indirect performance metrics (see Appendix III for metrics with their full detail):

- Description of management approach to assuring professional integrity and duty of care; and
- Amount of legal and regulatory fines and settlements associated with professional integrity or duty of care.

**Evidence**

Companies in the Professional Services industry have an obligation and an incentive to ensure that their services meet high professional standards. Examples of impact both on the company and on society from actual or perceived lack of professional integrity can be found across several segments of the industry. In 2010 Mercer, a human resource consulting
subsidiary of Marsh & McLennan, agreed to pay a $500 million settlement to the Alaska Retirement Management Board. Mercer was hired as actuary for retirement plans that serve teachers and other public employees. Their assignment was to calculate the plans’ liabilities and determine the necessary contribution rates of the employer to fund them. The Alaska Attorney General cited Mercer with negligence, malpractice, and breach of that caused billions in unfunded liabilities for the retirement fund. Alaska’s lawyers contended that Mercer actuaries made errors in their calculations that were covered up by the company’s executives. With uncertainty of the outcome of a jury trial, Mercer decided to settle for the largest payment of its kind in history. The company had insurance coverage of only $100 million, causing the company and ultimately shareholders to foot the remaining $400 million in damages. Even though Mercer denied liability and the allegations could be unfounded, the case highlights the delicate nature of fiduciary relationship between professional services companies and their clients.40, 41

For companies in some segments of the industry, the issue of professional integrity mostly pertains to avoiding conflicts of interest. For example, CRAs are widely blamed for their role in the subprime mortgage crisis of 2007-2008. The agencies have an inherent interest in providing higher ratings on debt instruments, as they would directly result in higher earnings for their issuer clients. CRAs are for-profit companies; Moody’s and Standard & Poor’s (traded as McGraw-Hill) are publicly held, and are interested in increasing revenue by attracting new clients and retaining existing ones. A 2013 study of 6,500 structured debt ratings produced by Standard & Poor’s, Moody’s, and Fitch that were the subject of a civil lawsuit against the companies, found that ratings were biased in favor of issuers that provide CRAs with the most rating business. The benefiting companies were primarily large financial institutions that issue the most structured debt. According to the study, “this result points to a powerful conflict of interest, which goes beyond the occasional disagreement among employees.”42

As mentioned in the “Legislative and Regulatory Trends” section, the Credit Rating Agency Reform Act is a U.S. federal law governing CRAs. In 2007, Congress gave the SEC regulatory authority to register and oversee CRAs. The Commission ensures that CRAs conduct their activities with integrity and impartiality. In light of the global financial crisis, in late 2008 the SEC approved a series of measures aimed to address perceived conflicts of interest between CRAs and debt issuers. The rules are focused on increasing transparency and accountability at the agencies.43 Multiple lawsuits have been filed against CRAs alleging inaccurate ratings. In February 2013, the United States sued S&P for $5 billion for issuing inflated ratings of collateralized debt obligations (CDOs).44 Soon after, ACA Financial
Guaranty Corp, a bond insurer, sued S&P, Moody’s, and Fitch for $359 million, alleging that CRAs “falsely represented that the ratings provided were objective, independent, and uninfluenced by any conflicts of interest.”

In April 2013, Moody’s and S&P settled two lawsuits that were brought against the companies in 2008 for alleged negligent misrepresentation over their activities regarding two structured investment vehicles. The plaintiffs were seeking $700 million in damages. The CRAs did not admit wrongdoing and settled with undisclosed terms to dismiss the lawsuits. Calpers, the California Public Employees Retirement System, filed a similar lawsuit in 2009 against the three major agencies. Calpers assessed its losses due to the “negligent misrepresentation” of rated securities at $1 billion.

Conflict of interests and CRAs’ negligence in issuing ratings have led to significant externalities including bankruptcies of major financial institutions such as Lehman Brothers and Bear Stearns, driving the whole economic system into one of the biggest recessions. The reputation of CRAs has since been damaged significantly and is likely difficult to restore.

Companies providing consultant services also need to avoid conflicts of interest. In 2012, the SEC obligated all companies subject to the SEC proxy rules (regardless of whether they are listed on the exchange) to disclose compensation consultants’ conflicts of interest. Also, in many cases consulting companies provide services on matters that are adversarial, which may preclude them from engaging in client relationships with other companies. For example, CRA International states in its FY2013 Form 10-K: “Our engagement by a client may preclude us from accepting engagements with the client’s competitors or adversaries because of conflicts between their business interests or positions on disputed issues or other reasons.”

At the same time, consulting companies need to ensure that services provided adhere to the highest standards. The Code of Ethics of the Association of Management Consulting Firms states that companies must serve clients with integrity, competence, and objectivity. A consulting company’s professional negligence may result in significant externalities and open the company to financial liabilities as well as serious reputational damage. For example, reckless standards applied by former accounting giant Arthur Andersen as it audited Enron led to the company’s collapse. Significant consulting fees paid by Enron to Arthur Andersen created a conflict of interest, dis-incentivizing auditors to properly review Enron’s accounting practices. Even though the company was convicted in obstruction of justice, the demise of Arthur Andersen was primarily driven by severe reputational damage from its involvement in the Enron scandal.

Professional services companies have an obligation to clients to provide advice that is
objective and free from conflicts of interest. The large IT consulting giant Accenture paid a $64 million fine to the U.S. Department of Justice over claims that it was receiving kickbacks from large IT companies for recommending their software during a time when federal authorities hired Accenture to provide independent advice on software needs. The Department of Justice claimed there was a clear conflict of interest that provided special treatment to these partner companies, which may have ultimately wasted taxpayer dollars. While the company paid the fine, it maintains it did nothing wrong, claiming it followed standard operating procedure.

Execution of care and ensuring accuracy of information, especially when dealing with sensitive personal or business information, are crucial for companies that provide information services. In 2013, Equifax, the large data analytics and credit score provider, had to pay $18.4 million in punitive damages to a customer who sued the company for an improper credit score that she had attempted to dispute and fix. The case involved the largest settlement of its kind.

Millions of people are placed by employment agencies every year. In 2012, Manpower alone connected 3.4 million workers to employers. For employment and temporary agencies, failure to execute diligence in providing services may result in serious social problems and impacts on company value. Kelly Services, a staffing agency, was found liable in a case involving the death of a five-year-old disabled girl who had been under the supervision of a temporary employee at the girl’s elementary school. Lack of sufficient training was cited as the main argument against Kelly Services and the school. The jury considered Kelly Services to be 60 percent liable and the school to be 40 percent. The jury awarded the girl’s family $4.5 million in damages. For companies in the staffing industry, insufficient training could lead to legal liabilities, but could also lead to reputational risks, as clients may doubt quality of their workers.

**Value Impact**

For professional services companies, reputation and long-term relationships with clients are directly related to their business and financial performance. Therefore, poor management systems that fail to deliver high-quality services free from conflicts of interest, bias, or negligence can have progressive long-term negative effects. They affect the companies’ ability to attract and retain customers. This results in reduced market share over time.

Evidence in the brief shows that negligence and failure to provide services to the highest professional standards could result in companies facing litigation and incurring related extraordinary expenses and contingent

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iv SICS classifies Accenture as a Software and IT Services company in the Technology & Communications sector, but this case provides a more general example of how conflict of interest can affect consulting companies more broadly.
liabilities. Even though, the amount of legal damages is a lagging indicator of the quality of management of the issue, it may help to assess the probability and magnitude of the direct costs associated with large penalties, fines, and remediation activities. Damaged reputation is likely to have a long-term impact on the value of intangible assets. Combined, these factors can lead to credit rating downgrades, higher cost of capital, and diminished shareholder value.

Data Security

Companies in each segment of the industry are entrusted with customer data. Employment and temp agencies, data providers, and consulting companies store, process, and transmit increasing amounts of sensitive personal data from employees, clients, and candidates. Even though companies in the industry work mostly with other businesses, clients of financial and non-financial services providers may operate in the industries that obtain sensitive information from individuals. Personal data may be shared with professional services companies, and as third-party users, they need to enact strict policies and procedures to prevent data breaches. Compromise of sensitive customer information through cyber security breaches, other malicious activities, and employee negligence may have a significant social externality.

At the same time, data breaches represent a substantial risk to a company’s operations. For companies in the Professional Services industry, it is important to earn client trust and ensure the security and privacy of sensitive information. Data breaches may compromise the perception of the effectiveness of a service provider’s security measures, which could result in reputational damage and an inability to attract and retain clients. As hackers get more sophisticated, companies’ security systems will also need to evolve continuously.

Company performance in this area can be analyzed in a cost-beneficial way internally and externally through the following direct or indirect performance metrics (see Appendix III for metrics with their full detail):

- Discussion of management approach to identifying and addressing data security risks;
- Discussion of policies and practices relating to collection, usage, and retention of customer information; and
- Number of data security breaches and percentage involving customers’ confidential business information or personally identifiable information.

Evidence

More and more companies and industries recognize data analytics as an important driver of business efficiency. International Data Corporation (IDC) and The International Institute of Analytics (IIA) predict continuous growth of data use, storage, and analytics in the near future. The Data services industry is
expected to be the second fastest growing segment, after the servers and storage market. Companies like FactSet and MSCI continue to increase their investment in data centers around the world. Increasing use of data leads to the need for improved cyber security measures for professional services companies.

A recent U.S. study on the cost of cybercrime found that the cost, frequency, and time to resolve cyber-attacks increased for four consecutive years. It also found that in 2013, the average annualized cost of cybercrime incurred per organization ranged from $1.3 million to $58 million, with an average cost of $11.6 million, up from $8.9 million in 2012. In 2013, the average annual cost for companies in the Services sector was $7.8 million. It took an average of 32 days to resolve cyber-attack, with an average cost to organizations of just over $1 million during this period. Cyber-attacks are more costly to small companies, $1,564 per capita versus $371 for large firms.

Data security risks may occur through hacker attacks as well as human error or technological failure. According to the global analysis of cost of data breaches conducted by the Ponemon Institute, malicious or criminal attacks account for 42 percent of data breaches, while 30 percent occur due to system glitches, and 29 percent due to a human error. The data breaches caused by malicious or criminal attacks are the most costly, at $159 per capita, but the breaches caused by system glitches and human error are also costly, at $126 and $117 per capita respectively. For the U.S., these costs are higher, at $246, $171, and $160 per capita respectively.

According to a survey of 405 investors released in February 2013 by security firm HBGary Inc., more than 70 percent of investors are interested in reviewing company cyber security practices. The U.S. Securities and Exchange Commission (SEC) issued guidance in October 2011 asking all companies to disclose any material information on cyber-attacks or risks. Furthermore, the SEC has asked companies in several sectors for more information than they provided in their initial 10-K filings.

Companies in some segments of the Professional Services industry may possess identifiable personal information, and therefore, may be targeted by hackers. A number of U.S. states are investigating a data breach at Experian Plc that exposed the social security numbers of approximately 200 million people to potential criminal activity. The breach occurred through Court Ventures, a unit acquired by Experian in 2012. The company allegedly failed to follow the laws requiring proper security of consumer data and to comply with breach disclosure rules. In its FY2013 Form 10-K, Moody’s states that the company is targeted by advanced cyber-threats.

\* Note that the survey does not refer only to companies in this industry, but to all companies.
due to the sensitive nature of its business in financial markets. Therefore, the company treats cyber-security very seriously and works to continuously update its framework to adapt to the newest cyber-threats.\textsuperscript{64}

To minimize the risk of data security breaches and their acute financial impacts, professional services companies need to ensure the presence and effective implementation of related internal policies, procedures, and systems. In 2012, Manpower had to improve its data protection practices after an employee in the U.K. accidentally emailed the personal data of 400 jobseekers to 60 staff members. The Information Commissioner’s Office, an independent data protection authority of the U.K., did not fine Manpower, as the data shared wasn’t considered “sensitive,” though it found that the employee “had not given sufficient consideration to the security of the personal data.” In response to the incident, the company agreed to ensure that its staff would be aware of and follow data protection policies, and that the data transmitted over the Internet would be password protected or encrypted. Further, Manpower would monitor its data protection compliance and would implement “any necessary data security measures.”\textsuperscript{65}

Hays, another recruitment agency, had a similar data breach in 2011, but the financial impact on the company was more significant. It accidentally revealed the pay details of employees of its client, the Royal Bank of Scotland (RBS). As a result, RBS transferred its account, one of the biggest for Hays, to Allegis Group.\textsuperscript{66} It takes a long time to develop a strong relationship with a client, but a single security breach can compromise trust and lead to a loss of contract.

Major companies in the industry recognize the risks associated with data breaches in their SEC filings and state that the presence of a reliable security framework is a priority to ensure strong relationship with their clients. Companies further identify material financial impacts of cyber-attacks. According to Nielsen’s Form 10-K for fiscal year 2013, “if [the Company’s] security measures are breached and unauthorized access is obtained, [its] services may be perceived as not being secure and panelists and survey respondents may hold [it] liable for disclosure of personal data, and clients and venture partners may hold [it] liable or reduce their use of (its) services.” Moreover, Nielsen states that if security breaches occur, the company may be required to increase its expenditures to mitigate consequences and prevent reoccurrence of such cases.\textsuperscript{67}

**Value Impact**

Ensuring secure use and storage of clients’ information is important for building customer loyalty. Internal and external data breaches are likely to compromise a company’s reputation and result in difficulties in attracting and retaining clients. It would result in lower revenue and growth prospects over time.
Additionally, companies may face significant costs associated with fixing the consequences of a breach and preventing future occurrences of cyber-attacks or other data breaches. This could result in increased capital and operating expenditures, as well as regulatory penalties and contingent liabilities.

Companies at greater risk of breaches, particularly high-impact ones due to improper data management policies or systems, could face higher costs of capital. As companies in the industry manage increasing amounts of data and as hackers get more sophisticated, the probability and magnitude of impacts related to data breaches may increase in the future. Public concerns around the issue are likely to continue, pushing governments to implement stricter cybersecurity regulations.

Discussing the management approach to identifying and addressing data security risks, including policies, procedures, and training of personnel, would help analysts to assess a company’s exposure to potential data breaches. At the same time, discussion around policies and practices relating to collection, use, and retention of customer information is useful to assess the magnitude of data breaches’ possible impacts. Even though material security breaches may be infrequent in nature, the magnitude of their impacts may be significant.

### HUMAN CAPITAL

Human capital addresses the management of a company’s human resources (employees and individual contractors), as a key asset to delivering long-term value. It includes factors that affect the productivity of employees, such as employee engagement, diversity, and incentives and compensation, as well as the attraction and retention of employees in highly competitive or constrained markets for specific talent, skills, or education. It also addresses the management of labor relations in industries that rely on economies of scale and compete on the price of products and services. Lastly, it includes the management of the health and safety of employees and the ability to create a safety culture for companies that operate in dangerous working environments.

Managing human capital is crucial to many companies in the Professional Services industry as many business models are structured around providing the very best talent, knowledge, ideas, and labor available. Companies in the Professional Services industry should pay particular attention to diversity and inclusion of their workforce as those factors drive revenues. At the same time, the stressful nature of work and demanding schedules of employees in some segments of the industry make engagement and flexibility programs important for retaining the best talent.
Workforce Diversity & Engagement

Developing a broad base of employees that is valued, respected, and supported throughout an organization is essential for the long-term growth prospects of companies in this industry. Human capital is the major source of revenue generation, in the form of knowledge, talent, advice, and various technical skills.

Enhancing both gender and ethnic workforce diversity, particularly among management positions, is likely an essential component of attracting and developing the best talent. However, an increase in diversity alone may not improve a company’s performance, but should be combined with improved employee engagement, fair treatment, and an equal level of pay and opportunities for advancement for all workers. This may be necessary to promote increased productivity and performance while reducing the risk for discrimination lawsuits throughout all levels of a company.

Promoting diversity and inclusion at all levels of an organization may provide multiple benefits within a company. These could include not only improving its ability to attract and retain the best talent, but may also help to create competitive advantages by better appealing to new business, generating new ideas, and meeting the needs of diverse, often international, clients. In addition, it may be a powerful antidote to potentially discriminatory practices that may result from a non-diverse or non-inclusive workforce.

Another important element of employee recruitment, engagement, and performance in the professional services industry segments is the level of work hours and stress, which can lead to burnout and high turnover rates. The consulting industry is generally characterized by a work culture of “up or out”, meaning starting professionals either move up the corporate ladder or are eased out of the company due to bad performance, which highlights the stressful nature of the business, and leads to high turnover rates. Consulting, accounting, and other non-financial services companies are enhancing working hour flexibility and providing benefits for employees, so that they feel valued, respected, and supported. Additionally, flexible working arrangements are common in the industry, which may support and respect personal needs leading to greater employee satisfaction and commitment. Employee engagement initiatives and flexibility in working conditions might influence the recruitment and retention of a more diverse workforce, while simultaneously reducing turnover and boosting productivity.

Company performance in this area can be analyzed in a cost-beneficial way internally and externally through the following direct or indirect performance metrics (see Appendix III for metrics with their full detail):
- Percentage of gender and racial/ethnic group representation for executives, all other non-contingent staff, and contingent staff;
- Voluntary and involuntary turnover rate; and
- Employee engagement as a percentage.

**Evidence**

Employee productivity is important for value creation in the Professional Services industry, as employees account for a significant proportion of operating costs. In 2013, for Marsh & McLennan Cos, a large consulting firm, employee salaries wages and benefits represented over 58 percent of the company’s total revenue.70 According to the U.S. Department of Commerce’s estimates, 85 percent of the U.S. population growth between 2011 and 2050 will come from non-white ethnic groups. The proportion of the non-white population in the U.S. is expected to rise from one-third today to one-half in 2050.71 The work of professional services companies involves significant human interaction, and may benefit from diversity in the workforce that reflects this shift in the population and that of clients’ organizations.

A more diverse workforce that reflects a global society and companies’ customer bases enables companies to understand their customers’ needs better and communicate with them more effectively. In a survey of 321 executives from global companies with annual revenues of more than $500 million, 85 percent of respondents agreed that a diverse and inclusive workforce provides different perspectives and ideas that foster innovation. The study, conducted by Forbes, found that diversity is a key driver of innovation and success for global companies.72 From consulting companies to financial data service providers, the need for innovation and tailored products and services to meet the needs of customers around the world makes diversity an important issue. Although it is difficult to establish general causality between employee diversity and profitability in the economy, academic studies suggest that diversity is likely to add value for high-tech, knowledge-intensive industries such as those in the Professional Services industry.

A 2013 working paper synthesizing research on the impacts of diversity on productivity, wages, and profits founds that when gender diversity increases by one standard deviation in high-tech or knowledge-intensive firms, productivity increases on average by between 2.5 to 6 percent. This increase can be explained by research suggesting that firms depending on innovations and whose activities involve complex tasks are likely to benefit more from diversity than traditional firms. The paper concludes that the benefits of a more diverse workforce outweigh the costs, and effective diversity management is critical for a firm’s success.73

In the case of temp agencies, diversity in the pool of temporary employees is key to...
satisfying the diversity expectations embedded in clients’ staffing needs. The Vice President of Talent Supply Chain at Kelly Services, a temporary staffing agency, has stated that having a diverse employee base helps the company reflect the community dynamics and meet the needs of its customer base.74 Manpower states in its 2012 Form 10-K that its clients may rely on the company to source workers with diverse backgrounds, which may represent different generations, geographical regions, and skillsets. The ability of Manpower to offer these qualities was listed as a key risk factor to meet the needs of their clients.75

Several companies in the industry disclose their gender and ethnic diversity break down, which shows that although women and minorities are well represented in the general workforce, diversity in leadership positions is generally low. The 2013 Bureau of Labor Statistics data on gender and ethnic background in the Professional and Technical Services industry shows that on average, the workforce consists of around 43 percent women. In terms of racial diversity, 6.2 percent of employees are African American, 9.2 percent are Asian, and 8.2 percent are Hispanic.76 In 2010, Marsh & McLennan launched The Talent Recruitment and Accelerated Career (TRAC) program to attract and develop “the next generation of leaders.” Forty-four percent of TRAC participants are women, 10 percent are African American, 18 percent are Asian, and five percent are Hispanic.77 However, for 2013, Bloomberg reports data on the share of women in management and the general workforce from eight and ten companies respectively in the Professional Services industry. The proportion of women in management ranged from 11 percent at Costar Group, a non-financial services provider, to 43.2 percent at Randstad, with a median total proportion of 22 percent. Meanwhile, the percentage of women in the general workforce ranged from 22.5 percent at Costar Group to 66.8 percent at Randstad, with a median share of women of 47.5 percent. Four companies, Wolters Kluw, Adecco, Randstad, and Hays, had more women in the workforce than men.78 This suggests that there may be a disconnect between entry-level positions and opportunities for women in leadership positions.

Attracting and developing a diverse workforce and ensuring fair opportunities for all employees is also a proactive strategy for organizations to protect against actual or perceived discriminatory practices. In the case of Booz Allen Hamilton, a management consulting company, the company faced lawsuits from two high-ranking female executives for gender discrimination. The executives claimed that the company maintained a “glass ceiling,” prohibiting women from moving up to the highest ranks. Booz Allen settled for an undisclosed amount. A key factor in the credibility of this and other evidence provides a more general example of how cases of discrimination can affect professional services more broadly.

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74 SICS classifies Booz Allen as a Software and IT Services company in the Technology & Communications sector, but
discrimination lawsuits is the rate of diversity within the organization. At the time the lawsuit was filed in 2010, women accounted for only 24 percent of total partners at Booz Allen.79

Companies in the industry recognize the importance of a diverse workforce and implement measures to attract and retain a diverse employee base. In 2009, Adecco, a temporary help agency, received a Henry Viscardi Jr. Legacy Award, the Congress of Diversity Executives Leadership in Diversity Award (CODY), for “a continued devotion to promote diversity throughout America’s workplaces,” and was also named one of the Top 100 Companies to Work For by Savoy Professional magazine.80 In its sustainability report, Manpower states that the company provides opportunities for diverse candidates to fulfill the talent needs for their clients. More than 70 percent of the company’s employees and more than a half of managers are women. Therefore, according to the company, it not only provides employment opportunities to women but also “nurtures a culture that respects how diversity of thought inspires the productivity, innovation and collaboration organizations need in the Human Age.”81

Reliance on a highly skilled workforce highlights the importance of reducing turnover rates within professional services companies. Therefore, increasing diversity in the workforce and engaging employees are likely to improve productivity and talent retention. As consulting workers are easily mobile and have skills that are transferable, they maintain significant power in the labor market, which may contribute to high rates of turnover if they become dissatisfied with their current employer. Some consulting and advisory companies such as Towers Watson recognize this and consider talent retention and migration as a material risk in their Form 10-K.82 The company further reports in its fiscal year 2012 Form 10-K the importance of diversity and inclusion in the workforce for retaining talent, stating that as a result of a poor diversity record and lack of inclusion, workers may become distressed and seek employment elsewhere. In some cases, this may be at companies in direct competition with the original firm.83

Simply improving diversity ratios is not enough; corporations must also implement policies to engage and support their diverse workforce in order to harness their full potential. A Workforce data analysis performed by Towers Watson found that gender gap widens depending on the worker’s tenure with the company. For example, 47 percent of employees who had worked for a company for less than six months were women. Meanwhile, 39 percent of employees had worked at a company for 10-15 years were women, and only 27 percent of workers employed by a firm for over 15 years were women. One of the reasons behind the trend is that women tend to give up work or move jobs after having children.84 Therefore, companies able to provide flexibility for their female employees
may become more successful in retaining valuable workers.

The Software and IT Services industry has similar employment characteristics. A study on work-life balance among software workers concludes that time flexibility, organizational support for non-work commitments in terms of their effect on career advancement, and low negative work-life spillover are all associated with greater trust in the organization, organizational commitment, and satisfaction with pay, supervision, and career prospects. Evidence not specific to the industry suggests a relationship between these attitudes and actual turnover. The study also highlights continued negative attitudes towards workers taking advantage of family-friendly benefits like career breaks, which could affect the careers of women and those with care responsibilities.85

The accounting and consulting industry is a great example of the success that working hour flexibility and benefit programs can have in improving employee satisfaction and reducing turnover. The consulting industry generally experiences annual turnover rates of between 15 to 20 percent, meaning the average employee stays with the company for five to six years.86 With some professionals working more than 60 hours a week for extended periods of time, maintaining a work-life balance can be difficult and stressful, leading to high turnover. As workplace flexibility ranks as a top concern for employees, more so for women than for men, large accounting firms have implemented policies to improve work-life balance—everything from flexibility to pursue hobbies and watch children’s sporting events to pregnancy issues. Policies that allow employees to work from home, pursue their hobbies, and receive paid time off for paternal leave have boosted employee satisfaction and saved companies money. PwC’s flexibility policies have helped the company reduce its employee turnover from 24 percent to 15 percent a year. Deloitte estimated that its policies have helped save the company $45 million a year by reducing turnover expenses.87

Value Impact

As a customer-facing industry, professional services companies rely heavily on talented employees who can provide superior services to their clients and, therefore, help companies differentiate themselves from their competitors. Companies that hire a diverse set of employees and build inclusion and engagement programs may be better able to retain key talent, generate innovative ideas, and meet the needs of customers. These factors could further strengthen the companies’ position and ability to obtain business from new customers, which would improve revenue and increase market share. Companies with a multicultural workforce are likely to be better positioned to capture new market opportunities globally. On the other hand, companies that fail to successfully manage the issue are likely to lag in the competition for talent. At the same time, greater diversity at all levels protects against
the risk of lawsuits and costs associated with discrimination. It also provides an indication of how well companies develop and promote a diverse and inclusive workforce beyond initial hiring. Involvement in cases of discrimination could further lead to reputational damage and impairment of intangible assets.

Furthermore, companies in the industry that implement policies to improve the flexibility of working conditions are likely to have better employee morale. They are also likely to experience lower turnover rates and increased productivity. Lower employee churn rates have a positive effect on a company’s operating efficiency, decreasing the expenses of attracting, developing, and retaining new employees.
REFERENCES


4 Bloomberg Professional service, accessed October 1, 2014, using the BICS <GO> command. The data represents global revenues of companies listed on global exchanges and traded over-the-counter (OTC) from the Professional Services industry, using Levels 3 and 4 of the Bloomberg Industry Classification System.

5 Author’s calculation based on data from Bloomberg Professional service, accessed October 3, 2014 using Equity Screen (EQS) for U.S.-listed companies (including those traded primarily OTC) that generate at least 20 percent of revenue from their Professional Services segment and for which the Professional Services industry is a primary SICS industry.


21 Data from Bloomberg Professional service, accessed October 3, 2014 using Equity Screen (EQS) for U.S.-listed companies (including those traded primarily OTC) that generate at least 20 percent of revenue from their Professional Services segment and for which the Professional Services industry is a primary SICS industry.


64 Moody’s Corp. FY2013 Form 10-K for the Fiscal Year Ending December 31, 2013 (filed February 27, 2014).


70 Author’s calculation based on data from Bloomberg Professional service, accessed November 26, 2014 using MMC FA Income Statement <GO> function for Marsh & McLennan Companies. Data represents Salaries Wages and Employee Benefits as a percentage of the company’s total revenue in fiscal year 2013.


77 Marsh & McLennan – Corporate Sustainability Report – Pg. 32

78 Author’s calculation based on data from Bloomberg Professional service, accessed November 11, 2014 using Equity Screen (EQS) for U.S.-listed companies (including those traded primarily OTC) that generate at least 20 percent of revenue from their Professional Services segment and for which the Professional Services industry is a primary SICs industry.


APPENDIX I:
Five Representative Professional Services Companies

<table>
<thead>
<tr>
<th>COMPANY NAME (TICKER SYMBOL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ManpowerGroup (MAN)</td>
</tr>
<tr>
<td>Kelly Services (KELYA)</td>
</tr>
<tr>
<td>Nielsen (NLSN)</td>
</tr>
<tr>
<td>McGraw Hill Financial (MHFI)</td>
</tr>
<tr>
<td>Towers Watson (TW)</td>
</tr>
</tbody>
</table>

This list includes five companies representative of the Professional Services industry and its activities. This includes only companies for which the Professional Services industry is the primary industry, companies that are U.S.-listed but are not primarily traded Over-the-Counter, and for which at least 20 percent of revenue is generated by activities in this industry, according to the latest information available on Bloomberg Professional Services. Retrieved on September 30, 2014.
APPENDIX IIA:
Evidence for Sustainability Disclosure Topics

<table>
<thead>
<tr>
<th>Sustainability Disclosure Topics</th>
<th>Evidence of Interest</th>
<th>Evidence of Financial Impact</th>
<th>Forward-Looking Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HM (1-100)</td>
<td>IWGs</td>
<td>EI</td>
</tr>
<tr>
<td>Professional Integrity</td>
<td>63*</td>
<td>88</td>
<td>1</td>
</tr>
<tr>
<td>Data Security</td>
<td>81*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workforce Diversity &amp; Engagement</td>
<td>56*</td>
<td>88</td>
<td>2</td>
</tr>
</tbody>
</table>

HM: Heat Map, a score out of 100 indicating the relative importance of the topic among SASB’s initial list of 43 generic sustainability issues; asterisks indicate "top issues." The score is based on the frequency of relevant keywords in documents (i.e., 10-Ks, 20-Fs, shareholder resolutions, legal news, news articles, and corporate sustainability reports) that are available on the Bloomberg terminal for the industry’s publicly-listed companies; issues for which keyword frequency is in the top quartile are "top issues."

IWGs: SASB Industry Working Groups

%: The percentage of IWG participants that found the disclosure topic to likely constitute material information for companies in the industry. (-) denotes that the issue was added after the IWG was convened.

Priority: Average ranking of the issue in terms of importance. One denotes the most important issue. (-) denotes that the issue was added after the IWG was convened.

EI: Evidence of Interest, a subjective assessment based on quantitative and qualitative findings.

EFI: Evidence of Financial Impact, a subjective assessment based on quantitative and qualitative findings.

FLI: Forward Looking Impact, a subjective assessment on the presence of a material forward-looking impact.
## APPENDIX IIB:
Evidence of Financial Impact for Sustainability Disclosure Topics

<table>
<thead>
<tr>
<th>Evidence of Financial Impact</th>
<th>Revenue</th>
<th>Operating Expenses</th>
<th>Non-operating Expenses</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Cost of Capital</th>
<th>Industry Divestment Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Integrity</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Security</td>
<td></td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workforce Diversity &amp; Engagement</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* MEDIUM IMPACT  |  **HIGH IMPACT**
## APPENDIX III:
### Sustainability Accounting Metrics | Professional Services

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Integrity</td>
<td>Description of management approach to assuring professional integrity and duty of care</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>SV0102-01</td>
</tr>
<tr>
<td></td>
<td>Amount of legal and regulatory fines and settlements associated with professional integrity or duty of care</td>
<td>Quantitative</td>
<td>U.S. Dollars ($)</td>
<td>SV0102-02</td>
</tr>
<tr>
<td>Data Security</td>
<td>Discussion of management approach to identifying and addressing data security risks</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>SV0102-03</td>
</tr>
<tr>
<td></td>
<td>Discussion of policies and practices relating to collection, usage, and retention of customer information</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>SV0102-04</td>
</tr>
<tr>
<td></td>
<td>Number of data security breaches and percentage involving customers’ confidential business information or personally identifiable information</td>
<td>Quantitative</td>
<td>Number, Percentage (%)</td>
<td>SV0102-05</td>
</tr>
<tr>
<td>Workforce Diversity &amp; Engagement</td>
<td>Percentage of gender and racial/ethnic group representation for: (1) executives, (2) all other non-contingent staff, and (3) contingent staff</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>SV0102-06</td>
</tr>
<tr>
<td></td>
<td>(1) Voluntary and (2) involuntary turnover rate</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>SV0102-07</td>
</tr>
<tr>
<td></td>
<td>Employee engagement as a percentage**</td>
<td>Quantitative</td>
<td>Percentage (%) of man-hours</td>
<td>SV0102-08</td>
</tr>
</tbody>
</table>

*Note to SV0102-02: Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
**Note to SV0102-08: Disclosure shall include a description of the methodology employed.
APPENDIX IV: Analysis of SEC Disclosures | Professional Services

The following graph demonstrates an aggregate assessment of how representative U.S.-listed Professional Services companies are currently reporting on sustainability topics in their SEC annual filings.

![Graph showing the type of disclosure on sustainability topics for Professional Services.]

- **Professional Integrity**: 88% disclosure rate
- **Data Security**: N/A disclosure rate
- **Workforce Diversity & Engagement**: 88% disclosure rate

IWG Feedback*

*Percentage of IWG participants that agreed topic was likely to constitute material information for companies in the industry.