ESG for startups: How to incorporate ESG into your own business

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Environmental, social and governmental footprints are of great interest at the moment and may be a decisive factor in an investor’s decision to invest in a startup.

A startup that can navigate within ESG (Environmental, Social and Governance), and incorporate ESG procedures and regulations in practice will enjoy a competitive edge and give the impression of having its ducks in a row. The purpose of this article is to identify ESG risks and provide specific examples of why the new ESG regulations will have a major impact on startups.

Working with business partners

The increased and new rules issued by the EU mean that ESG will feature more prominently in the legal landscape. It is therefore important for startups to be aware of recent and upcoming changes in this area. Even though startups are exempt from most of these rules, they may be affected indirectly through their business partners, which may be subject to the rules. As a result, startups operating in value chains may already have seen significant code-of-conduct requirements from their business partners. As new regulations are adopted in Denmark, startups should expect to be faced with additional ESG requirements from their business partners, especially in terms of data and reporting.

Attracting customers

Consumers and businesses are becoming more aware of their purchasing choices and often favour enterprises that can prove a commitment to sustainability. A strong ESG profile can differentiate a startup in the market and attract a segment of self-confident consumers and businesses that prefer to support enterprises with a responsible approach to environmental, social and governance issues.

External financing

A key element in ESG regulations is the EU taxonomy, which is a set of common rules defining economic activities that qualify as environmentally sustainable across the EU. Thus, The EU taxonomy is a tool that makes it possible to create a common classification of sustainable economic activities.

Banks and investors' focus on ESG reporting and taxonomy are also a bigger factor in the market. Banks in particular have a structured and methodical approach to ESG and may classify their customers using individual ESG scores. Furthermore, the trend is that banks have heavily increased their ESG focus and underlying performance of an enterprise.

Financial return used to be the most important factor for investors and, while it still remains a key focus point for investors, the startup market has changed, and investments must now to a greater extent have a higher green impact and help create positive changes in the society as well as the environment.

A strong ESG profile also signals responsible risk management, which builds trust among banks and investors and that may open the door to new financing opportunities and/or investments.

Long-term value creation, strategy and optimisation

Incorporating ESG should be addressed early in a startup's lifecycle to make it an integral part of the enterprise's DNA. This will not only reduce the cost of implementation later on, but will also prepare the enterprise for future requirements and expectations from business partners, banks and investors.

Especially startups manufacturing their own products should prepare for significant requirements. In addition to ESG, many enterprises will be affected financially by producer responsibility in the coming years, which is the principle that if a party imports a product into an EU Member State, the party must pay for the responsible waste treatment of that product. By integrating ESG and incorporating circular product design, startups can build a more robust and sustainable business model. This will not only prepare startups to deal with future challenges but will also open up opportunities to capitalise on the growing consumer and business demands for responsible products and services.

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