

The importance of ESG for startups: pioneering a sustainable future

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Recent headlines show that ESG (Environmental, Social, and Governance) principles are under attack and that the business community may be retreating from adopting such principles. A recent report from Pleiades Strategy,¹ suggests that this year alone, across 37 states, 165 pieces of legislation have been introduced to decrease ESG principles.

Such headlines are misleading and do not tell a complete story. Anti-ESG legislation has triggered a strong counter-reaction within various sectors, including the business community, labor leaders, retirees, and environmental advocates. ESG remains a risk management tool for investors despite various partisans introducing ESG into the culture wars.

Integrating ESG principles into a startup's operations and strategy can enhance its appeal to socially responsible investors, increasing the likelihood of securing funding.

In a time defined by heightened consciousness regarding environmental and social issues, startups find themselves navigating uncharted waters. The ascent of ESG practices has redefined the boundaries of business considerations. What was once perceived as a peripheral matter has become an essential framework, providing startups a strategic advantage in an increasingly competitive business landscape.

The considerations encompassed by ESG hold paramount importance for startups. These considerations can yield many benefits, including heightened access to capital, an enhanced reputation, more effective risk management, and the capacity to allure and retain top-tier talent. By ingraining sustainability and ethical practices into their foundational strategies, startups can position themselves for enduring triumph within an evolving business milieu.

ESG encompasses a triad of interconnected elements that gauge a company's commitment to sustainability, ethical behavior, and adept corporate governance. While established corporations

have long recognized the significance of ESG factors, startups swiftly realize the value of interweaving these principles into their fundamental fabric from the very outset.

The triple bottom line advantage: beyond profits to people and planet

The traditional notion of measuring success solely through short-term financial achievements is gradually fading. While ESG introduces the concept of the "triple bottom line"² asserting that a company's triumph should be evaluated not just by its profits but also by its positive influence on society and the environment, ESG appeals to many long term investors who desire to invest in sustainable businesses that will succeed and thrive over the long term.

For startups embracing ESG practices, a plethora of advantages emerge. Conscious startups are more likely to attract investments from impact-driven investors, venture capitalists, and even conventional stakeholders who recognize the enduring value of sustainability.

Comprehending stakeholder dynamics: a pillar of ESG integration

To thrive in the ESG landscape, startups must grasp the dynamics of their stakeholders, encompassing owners, capital providers, employees, and the communities in which they operate. ESG reporting requisites have infiltrated private capital domains, prompting U.S.-based private equity and venture capital funds to scrutinize young corporations' ESG programs and policies during due diligence and investment evaluations. Well-crafted ESG policies enable capital providers to comprehend a startup's objectives, strategies, operations, and impact on various stakeholders.

A few ways startups can benefit from embracing ESG principles include the following.

Attracting investors: Many investors now consider ESG considerations when making investment choices. By incorporating robust ESG practices alongside sound business practices to surmount the stressful startup phase, startups can attract socially responsible investors who prioritize sustainability and long-term value creation. ESG considerations have become a pivotal criterion for assessing a business's long-term viability and success.

Integrating ESG principles into a startup's operations and strategy can enhance its appeal to socially responsible investors, increasing the likelihood of securing funding. Many investors and venture capital firms have established funds or strategies focused on ESG. Demonstrating a commitment to ESG practices can provide a competitive advantage. Consumers and clients increasingly prefer to support businesses that align with their values and contribute positively to society.

Cultivating brand trust: enhancing reputation and customer loyalty

In a world where consumers are increasingly discerning about the brands they support, a startup's dedication to ESG practices can amplify brand reputation and foster lasting customer loyalty. Especially for startups without extensive track records, ESG commitments are signals of credibility and integrity, fostering stronger connections with their target audiences.

Operating with strong ESG practices can enhance a startup's reputation, credibility, and trustworthiness while demonstrating a commitment to responsible business practices, which can positively impact relationships with customers, partners, employees, and the broader community.

Regulatory compliance: Governments and regulatory bodies worldwide increasingly emphasize sustainability and responsible business practices. By proactively integrating ESG considerations into their operations, startups can stay ahead of evolving regulations and compliance requirements, reducing the risk of penalties or legal issues in the future.

In addition, ESG focused businesses may find themselves to be more attractive trading partners with companies that are based in ESG-focused regulatory jurisdictions like the EU. Companies in such jurisdictions need to report on the ESG metrics of their trading partners.

Overall, integrating ESG into the core of a startup's business strategy aligns with global sustainability goals and presents numerous benefits, including access to capital, enhanced reputation, reduced risks, and increased resilience in the face of environmental and social challenges.

Mitigating risks: Proactive measures for sustainable longevity

By proactively addressing environmental and social risks, startups shield themselves from potential legal entanglements, regulatory dilemmas, and reputational crises. Integrating ESG strategies within their operations empowers startups to navigate potential challenges with resilience. Adopting ESG practices helps identify and manage potential risks.

By incorporating sustainability into their operations, startups can proactively address environmental and social risks and governance-related issues, reducing the likelihood of negative impacts on their operations and brand. Addressing environmental and social risks early on can help startups mitigate future challenges. By proactively identifying and managing risks related to climate change, supply

chain sustainability, labor practices, and data privacy, startups can reduce their exposure to legal, reputational, and financial risks.

Attracting and retaining top talent: ESG as a talent magnet

The influx of millennials and Generation Z into the workforce has amplified the importance of working for companies aligned with personal values. ESG initiatives emerge as potent tools for startups to attract and retain top-tier talent. The prospect of contributing to a purpose-driven organization resonates strongly with young professionals, enabling startups to assemble diverse and high-performing teams.

Attracting and retaining talent: Today's workforce, particularly younger generations, often prioritizes working for companies that align with their values. Startups prioritizing ESG considerations can attract and retain top talent.

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Talent attraction and retention: Today's workforce, particularly younger generations, often seek employment with companies prioritizing purpose and social impact. Startups prioritizing ESG can attract top talent passionate about making a positive difference. Moreover, a robust ESG framework can improve employee satisfaction, engagement, and retention.

Charting the course for future stages: ESG as a strategic compass

As startups progress through various growth stages, ESG expectations evolve. Whether eyeing private capital, an IPO, or sustained strategic expansion, startups considering ESG reap tangible benefits early on. While not legally mandated in the U.S., robust ESG programming at the outset provides advantages at every developmental phase, including fundraising, expansion, and eventual IPO.

Tapping into market demand: Innovation through sustainability

The increase in demand for sustainable products and services is surging. Startups ingrained with ESG values can access a burgeoning market keen on eco-friendly and socially responsible solutions. By aligning with consumer preferences for ethical consumption, these startups establish themselves as leaders in meeting contemporary needs.

Incorporating ESG principles encourages startups to adopt innovative solutions that drive sustainability and efficiency. This leads to cost savings through reduced resource consumption, waste reduction, and operational optimization. ESG-focused startups are more likely to innovate and seize new opportunities arising from sustainability challenges.

ESG isn't a transient trend. It signifies an essential evolution in the business landscape. Startups that ingrain ESG principles into

their operations position themselves for sustained growth and meaningful global impact. As startups reshape industries, their commitment to ESG can set a fresh benchmark for responsible and impactful business practices, shaping a more sustainable future for all.

Notes

¹ <https://bit.ly/464QJN7>

² <https://bit.ly/46vijXL>

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