Gene Gerrienne is the head of UK and international markets, and Anaïs Masetti is the senior communications officer at Early Metrics.

“Without transparency, there’s no transaction”: Why measuring ESG is essential for startup growth

For startups to secure fundraising, it’s important for them to not only monitor their environmental, social and governance (ESG) factors, but provide proof that they are doing so. We spoke to Early Metrics to discover how their ratings method allows investors and consumers to be sure the startups they invest in are sustainable.

“More investors today are looking for transparency because, at the end of the day, transparency actually means trust. Without trust, there is no transaction,” said Gene Gerrienne, head of UK and international markets at *Early Metrics*.

The company was founded in 2014 to measure the growth and *development potential of startups*. For startups, monitoring ESG is becoming more important for growth. This means they are accountable for their carbon emissions, energy consumption and providing workers with fair pay and safe working conditions.

“More and more decisions on whether or not a startup will receive funding or a partnership opportunity with a corporate or investor depends on their ESG performance,” said Gene. “We have seen startups miss out on potential funding from investors because investors required them to have an ESG audit or score.”

It’s clear that monitoring the environmental and social impacts of their innovation strategies is becoming inescapable. Startups are now being squeezed on all sides, by investors, corporate partners and consumers alike to adopt *sustainable profiles* and be open about it.

“Because corporate companies are being so pressured to include ESG in their measures, it trickles down into their open innovation strategies, which then trickles down on startups,” said Anaïs Masetti, senior communications officer at Early Metrics. “Now, more and more corporates will be expected to include in their audits their indirect emissions, which means that they have to know how the startups that they work with are doing in terms of carbon emissions.”

The challenge is that currently, there is no standardised method for startups to measure and report their ESG. Without guidance on the best practices for startups to adopt sustainable innovation habits, and without data that can be gathered and compared across startups, it’s hard for investors and consumers to know who they can trust.

“The lack of standards means there’s a lack of education,” said Gene. “If there is no guidance and no standards, how is a startup supposed to know how to understand and integrate those ESG measures?”

It’s also difficult because monitoring ESG can’t actually be standardised. This is because startups grow at different rates. A smaller startup might have a strong awareness of measures, but an inability to fully implement them because they have a small team and limited budget. Equally, a larger startup might have the funds, but limited awareness.

“A younger startup might not need to implement loads of ESG measures yet because they have a team of three people and a product that’s not yet launched, but maybe they have an amazing awareness of what they have to do in terms of ESG,” explained Anaïs.

“On the other hand, you can have a much more mature startup with a lack of awareness of what ESG measures they should take. It’s important to take this level of awareness into account.”

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Measuring how startups monitor their ESG factors is also important to make sure they don't slip through the grey area created by a lack of clear guidance or standardisation. Without any clear targets or comparable data, it can become tricky to understand whether startups are truly accountable for their environmental and social profile.

"The lack of a global standard always leaves a bit of room for interpretation, and market dynamics will always be exploited," said Gene.

The company uses a range of tools to ensure this doesn't happen, including a scorecard with around 17 different criteria for securing a good ESG score, separate scores based on both action and awareness, as well as a personal interview with startup founders propped up by private company documents.

"It's crucial that we meet with the founders," said Gene. "There are lots of questions related to the criteria we ask, and it involves doing a bit of digging and asking some probing questions. "Our analysts are trained to then spot and analyse any potential discrepancy."

Looking to the future

Measuring ESG is undoubtedly complex. As more companies – both startups and corporates – begin to realise the importance of a solid ESG profile for growth, it's unlikely to make the standardisation problem any easier. But, at the same time, perhaps the growing momentum around sustainable investing is what's needed to boost awareness of ESG factors among startups, diminishing any 'grey areas' that still remain.

"There's almost an image race to be the best climate champion, not only among companies but also among governments," said Anaïs. "It may backfire from the standardisation point of view, but I think we can expect startups to be boosted by this wave of interest in sustainability, and hope that will bridge the gap in terms of education and resources."

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