Unsplash © Michael Schiffer

# Incorporating environmental, social and governance into high-growth startups

Facebook is an archetypal example of a high-growth company’s success, but the model of prioritising exponential user acquisition does not bode well for its responsibility. If the current regime of censure and sanctions on companies and CEOs does not incentivise greater corporate responsibility, then what will?

---

Facebook Inc. – which has renamed itself “Meta” to reflect its growing product range and also its desire to distance itself from the *Cambridge Analytica scandal* – is an exemplar of contemporary corporate success. Since its founding in 2004, it has grown into a nearly trillion dollar company (in terms of market capitalisation) with almost three billion users worldwide. It prioritised growth, especially, in the number of its users and the veracity of engagement with their platforms (Facebook, Instagram, WhatsApp in particular).

## Growth but at what cost?

While Facebook is an outstanding performer in growth terms, it scores (much) less well in its environmental, social and governance (ESG) performance. Even when this high-growth darling is held to account, by government investigations, its *modus operandi* – in terms of corporate responsibility – does not change.

Facebook's role in the Cambridge Analytica scandal of 2018 is one of five deep-case studies in my doctoral research, which asks: 'To what extent does holding CEOs to account personally for crises effect corporate responsibility?'. On 10 April 2018, fourteen years after Facebook was established, Mark Zuckerberg, Facebook's Founder, CEO & Chairman testified to Congress about Cambridge Analytica. In Room 2123 of Rayburn House, in Washington DC, he accepted personal responsibility under oath, *"It was my mistake, and I'm sorry. I started Facebook, I run it, and I'm responsible for what happens here"*; and committed the company to "…*taking steps to make sure this doesn't happen again"*

My research is motivated to understand if such proceedings, especially those that strive to hold corporate leadership to account, are effective in improving ESG performance. To do so, I analyse congressional records; corporate communications; ESG disclosures; Securities and Exchange Commission filings and stock market data in a five-year framework to assess change in corporate responsibility and to monitor persistence before and after a corporate crisis, such as Facebook's Cambridge Analytica crisis.

# The tragedy of public accountability

The study's principle finding is that even when regulators hold company leaders to account personally for irresponsible behaviour, levy penalties to remediate public harm and enforce actions to reduce the risk of recurrence, companies are still not incentivised to become more responsible to the ongoing detriment of the public.

I call this 'the tragedy of public accountability.' If the current regime of censure and sanctions on companies and CEOs does not incentivise greater corporate responsibility what will?

I argue that there is a need to better incentivise long-term shareholder value, in ESG terms as well as financial returns, from the beginning of the life of high-growth startups. If policymakers are to mobilise startup-led innovation and private finance flows as the engine for future economic growth, then the next generation of founders need to start differently.

*Read also*

Why do small businesses need to monitor their ESG? We spoke to the experts

## How to integrate ESG from the start

ESG regulations should be extended to include small and medium size enterprises (SMEs) and their VC and private equity investors. Over 50% of the global economy is made up of SMEs but currently ESG regulation is focused on large companies traded on public stock markets. A core reporting framework is needed to facilitate comparison between companies, industries and countries. These reporting standards should be based on evolving, best-available scientific evidence and benchmarks forming a core around which companies can add other metrics deemed to be material to their business.

Thirdly, regulators need to tackle the common practice of 'greenwashing'. Greenwashing is the deliberate act of misleading customers (and investors) by selective use of information, exaggeration and/or omission which is at odds with the reality of a company's negative environmental and social impacts. One antidote to greenwashing is to require companies of all sizes to conduct an annual audit (technically, assurance) of ESG or non-financial accounts (to accompany financial accounts).

Without such changes to the ways that innovative companies grow, we will see different versions of public regulators attempting to reform firms like Facebook into more responsible, more sustainable companies. But, judging from the continued trajectory of Facebook, such approaches do not seem promising.

On 20 October 2021, Mr Zuckerberg was added to a 2018 lawsuit against Facebook over consumer privacy violations that occurred during the Cambridge Analytica scandal. "It could expose the Facebook founder to personal liability for the first time in a suit brought by a government entity in the U.S.". Without reforming how high-growth companies are formed and grow – from the start – it is unlikely that such companies can contribute to a sustainable future throughout their life cycle.

Marc Lepere is the Founder of and Chief Science Officer at *ESGgen*.

---

Article by MARC LEPERE