ESG: Even Startups Greenwash

With numerous CleanTech startups launching every week in the UK, gaining the attention of a VC isn’t easy, so make sure that when you do secure a meeting, you’re investment ready.

CleanTech is a rapidly growing sector within the startup world with Beauhurst reporting that between 2020 and 2021 in the UK alone, over £945M was raised by CleanTech companies. Within this rapidly growing ecosystem, entrepreneurs see the chance not only to build innovative and profitable businesses, but also to change the world for the better. However, all too often, they get the fundamentals wrong at the earliest stages.

Below are five areas on which nascent CleanTech startups hoping to receive VC backing need to focus their attention:

The business behind the science

> *Right market, right solution, right team*

Many of the most exciting startups are developed by academically brilliant people with significant technical and scientific expertise which they are bringing to bear within their chosen climate vertical. However, academic founders should remember that while they are recognised for their drive and technical expertise, they can't do it all alone.

Scientific backgrounds are often paired with a lack of commercial experience. This is obviously to be expected, it would be very difficult to work on your MBA and your PHD at the same time. Founders are often (and rightly) protective of their product and try to keep their circle small but developing an MVP and commercialising it are two very different things. Founders should be prepared to onboard a team that can commercialise their product and take it to market. Business builders who want to see rapid expansion in the early years of their startup need to delegate business management and go-to-market plans to those with expertise in these fields.

When looking to raise, startups should remember that their product is only half the assessment made by those considering backing them. The rest is based on their commercial plan, a well-structured team and a willingness to be transparent and collaborative with investors.

The right team, whether it's internal management or external advisors, is crucial. You need to be agile in your resourcing and recognise where key hires need to be made. If your product has been largely completed then is it necessary for the R&D and technical team to hold senior executive roles? Or would it be better to have commercially experienced personnel driving forward sales and business development. A good team, in my mind, is the best way to ensure that a great idea makes it to market and has the impact it should.

Data is everything

> *Advertise green credentials alongside or above financials, but keep them realistic*

When approaching a potential impact investor remember that a compelling financial story is only part of the picture. If the VC is truly a sustainability specialist, then they will want to analyse potential climate impact as well as return, so don't forget to demonstrate this upfront.

Speaking as the CTO of a climate-focused venture fund, I always like to see a demonstration of the potential carbon saving, avoidance or sequestration (depending on the project) within the opening slides of a presentation. It is also appreciated when startups can demonstrate an understanding of whether their impact is direct or indirect and can be honest about it.

Personally, one of my great frustrations is a pitch deck that inflates impact in an effort to look more sustainable. Remember if you are pitching to an impact investor, they will have detailed sectoral knowledge and be able to spot where your claims are implausible or in some cases, greenwashing.

Culture can make or break your startup

> *Even if you're a ClimateTech startup, you can't ignore the 's' and the 'g'*

Many CleanTech startups seem to think that because the E in ESG is inherent in their business, they can ignore the S and the G altogether, but who wants to invest in a CleanTech business reliant on a toxic work culture? The companies that we, and I'm sure other impact-focussed VCs, invest in must demonstrate robust ESG practices across the board. Startups on both sides of the Atlantic all too often hit the headlines for the wrong reasons, be that eye-watering levels of employee churn or accusations of inappropriate workplace behaviour. In order to ensure that companies have the best possible working environments, we recommend using an ESG reporting tool to report on a variety of ESG metrics. *Elbow Beach* uses ESGgen's *platform* to ensure we are held to the same high standards as the rest of the industry. This accountable and strategic focus on ESG should not only ensure the resilience of your business, but also enhance attractiveness to potential customers and top-level talent.

Read also

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

Your ESG framework should grow with your business

> *Building ESG practices into operations from day one*

Startups are uniquely positioned to embed ESG in their operations and culture from day one. As ESG reporting becomes a non-negotiable part of operating as a business, those who do not have a framework in place will find themselves left behind as they try to expand their operations, and unable to attract funding from institutional investors. Those that ignore the importance of proper governance and employee wellbeing simply won't succeed.

ESG is posing a serious challenge to established organisations because they are now having to retrofit ESG principles into antiquated systems and operations. This major cultural, practical and environmental challenge has led to numerous businesses falling foul of missed targets and greenwashing accusations. Embedding a clear and transparent ESG policy and reporting schedule from day one means that as rapid growth occurs (which we hope it does for all our investees), the systems and principles are already in place to ensure all targets and requirements move in line with the business.

ESG is not simply an internal exercise. In order to attract customers you need a demonstrable and evolving ESG policy. B-Corp and ESG-focussed businesses look to choose suppliers or partners that mirror their responsible business model. Likewise, if you're a direct-to-consumer business, expect your supply chains and business model to be subjected to heightened levels of customer scrutiny.

Honesty is the best (ESG) policy

> *Be ambitious but honest about what you hope to achieve*

Entrepreneurs might ask why they should set up ESG policies if they are already developing environmental technologies. The answer is that all businesses will soon be required to report on their ESG as a standard. By adopting good practice early on, you are demonstrating sound business acumen, and knowledge of the impact market while signalling your commercial viability to potential investors. It’s also worth noting that many VCs now require ESG reporting as part of their decision-making process to ensure they are able meet and report on their own ESG targets.

That said, don’t let perfection be the enemy of progress; a well-designed and goal orientated plan will allow for the progressive improvement of ESG as a business grows. The presence of such a plan, warts and all, is a big tick in the box when I am reviewing companies for investment. Better to put forward achievable targets than fall short of unachievable ones.

If you manage to avoid these pitfalls, you’ll have every chance of securing funding and building a profitable and impactful business. Better practice invariably leads to more agile, resilient and innovative companies, the sort of companies we will need to combat the climate crisis.

Tom Hardy is the Chief Technology Officer of Elbow Beach Capital, the decarbonisation, sustainability and social impact investor.

Article by TOM HARDY