A START-UP GUIDE TO ESG

ENVIRONMENTAL

SOCIAL

GOVERNANCE

Balderton.

CONTENTS

01.

INTRODUCTION

ABOUT THIS GUIDE

At Balderton, we believe the best way to change the world is to build a business. Start-ups play an important role in disrupting and redefining the way in which we live, work and operate.

This start-up guide to ESG aims to give early-stage companies the inspiration, confidence and tools to embark on their sustainability journey, today. It covers why it's important, what to start with and focus on, and how to establish and operationalise ESG in a small, fast-growing business.

We understand that sustainability is not easy. It's a journey, and we hope this guide can support you along the way.

At a time when the world faces many challenges, the imperative for businesses to grow as thoughtful, fair, inclusive and environmentally responsible organisations has never been more important. As generalist VC investors who have been investing at multiple stages in Europe for over 20 years, we see it both as our opportunity and responsibility to plant the sustainability seed early in all the companies within our portfolio.

Want to learn more about Balderton?
Read our 'About Us' page.

INTENDED AUDIENCE OF THIS ESG GUIDE

This start-up guide to ESG was written with the founders and CEOs of early stage companies in mind, alongside all the operators and coalitions of the willing who have or want to start thinking about sustainability and impact.

While we strongly believe that there are many benefits for organisations to start their sustainability journey early, this guide will also be valuable to growth-stage companies, with checklists included for Pre-seed/Seed, Series A, and Series B+.

We understand that ESG will be a self-taught discipline for many start-ups and scale-ups and have developed this guide with that in mind.

TERMINOLOGY AROUND ESG

We acknowledge that the world of corporate sustainability is stifled with definitional debate.

To the right, we have outlined our working definitions for the purposes of this guide:

To be truly sustainable, a business should seek net positive outcomes through **both** exemplary **ESG** practices **and** net positive product or service **impact**.

What is ESG?

In the VC context, ESG refers to the principles of **E**nvironmental sustainability, **S**ocial responsibility, and robust **G**overnance that should be instilled in a company's culture and practices. These principles are universal, barring inevitable nuances based on the operating jurisdiction, growth stage, industry and product and business model of a company. These principles and practices are the primary focus of this guide, underpinned by notions of business responsibility and ethics.

While we acknowledge that the term ESG is highly debated, and that "ESG investing" in particular is facing numerous challenges, we believe it remains the most comprehensive, clear and concise way of capturing the three core pillars. It simply requires clear definition in usage.

What is impact?

In the VC context, impact refers to the external societal influence of a business' products and services. We are proud to have many companies in our portfolio that were founded as impact-led (or "mission-led") businesses. We however believe that every business can explore how it can deliver positive societal impact through its core products and services–and encourage them to do so. We explore this further in our final section of this guide, "Going the extra mile".

What are the SFGs?

Balderton's Sustainable Future Goals (SFGs) is the thematic framework that we've developed as a sustainability blueprint for the European start-ups in our portfolio and the wider ecosystem. We believe that these ten goals cover the key environmental, social and governance themes that every European tech start-up should be aware of and appropriately managing. They were inspired by the United Nation's Sustainable Development Goals which we commend as a positive framework for shared global action.

02.
WHY ESG IS IMPORTANT

THE MORAL IMPERATIVE

From climate change and biodiversity loss, to economic uncertainty, human rights violations, social unrest and growing inequalities, we cannot ignore the significant global crises we're collectively facing.

We have a responsibility towards future generations not to leave the world a worse place than we found it, and contribute towards building a better, brighter future for all.

Founders: If you are thinking big, and building something that you believe will last, then you have a moral imperative to ensure that it ultimately makes the world a better place.

"We started from almost nothing. But today, Contentsquare has reached a point where we've built up power through our product, people, partner network, resources and sheer scale. And — as you've heard — with power comes great responsibility. Our growth must have meaning. We can't become one of the greatest software companies in the world if our company isn't good for the world."

— JONATHAN CHERKI, FOUNDER AND CEO AT CONTENTSQUARE.

THE BUSINESS CASE

Moral imperative or not, sustainability is too often perceived as a costly distraction.

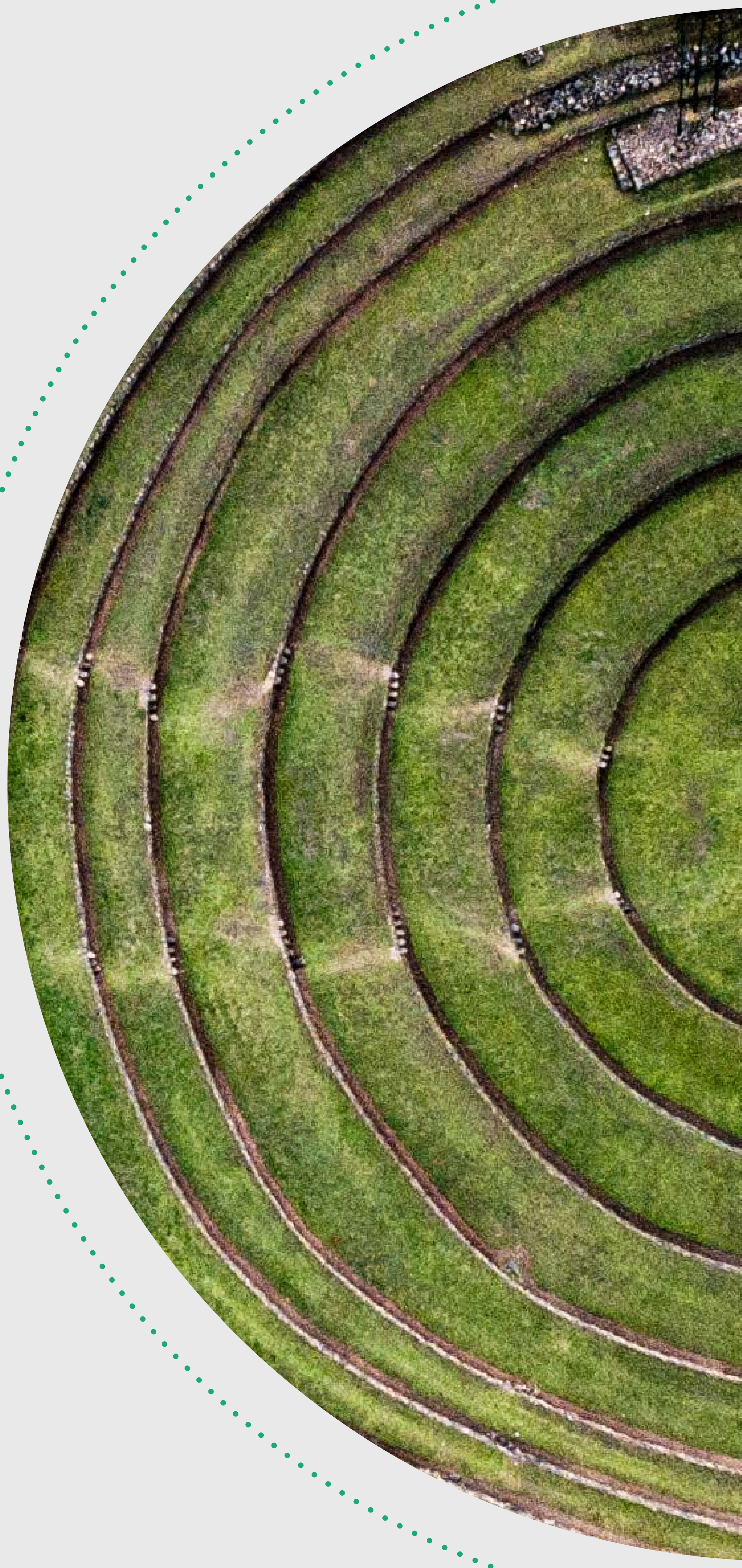
Yet societal, regulatory and market trends are rapidly accelerating and converging, putting sustainability as a driver of enterprise value and competitive advantage.

Engaging with sustainability strategically can reap many benefits, including:

- **Winning the talent war:**
Your people are your greatest asset and the competition for top start-up talent is rife. In the war for talent, a commitment to diversity and sustainability is a great differentiator. This underlying commitment will significantly bear on company culture and position you as an attractive, thoughtful and committed employer.

- **Immediate cost savings:**
While doing the right thing by people and the environment may sometimes come at a price, there are also some ways in which more sustainable practices help businesses save costs. A few examples include energy efficiency initiatives to reduce energy usage, buying of second-hand items, reduced use of raw materials in production and packaging, and reduced shipping costs through use of local suppliers.

- **Access to funding:**
VC investors are increasingly taking company sustainability into consideration when making decisions about where to allocate their capital. This is partly driven by their belief that businesses built on strong environmental, social and governance foundations will outperform those who aren't, and partly driven by their own investors' ESG-related demands. With reports of 59% of 600 early-stage European VC investors having declined an investment opportunity in the past twelve months due to sustainability concerns, start-ups can expect to undergo increasingly detailed due diligence on how they are building their business on environmentally and socially responsible principles, and how they are putting systems and processes in place to do so. Strong sustainability initiatives may also unlock other avenues for funding – such as grants or sustainability-linked loans – as policy and debt instruments are rolled out to further incentivise the transition.



- **Competitiveness and differentiation:**
  - **B2C**: Consumers care about sustainability and are increasingly putting their money where their mouth is. A recent study found that products making ESG-related claims averaged 28 percent cumulative growth over the 2017-2022 five-year period, versus 20 percent for products that made no such claims.
  - **B2B**: Organisations are increasingly assessing vendor climate, human rights and other sustainability commitments in their procurement processes and putting clauses in place to leverage their supply chain to drive their ESG goals. This trend is set to strengthen as new regulations such as the Norwegian Transparency Act, the German Supply Chain Due Diligence Act, and the EU's proposed Corporate Sustainability Due Diligence Directive are rolled out to hold larger enterprises accountable for ensuring that human rights and environmental considerations are observed across their operations and supply chains.

- **Minimising risk and building resilience:**
Considering environmental, social and governance factors proactively, and establishing the controls and processes to manage them appropriately, will help you pre-empt any reputational damage linked to your business conduct and culture - which could also lead to expensive fines, revenue loss and more. In some cases, it can also help you anticipate and course correct operational risks.

- **Because for fast-growing companies, it will soon enough no longer be a choice but a requirement:**
  - The EU's Corporate Sustainability Reporting Directive (CSRD), which aims to bring sustainability reporting in line with financial reporting and is expected to come into force in 2024, applies to both listed companies and private companies that meets two out of three of the following criteria: more than 250 employees, a turnover of over €40 million and over €20m total assets, impacting more than 50,000 companies or three quarters of business in the European Economic Area.
  - Meanwhile, thresholds for existing requirements are expected to come down. For example, the EU Directive on Pay Transparency coming into force in 2023 requires employers with 250+ workers to report their gender pay gaps every year, and employers with 150-249 workers every three years. This threshold will be lowered to 100 workers by 2028. Similarly, it is anticipated that carbon accounting will become expected of businesses of all sizes in the years to come.

"Get these key elements right early on and you'll spark a virtuous cycle, with a diverse team building a culture that draws even more diverse and talented employees to your start-up. That's the best way to build a successful business, raise capital, and sustain investors' interest as you eventually move toward an IPO. So plan for the future — and begin building a more diverse company today."

— CHARLES MIGLIETTI, CO-FOUNDER AND CEO AT TOUCAN.

"To operate as a responsible business, it is crucial that we act in a sustainable way, allowing us to continue attracting the best talent, aligning with customer sentiment and new markets, and ensuring that we can transition to - and be part of - the low-carbon economy of the future."

— CATHERINE BIRKETT, CFO AT GOCARDLESS.

"The mission took the commitments we made at the beginning of this adventure and turned them into something unifying. It is clear that that was the right thing to do: half of all candidates that apply for a job at Brigad do so because of our mission."

— JEAN LEBRUMENT, CPO AT BRIGAD.

FURTHER EVIDENCE

1. Do ESG efforts create value?
   BAIN & COMPANY AND ECOVADIS
2. Five ways that ESG creates value
   MCKINSEY
3. Getting the Basics Right for Start-ups and Venture Capital Firms
   WEF
4. Start-ups need an ESG strategy
   HBR
5. Why and how to build your start-up business around ESG
   FORBES

WHY THINK ABOUT ESG EARLY IN YOUR START-UP JOURNEY?

When your company scales, its business model-related sustainability issues and impact will scale with it.

Integrating good practices early in your culture and operations sets the course. And while sustainability is never straightforward, it only gets more complex and onerous as your company grows in scale. For example, strong and responsible environmental and social practices are much easier to put in place when you have one office, one centre of operations, and your customers are based in one market. And these considerations will then be inherent when you open other offices, and enter other markets.

Therefore, while it's never too late to embark on your start-up sustainability journey, there are a number of clear benefits to thinking about it early.

- **Make it part of (and let it shape) your company's DNA:** Build your ESG foundation early to make it a core part of company culture and growth. When your company is small and agile, you can create the right culture and mindset from the outset. A clear ESG vision and programme also contributes to strengthening culture by focusing on common values.

- **Secure future credibility:** As businesses grow, an explicit ESG approach becomes less of a choice and more of an imperative as the company falls within scope of standards and regulations and is subject to greater scrutiny. This leads many companies to rush into it as an afterthought. Being able to demonstrate that your company was thinking about its role and responsibility in promoting sustainability from the very beginning bears additional authenticity to your approach. Associating your brand with responsibility and sustainability from the get-go gives you more credibility.

- **Avoid switching and/or remediation costs:** Retrofitting sustainability into a business, rather than integrating it from the start, will be both expensive and complex. For example, switching to suppliers with a lighter environmental footprint can be disruptive to operations and requires starting a new commercial relationship from scratch. Organisational behaviours can also be hard to change. To start early avoids a massive switching cost, because you'll have already integrated best behaviours and practices into your operating system. It also means understanding your business model-linked issues and how to manage and mitigate them as you grow, avoiding potentially costly mistakes and remediation costs. Finally, as policy and legislation around corporate sustainability strengthens, having sustainable business practices already in place means you are more resilient to regulatory change and associated remediation costs.

> *"It's hard to launch a company today and ignore the existence of systemic challenges. Moreover, there is a huge benefit in doing this right from the outset. Building these considerations into the very heart of a company's mission helps to ensure that economic, social and environmental programmes can be fully deployed and at the right level. It is much harder (and often less effective) to change direction along the way or to correct downstream for issues caused by your activity."*
>
> — DOUNIA WONE, CHIEF IMPACT OFFICER AT VESTIAIRE COLLECTIVE.

> *"The later you start, the more expensive it will get. Start as early as possible: gather data, understand your impacts and risks, establish your goals and create initiatives to get you there."*
>
> — LUIS ORSINI-ROSENBERG, CO-FOUNDER AND CEO AT CYCLE.

Major corporations have faced significant penalties and serious reputational damage as a result of not taking this seriously. Lawsuits against companies concerning ESG issues have grown by 25% over the last three decades.

- In July 2020, fast fashion giant Boohoo was accused of modern slavery after it emerged that garment workers at factories in Leicester, UK, were being paid far below minimum wage and in unsafe conditions. Shares in Boohoo fell 43% the week the news came out, knocking £1.1bn off Boohoo's value, with many retailers suspending their relationship with all Boohoo brands.
- In July 2021, German carmakers Volkswagen and BMW were fined €875m by the EU after finding that they had colluded with another rival, the Mercedes-Benz owner Daimler, to delay emissions-cleaning technology. As of 1 June 2020, the scandal had cost VW €31.3 billion in fines, penalties, financial settlements and buyback costs.
- In July 2022, mobile communications giant T-Mobile announced it would pay an aggregate of $350 million and spend an additional $150 million to strengthen its data security to settle a consolidated class action lawsuit following a data breach that occurred in early 2021, impacting an estimated 77 million people.

It is tempting to put sustainability on hold when you are still hustling to find product-market fit, sign your first customers, build your team and attract investors. However, companies that take action early on will have the most authentic and robust ESG strategies as they scale.

While we want to encourage all companies to think about sustainability from the get-go, we recognise that in the early days of business-building - and in challenging times in particular - it can seem impossible to find the time and resources. Remember that every company's journey will be unique, and don't be too hard on yourself if you can't achieve everything you'd like to just yet. The lean start-up "build-measure-learn" rule is particularly relevant for ESG where it's about starting the process, starting small, and improving over time. Ultimately, It's never too late to get started on your journey, but the sooner you start, the better.

> *"When it comes to your impact, you can't borrow from the future — it isn't something that you can just 'work out later' once the company is public. For this reason, I believe that freshly founded companies have the best chance of establishing impactful frameworks in their companies. The bigger your company gets, the harder it becomes to proactively embed impact into your operations. Once you've broken trust, you can't just piece it back together. Adding defensive CSR (Corporate Social Responsibility) measures further down the road will inevitably get written off as insincere."*
>
> — KAT BORLOGAN, CHIEF IMPACT OFFICER AT CONTENTSQUARE.

03.
WHERE TO START WITH ESG

UNDERSTANDING THE SCOPE OF ESG: THE SFG FRAMEWORK

Review our
Sustainable Future Goals Framework.

The scope of ESG is vast, fluid and daunting. Navigating this complex landscape and lexicon can be overwhelming for any start-up - no matter where you are on your ESG journey.

To help organise your thinking, we've identified ten key focus areas - known as our Sustainable Future Goals (SFGs) - as a blueprint for what it means to grow as a sustainable tech start-up in Europe.

Inspired by the UN's Sustainable Development Goals, but designed specifically with the world of European venture and start-ups in mind, we developed our Sustainable Futures Goals as a positive agenda for change.

We believe the ten goals capture the dimensions and principles of environmental sustainability, social responsibility, and good governance and trust that should underpin the workings of any organisation wanting to have a lasting future in Europe and worldwide. They are:

01. URGENT CLIMATE ACTION

02. RESPONSIBLE CONSUMPTION

03. GREEN CITIES

04. THRIVING NATURAL WORLD

05. FAIRNESS AND EQUAL OPPORTUNITIES

06. DIVERSITY AND INCLUSION

07. GOOD HEALTH AND WELLBEING

08. LIFELONG LEARNING

09. HIGHEST ETHICAL AND GOVERNANCE STANDARDS

10. DATA RIGHTS ARE HUMAN RIGHTS

PRIORITISATION: INTRODUCING THE CONCEPT OF MATERIALITY

Not all SFG themes, however, are equal. The relative importance and criticality of each theme will depend on your industry, products and business model, geography and growth stage. As a start-up, you have plenty to do already. And sustainability can be a vast field. Prioritisation is therefore key to ensure that some progress is made, and that this progress is value adding.

The most successful start-up ESG approaches are informed by materiality.

In the context of sustainability, materiality means focus on the ESG topics that matter the most to your business. To identify these, you need to combine two complementary lenses (also known as "double materiality"):

1. **What ESG topics are most likely to impact financial performance.**
   This could be internal (e.g. diverse talent; data privacy management; energy bills) or external (e.g. social unrest; consumer sentiment; extreme temperatures) social and environmental trends.

2. **What ESG topics are most impacted by the organisation.**
   This focuses on how the business impacts the world it operates in, be it people or planet, and the responsibility that comes with it. Indirectly these could have an impact on financial performance as poor management/ aggravation of negative impact can lead to reputational damage and value destruction, while amplification of positive impacts could create additional value.

These material ESG topics should form the basis of your ESG approach. We revisit this later on in our how to operationalise section.

As a starting point, alongside the business values and convictions, we believe that taking a stakeholder lens can help prioritise effort and focus. Understanding what matters to and what will be expected the most from different stakeholder groups can help early-stage companies (1) understand the relevance of each of the ten SFGs and (2) help prioritise what is essential to get right now vs. what can wait a little later, bearing in mind that laying good foundations now will pay dividends later.

We have created a stakeholder matrix, which you can see on the next page, to help you decide where to start and what to expect as you scale. To be relevant to a maximum of businesses, it focuses on internal principles and practices only - irrespective of what the venture is (for example, of course green cities will be of the highest importance to customers of e-mobility solutions. But a business' internal commitments and initiatives promoting green cities through employee green commuting will be more anecdotal, in the nice to have category).

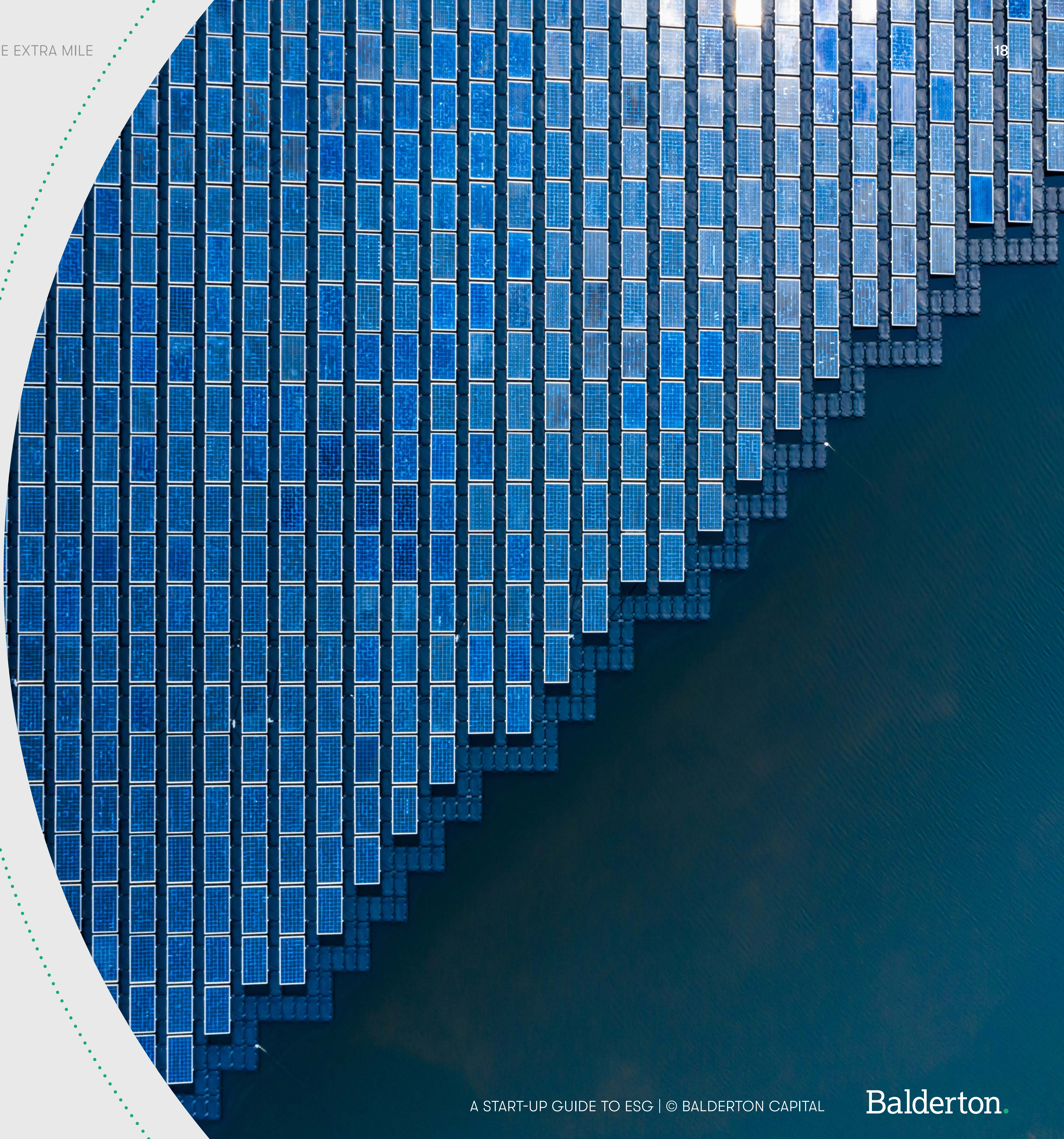
The table on the following page is our perspective and is subject to variability specific to your product, business model, industry and jurisdiction.

INCREASED RELEVANCE AS THE START-UP GROWS OVER TIME →

	STAKEHOLDER GROUP			
	EMPLOYEES	CUSTOMERS	GROWTH INVESTORS	REGULATORS
URGENT CLIMATE ACTION	High	High	Medium	High
RESPONSIBLE CONSUMPTION	Medium	High	Low	Medium
GREEN CITIES	High	Low	Low	Low
THRIVING NATURAL WORLD	Low	Medium	Medium	High
FAIRNESS AND EQUAL OPPORTUNITIES	High	High	Medium	High
DIVERSITY AND INCLUSION	High	Medium	Medium	High
GOOD HEALTH AND WELLBEING	High	Low	Medium	Medium
LIFELONG LEARNING	High	Medium	Medium	Low
HIGHEST ETHICAL AND GOVERNANCE STANDARDS	High	High	High	High
DATA RIGHTS ARE HUMAN RIGHTS	High	High	High	High

In the following section, we zoom in on each of the ten thematic areas, providing some framing, suggestions and inspiration on:

- Why it is important;
- Where to start (organised into checklists for Pre-Seed/Seed, Series A, and Series B+);
- What data to start collecting (for internal MI or external reporting);
- Useful resources and further reading; and
- Examples and testimonials from the Balderton portfolio and beyond.



ENVIRONMENTAL
SFG01—04

SFG01: URGENT CLIMATE ACTION

WHY IS THIS IMPORTANT?

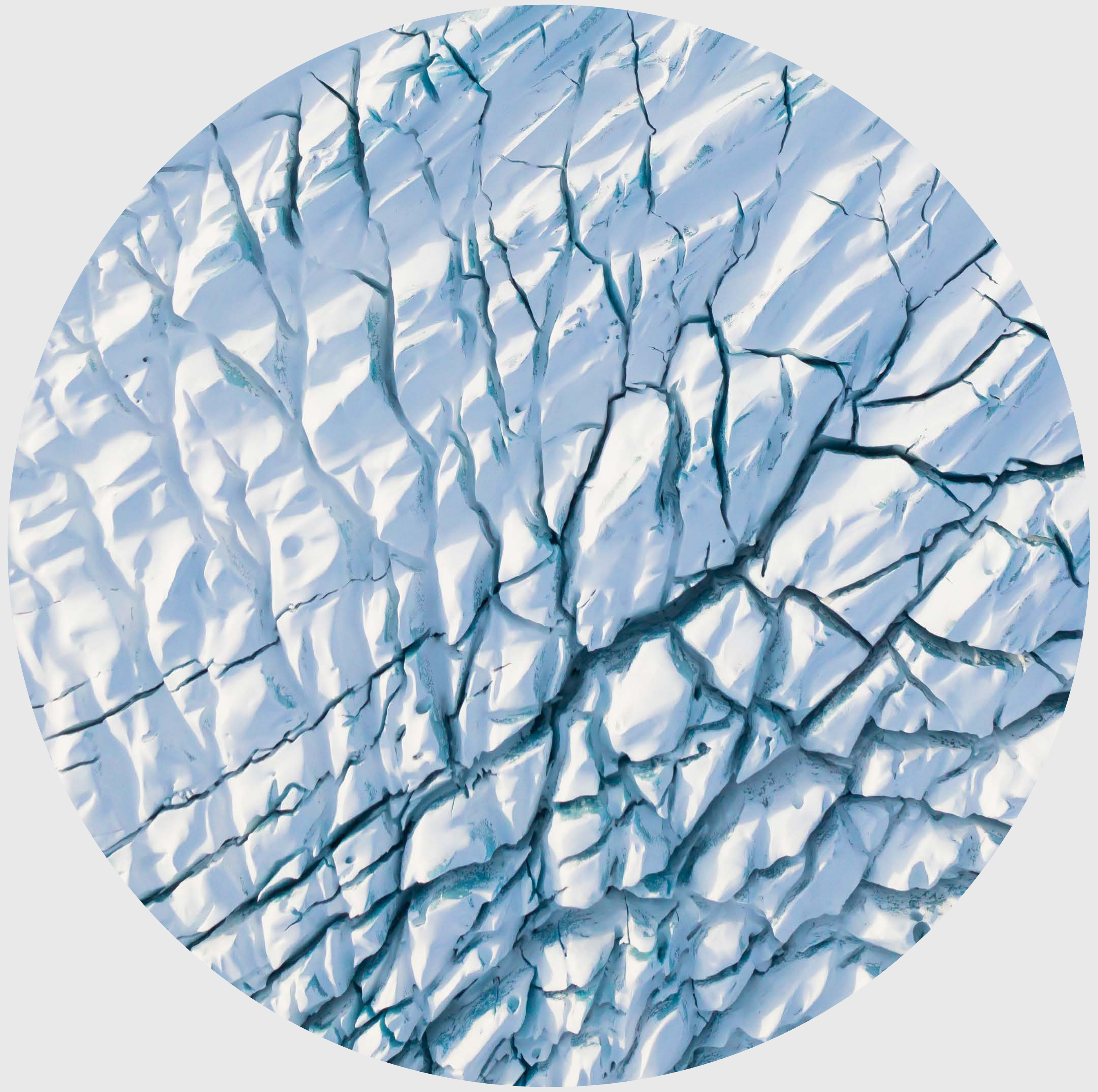
Did you know?

Global emissions from cloud computing range from 2.5% to 3.7% of all global greenhouse gas emissions, thereby exceeding emissions from commercial flights (about 2.4%) and other existential activities that fuel our global economy.

- Human activity is causing rapid climate change at a pace set to pose existential threat and unprecedented economic disruption.
- There is an expectation of corporate climate action plans to outline how they will reach net zero by 2050 at the latest, in line with limiting temperature rise to 1.5°C.
- Net zero is a state where a company has reduced their greenhouse gas emissions as far as possible (by 90-95%), and has compensated any remaining hard-to-decarbonise emissions using certified long-term carbon removals.
- While some sectors are known to be harder to decarbonise than others, all businesses have a carbon footprint and will, in time, be held accountable for it.
- Fast-growing businesses will see their carbon footprint grow. We discussed this in a panel discussion in Berlin in 2023. This is why understanding your footprint and the ways in which you can curb emissions growth as your business grows is critical.
- There are a number of things that you can start doing from day one that could have a material impact on your carbon footprint further down the line across cloud and energy providers, and other procurement decisions, product design, and employee behaviour. Many of which will also result in cost savings.

LEGISLATIVE TAILWIND

The Taskforce on Climate-related Financial Disclosures (TCFD) was developed to bring more transparency and consistency in how organisations take account of climate-related financial risk. The UK government was the first to enshrine climate disclosures in law by making TCFD*-aligned disclosures mandatory for listed companies, larger private companies, and all financial services firms by 2025. It is anticipated that climate risk and carbon emissions reporting will become table stakes in the years to come, and subject to third-party auditing.



SFG01: URGENT CLIMATE ACTION

WHERE TO START

As well articulated by the Tech Zero toolkit, achieving net zero requires three steps:

- Measure your baseline emissions
- Reduce your emissions in line with limiting global warming to 1.5°C
- Compensate for residual emissions that cannot be reduced with durable, high-integrity carbon removals

PRE-SEED/SEED

Measure

- Understand sources of emissions for the business you are building.

Reduce

- Put carbon footprint front of mind in all your procurement decisions, i.e. for anything you purchase, is there a more climate friendly (and commercially competitive) option e.g. choice of cloud provider and data centre locations, choice of office space.
- Put carbon footprint front of mind in product design and value proposition, i.e. (for software business) practise sustainable software design and UX (see drop-down below), or (for hardware/ consumer good business), do a full lifecycle assessment of your product.

SERIES A

Measure

- Calculate your scope 1, 2 and 3 footprint yourself using one of the free SME tools out there including GoCardless, The SME Climate hub carbon calculator powered by Normative, Carbon Footprint, or Carbon Trust. This approach will give you a starting point but limited insight in terms of reduction opportunities.
- Introduce an intensity measure (e.g. tCO_2e / $ revenue, tCO_2e / transaction processed, tCO_2e / FTE...) to track carbon intensity reduction as you grow.

Reduce

- **Building footprint:** Most series A companies will be using shared office space and won't have direct control over their building-related emissions (which will be accounted for under purchased services scope 3 category). Like other procurement choices, don't hesitate to question and choose your space based on climate commitments.
- **Travel footprint:** Make virtual and hybrid ways of working integral to company culture. Fly only if needed.
- **Supply chain footprint:** Embedding sustainability in procurement practices from day 1 goes a long way in setting the course e.g. as part of selection criteria for anything from suppliers, venues or cloud services.
- **Cloud footprint:** Consider where you host your data, i.e. what country(ies) your data is stored in as data centres have different energy intensity depending on what electricity grid they're powered from. See this table ranking data centres carbon intensity across 60 locations. Also leverage cloud service providers' sustainability products, such as Google Cloud's or AWS's customer footprint tools, to reduce your cloud related footprint. These are still relatively immature but should build in sophistication in the coming years.

(We've assumed that you're in a shared workspace, if you are leasing office space, ask your landlord if the building is powered by renewable energy or plan to do so. Also ask landlord about energy efficiency initiatives)

- Also consider setting up a "Climate action champions network" or "Green Team" across the business providing staff with the opportunity to own and drive this agenda and to organise events and initiatives around climate action.

SFG01: URGENT CLIMATE ACTION

WHERE TO START

SERIES B ONWARDS

Measure

- Invest in working with an external provider to gain a more granular understanding of your footprint and the levers available to you to manage your footprint and reduce your carbon intensity as you continue to grow:
  - Climate/ Carbon consultancy, typically £30,000+ for more educational and emissions reduction advisory services.
  - Carbon accounting saas solution, typically £4,000-10,000 per annum depending on methodology and level of granularity. This fee will grow as your company grows. Working with solutions such as Sweep set up the data collection and measurement process but may require being complemented with light-touch advisory services.

Reduce

- Work with an external provider to set a net zero target to have a robust, science-aligned long-term plan.
- **Building footprint:** Switch or ask your landlord for plans to switch to renewable electricity and other energy efficiency initiatives. If you control your own offices, temperature regulation will be one of your greatest levers for energy (and cost!) savings - think max 19 degrees heating and max 26 degrees cooling.
- **Travel footprint:** Introduce a sustainable travel policy including encouraging hybrid ways of working, switching to low-carbon commuting where possible, train-first travel, and optimising unavoidable air travel (i.e. trying to include all relevant meetings within a single trip).
- **Supply chain footprint:** Formalise climate action as part of your procurement selection criteria for anything from catering to cloud services. Demand to see suppliers' climate action plans, and favour carbon neutral suppliers with active reduction plans.

See other recommendations from the Tech Zero toolkit and see deep-dive on page p.24 on reducing your digital footprint.

DEEP DIVE

COMPENSATE THROUGH CARBON CREDITS AND CLIMATE FUNDS

- Offsetting is the last lever to pull to get to net zero and should not be seen as a substitute to emissions reduction efforts. Offsetting, through the purchase of carbon credits, is a way of paying for others to absorb CO2 to compensate for your own emissions.
- Voluntary carbon markets (VCM) were created to meet this demand, and have rapidly grown reaching $2bn in value in 2022.
- VCM are still forming. The current lack of transparency and traceability of carbon offsets make it a hard market to navigate, with high variance in credit quality and reliability.
- There are many carbon removal options, either nature-based (e.g. reforestation, wetland conservation, soil carbon sequestration), or technology-based (e.g. direct Co2 capture, enhanced weathering). They vary in carbon removal timeframe and permanence. The more permanent options are currently more expensive.
- The environmental and social co-benefits of projects should also be considered in the selection of carbon removal schemes. Nature is one of our most powerful and large-scale carbon sinks. Purchasing high quality carbon credits on the VCM to support nature-based solutions and nature conservation is a great way of tackling the climate and nature emergencies hand in hand.
- Given the current uncertainty around carbon credits, many companies are shifting their narrative from carbon neutrality to one of climate impact.
- Working with offsets platforms such as Puro and Patch, or carbon management platforms such as Sweep or Supercritical will help you build a diverse portfolio of carbon credits that aim to deliver both immediate and long-term climate impact.

SFG01: URGENT CLIMATE ACTION

WHERE TO START

DEEP DIVE

EMISSIONS PROFILE OF SOFTWARE COMPANIES

Scope 3 emissions represent the vast majority of the modern enterprise's carbon footprint, and that's particularly true for early and growth stage software companies. Scope 3 includes all indirect emissions involved in the running of an organisation, from purchased goods and services, to business travel, waste disposal, employee commuting, transportation and distribution. Because they are outside of a company's direct control, it's no surprise that they can be the hardest to reduce. But all businesses have a role to play in influencing and partnering with their value chain for change. Understanding scope 3 emissions helps to:

- Assess where the emission hotspots are across their value chain to prioritise reduction strategies.
- Identify which suppliers are leaders and which are laggards in terms of their sustainability performance.
- Inform decision making across procurement, product development and logistics teams regarding which interventions can deliver the most significant emission reductions (see Staze example).
- Be able to communicate to stakeholders on key constraints and dependencies in further reducing emissions in the short-term (see carwow example below).

For tech companies, >80% of emissions will fall into scope 3. And this is likely to be even greater for software companies. Examples from the Balderton portfolio include GoCardless, 99.8% scope 3, Sweep, 94% scope 3, or Revolut, 95% scope 3.

CASE STUDY STAZE

staze

Hotel booking platform Staze measured their emissions and saw that 50% of their emissions were in their server costs and their office building.

Straight away they could set a target to reduce that 50% to almost 0 by switching to renewable energy in their offices and using a cloud provider powered by renewable energy. They could set that target to achieve within the next few months. (Case study sourced from the Tech Zero toolkit)

CASE STUDY CARWOW

carwow

Carwow, the go-to-destination for buying and selling your car, calculated their emissions using a spend-based approach to find that digital marketing accounted for ~95% of their scope 3 emissions and ~90% of total emissions.

As an online marketplace they are highly reliant on customer acquisition through digital marketing channels, but with the supply side of the market so dominated by the likes of Google, Meta and Microsoft, supplier switching is a real challenge. Having this clarity enables carwow to communicate to its stakeholders on the key hurdles to reducing their emissions in the short-term, and to meaningfully engage with their suppliers on reaching net zero.

SFG01: URGENT CLIMATE ACTION

WHERE TO START

DEEP DIVE

REDUCING YOUR DIGITAL FOOTPRINT

c.80% of business' digital emissions come from three broad categories of (1) cloud computing, (2) software usage and development, (3) online advertising and marketing.

With that in mind, here are three levers you can pull to reduce your digital scope 3 emissions:

1. Choose a cloud vendor with lower carbon intensity
Data storage creates a large carbon footprint because data centres use copious amounts of energy to keep their servers running. Consider where you host your data, i.e. what country(ies) your data is stored in as data centres have different energy intensity depending on what electricity grid they're powered from. See this table ranking data centres carbon intensity across 60 locations.

2. Practise sustainable software design and UX
Build applications that are carbon and energy efficient by:

- Getting rid of unnecessary code.
- Taking advantage of compression.
- Choosing efficient programming languages.
- Running computations on the service side.

Consider building carbon-aware features, namely offering your end-user the choice to switch to an "eco-mode", less carbon intensive but likely to impact the user experience (e.g. reduced video quality, reduced upload speed).

3. Optimise the size of your ads and make your website as efficient as possible
Try to reduce your file size to around 20-30%. You can test your ads through various image and video optimisation tools online, and can always use ad preview tools on the likes of Facebook, just to make sure you haven't reduced the quality too much. Most digital campaigns are intended to send traffic to your website, so ensuring file sizes are optimised is an easy, quick win.

Further resources:

Reduce your digital footprint guide
TECH ZERO

The Principles of Sustainable Software Engineering
MICROSOFT

A developer's guide to understanding carbon
GOOGLE CLOUD

SFG01: URGENT CLIMATE ACTION

DATA COLLECTION

- There are two data collection approaches to calculating your carbon footprint:
    - Monetary data - e.g. receipts, bills, invoices. Emissions factors in "CO2e/€" are applied to different categories of spend based on market averages. It is relatively easy to conduct but lacking in accuracy, especially in an inflationary environment.
    - Physical data - e.g. mileage, KwH. This provides high accuracy and robust results but requires a lot of effort to obtain the data.
- Start by calculating your footprint using monetary (or "spend-based") data - this should be easily obtained from your Finance function. Over time, roll out new data collection processes to shift to consumption data.
- Start by focusing on your scope 1 (gas and company car fuel consumption), scope 2 (electricity), and travel. Note that your supplier- related footprint is likely to account for >80% of your total footprint.
- The more advanced carbon accounting saas tools offer APIs to automate aspects of data collection.

USEFUL RESOURCES AND FURTHER READING

Leaders for Climate Action
Europe's largest community of climate action practitioners, helping companies move from awareness to action. For 42€ per month, members can access a range of practical resources such as action recommendations, templates, and a free calculator to help with everything from measurement to industry-specific guidance.

Tech Zero
Group of innovative tech companies who are taking bold action to fight the climate crisis. Their Tech Zero toolkit demystifies climate jargon and makes a net zero plan setting simpler.

Zero Carbon business
Offering practical ways to cut energy costs, save money and make the most out of getting to net zero.

The Chancery Lane Project
Guidance and a toolkit to embed sustainability clauses in supply chain contracts.

SFG01: URGENT CLIMATE ACTION

EXAMPLES AND TESTIMONIALS

01. PlayPlay

Play Play moved some of its servers to Finland where they are powered by clean energy, allowing the company to reduce its cloud related emissions by 25%. It also built a new product feature allowing its customers to access a carbon footprint report for their monthly video generation.

"We saw that we needed to start weaving climate action into our offering to be able to better serve our clients. They want greater visibility of the carbon impact of their video generation, something that we're now able to provide them with, while reinforcing our own commitment to sustainability."

— HUGUES BOUHANT, CHIEF OF STAFF AT PLAYPLAY.

02. GoCardless

GoCardless disclosing their Net Zero Action Plan: GoCarbonless as part of their environmental sustainability strategy.

"It is vital for businesses to take measurable climate action as part of a wider sustainability strategy, not only to reduce our impact on the natural world, but also to create positive change for our employees, customers and suppliers. To operate as a responsible business, it is crucial that we act in a sustainable way, allowing us to continue to attract the best talent, aligning with customer sentiment and new markets, and ensuring that we can transition to - and be part of - the low-carbon economy of the future."

— CATHERINE BIRKETT, CFO AT GOCARDLESS.

03. SWEEP

Sweep sharing their own learnings and actions in calculating their own 2022 footprint.

"Every day, we help large companies measure, reduce, and publicly communicate their climate impact. But our climate journey looks different. Our carbon footprint is quite small now and will grow as we scale our team and operations across the world. To keep building with impact, we need to look into our emissions from year 1 to best anticipate emission increases."

— RACHEL DELACOUR, CO-FOUNDER AND CEO AT SWEEP.

SFG02: RESPONSIBLE CONSUMPTION

WHY IS THIS IMPORTANT?

Did you know?

There will be more plastic than fish in ocean by 2050.

- Responsible consumption is about consuming in a way that is mindful of the world's finite natural resources.
- The waste hierarchy of avoid (don't consume), reduce, reuse, recycle and dispose is a great practical way of thinking about responsible consumption. So is the concept of circularity or circular economy.
- Responsible consumption cuts across many functions of any workplace, including catering, stationery, IT.
- Additionally, start-ups involved in the production and/or distribution of physical goods will be rapidly expected to have a sustainable production and packaging policy in place and to significantly cut down their packaging.

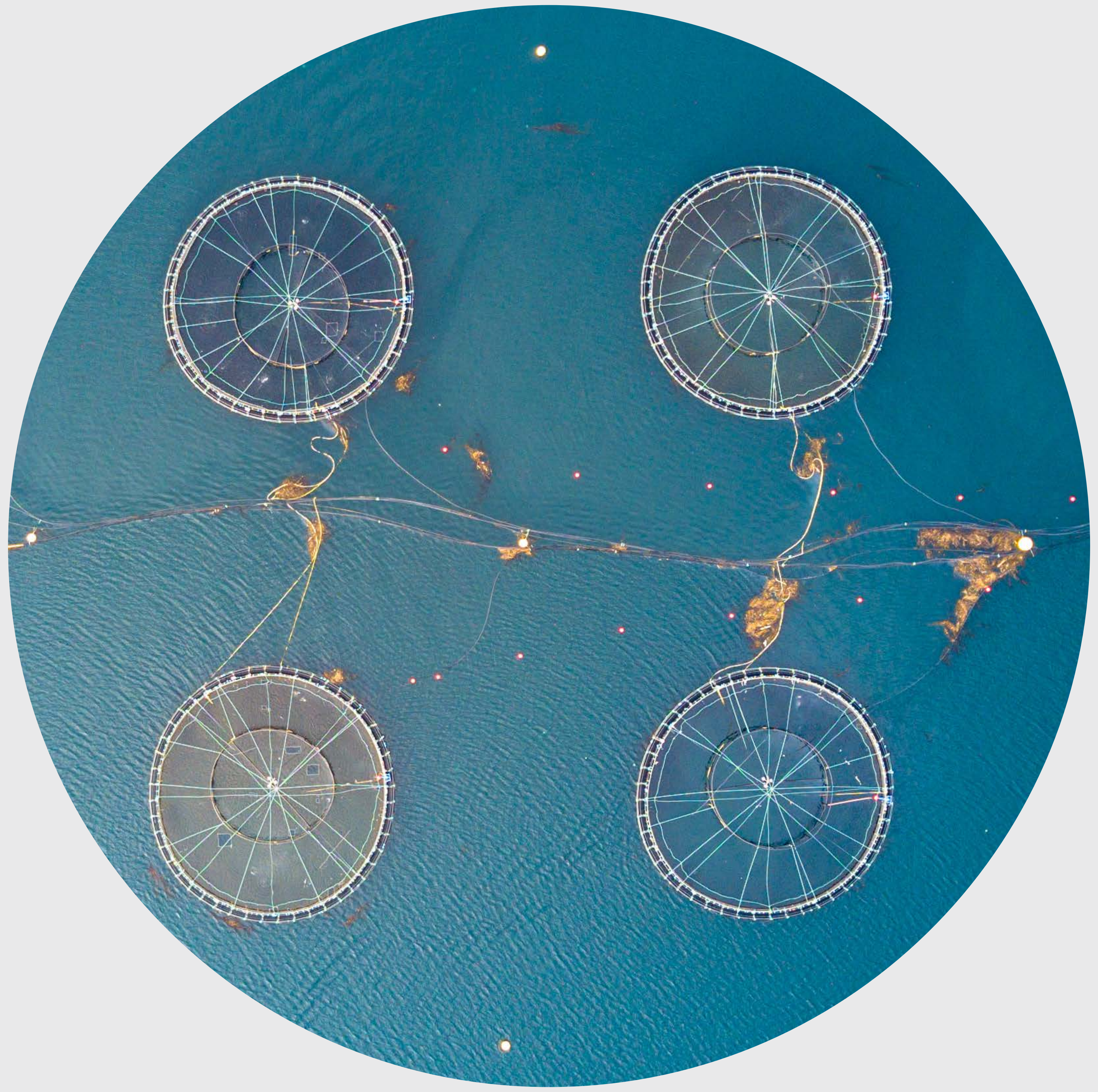
LEGISLATIVE TAILWIND

Partial bans on single-use plastics and packaging have been seen across Germany, France, the UK.

ENVIRONMENTAL BENEFITS OF REFURBISHED IT EQUIPMENT (VS. NEW EQUIPMENT)

PRODUCT	ANNUAL ENVIRONMENTAL IMPACT	E-WASTE PRODUCTION
Smartphone	64-87% reduction	84% reduction
Tablette	46-80% reduction	75% reduction
Laptop	43-97% reduction	97% reduction
Monitor	36-99% reduction	99% reduction

SOURCE:
Translated from Le matériel reconditionné pour les entreprises: comment et pourquoi en acheter?



SFG02: RESPONSIBLE CONSUMPTION

WHERE TO START

PRE-SEED/SEED

- Provide new team members with refurbished IT equipment, using companies like Circular Computing (UK) or GreenTraders (France), Swappie as a great way to keep costs down while doing good for the environment.

If you're building a business with a physical product -

- Consider conscious procurement choices:
  - Reduced/ recyclable/ biodegradable packaging.
  - Use of reusable/ recyclable materials.

SERIES A

- Champion a culture of responsible consumption by equipping your staff with reusable bottles and coffee cups, limiting use of single-use packaging, minimising food waste.
- Consider more conscious procurement choices where possible, looking out for:
  - Reduced packaging
  - Preference of reusable/ recyclable materials
  - Using local food suppliers
- Consider refurbished IT equipment if still appropriate/manageable, and ensure to donate or recycle equipment that you're retiring.

SERIES B ONWARDS

Many start-ups will be tenants in their offices, requiring engagement with other tenants and landlord to obtain some of the below:

- Limiting use of single-use packaging by equipping your staff with reusable bottles and coffee cups, and your office with glassware, cutlery, crockery.
- Providing good recycling facilities in the office (or asking your landlord for some).
- Tackling food waste by signing up to food waste marketplaces Too Good to Go, Karma, or Olio, or initiatives like OddBox.
- Introducing a waste management policy to encourage uptake of more responsible consumption behaviours.
- Considering more conscious procurement choices where possible, looking out for:
  - Reduced packaging
  - Preference of reusable/ recyclable materials
  - Using local food suppliers
- Reducing IT cost and e-waste. As you need to replace and/ or upgrade your equipment, ensure to find ways of recycling it. Instead of systematically renewing equipment every 4 years, consider extending beyond. Recycled printer toner and cartridges are also great ways to keep costs down while doing good for the environment.

SFG02: RESPONSIBLE CONSUMPTION

DATA COLLECTION

All companies could measure:

- % recycling rate - your landlord and/or waste collection company should be able to provide you with this report.
- For companies involved in the distribution of physical goods, keep an eye on the £ turnover thresholds by country for waste packaging, electronics, batteries and textiles (especially in the UK and the EU) to avoid accidental non-compliance and costly fines.

For some companies, it could make sense to report on:

- Avoided waste
- Water savings
- Packaging savings

USEFUL RESOURCES AND FURTHER READING

Guide on creating a waste policy

NI BUSINESS INFO

For a recent list of start-ups who can help you with sustainable packaging

SIFTED

SFG02: RESPONSIBLE CONSUMPTION

EXAMPLES AND TESTIMONIALS

01.

Vestiaire Collective

Vestiaire Collective introduced a “less is more” packaging, removing everything unnecessary, phasing out virgin plastic and prioritising recycled, recyclable and locally produced packaging. Vestiaire’s delivery cardboard boxes are now 100% recycled and recyclable and purchased from local suppliers. They are also designed to be reused several times and customers are encouraged to reuse it for their next sale. Vestiaire also replaced polypropylene pouches with new pouches made of cotton and recycled materials and chose to sew their logo in jacquard rather than have it printed to avoid a polluting process. This is on top of Vestiaire Collective’s business model being focused on circularity, avoiding the environmental impacts related to the production of new fashion items. Based on an annual user survey, 82% of the purchases made on Vestiaire Collective replaced a first-hand purchase in 2022.

02.

tibber

Tibber is tackling electronic waste by collecting and refurbishing all returned “Tibber Pulse” smart metres and opening a second-hand sale in their webstore, promoted during Black Week. The profits were donated to Restartes Norway, whose mission is to spread awareness and knowledge about repairing and DIY. To be able to sustain this initiative as the company scales, Tibber is now outsourcing the refurbishing back to its supplier, encouraging them to take on more circular practices.

03.

smol

smol spent over a year working on the development of world first 100% plastic-free packs, launched back in 2020. The recyclable and fully compostable packs protect smol laundry and dishwash products as they are shipped to customers’ homes. The patented design also includes a child-impeding opening mechanism to ensure child safety, and use vegetable-based inks.

“People don’t buy sustainable products, they buy brilliant products. So we have a relentless focus on delivering performance, at a great price, always doing significantly better on plastic, carbon and chemicals than many of the existing category leaders - because we believe that is what consumers increasingly want, and what the world needs.”

— HILARY STRONG, CHIEF MARKETING OFFICER AT SMOL.

SFG03: GREEN CITIES

WHY IS THIS IMPORTANT?

Did you know?

The world's cities occupy just 3% of land, but account for 60-80% of energy consumption and 75% of carbon emissions.

- Every organisation and employer has a role to play in making cities more breathable, liveable and sustainable.
- Employees are increasingly valuing benefits that are conducive to more environmentally friendly transportation.
- Encouraging employees to commute in a green way supports individuals' health and wellbeing as well as their wallet (by helping them save money on petrol, car parking or public transport costs), while contributing to reducing the environmental impact of pollution and congestion from cars.
- It can also be beneficial to incorporate these principles into any delivery and transport services - for example by opting for low impact office couriers, or if relevant, prioritising low carbon partners for product deliveries with electric vehicles etc.

SFG03: GREEN CITIES

WHERE TO START

PRE-SEED/SEED

- Embrace hybrid working arrangements and opt for clean transport arrangements as much as you can.

SERIES A

- Encourage hybrid working arrangements. Formalise it into a flexible working policy, not losing sight of the benefit of regular team collocation.
- Choose greener delivery and courier services.

SERIES B ONWARDS

As a start-up, your main levers to contribute to greener cities are:

- Encouraging hybrid working arrangements, allowing staff to reduce unnecessary commute to the office. Introducing a flexible working policy is a great way of formalising available and/or recommended flexible working practices. The benefits of team collocation and in person interaction should however not be overlooked, from personal development to social wellbeing. This is for example why at Balderton we've decided in our policy to require people in at least some days of the week.
- Enabling greener commuting through providing safe bike storage facilities and offering green commuting benefits to your staff. This could range from bicycle or micromobility purchase schemes to public transportation subsidies, such as season ticket loans.
  - If you are a UK-based business, you can take advantage of the government Bike2Work Scheme scheme. The scheme allows employees to reduce their income tax by deducing expenses for renting bikes & accessories from their gross salary; the employer can save up to 13.8% in National Insurance Contributions.
  - In France, the Forfait mobilite durable allows employers the opportunity to financially incentivise their employees to adopt more environmentally friendly commuting practices.
- Encouraging greener travel around the city by preferring green micro mobility schemes (city bikes, e-scooters...) and public transport to taxis or ride-hailing apps to travel to business meetings.

SFG03: GREEN CITIES

DATA COLLECTION

Employee commute is one of the scope 3 emissions categories. Many carbon accounting platforms will include an employee commute module to allow you to survey your staff on their commuting practices.

While not essential, it could nevertheless be interesting to keep track of and report on:

- % of employees taking advantage of green commuting benefits (HR/Finance function)
- % of employees commuting by bike or public transport (this would need to be survey based)
- Total £/€ subsidised for employee greener commute

USEFUL RESOURCES AND FURTHER READING

Company or government-sponsored bike for employees:

Bike2Work Scheme
UK

JobRad
GERMANY

Forfait mobilites durables
FRANCE

TESTIMONIAL

voi.

"A holistic sustainability programme includes looking at all aspects of our footprint, including employee commute. To minimise energy use, we provide flexible working setups, where employees can choose to partly work from home. As our core business is delivering sustainable mobility, we provide our service for free to all employees so they can commute and move around with shared, electric, light-weight vehicles. Our employee surveys shows that 87% of Voi employees commute by walking, cycling, scooting or public transport, with the rest relying on cars. We work to keep improving this going forward."

— SARAH BADOUX, HEAD OF SUSTAINABILITY AT VOI TECHNOLOGY.

SFG04: THRIVING NATURAL WORLD

WHY IS THIS IMPORTANT?

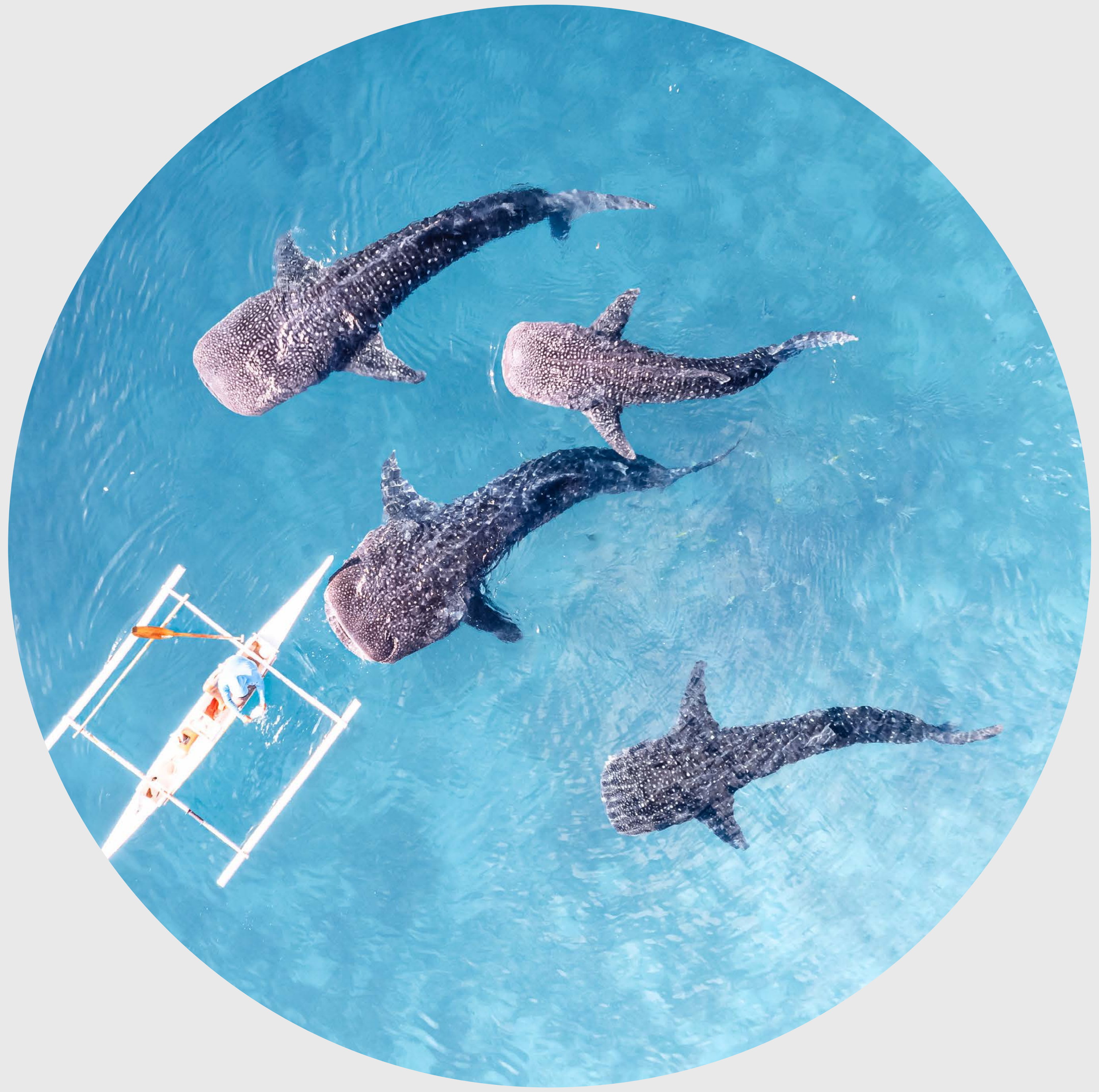
Did you know?

Half of global GDP is dependent on the healthy functioning of the natural world.

- Nature is the foundation of our societies, economies and human existence – from the bees that pollinate the food we grow, to the precious metals powering our technologies, to the very air we breathe and water we drink.
- Despite this reliance, businesses have historically undervalued and overlooked nature – in its interaction with land, ocean, atmosphere, freshwater and living things – leading to its degradation.
- There is growing consensus that businesses that take a proactive role in addressing their impacts and dependencies on nature and biodiversity will both increase their resilience in the challenging context of the climate and ecological crises while maintaining a licence to operate.
- For tech businesses, the connection with nature is not always obvious; but business impacts on nature will always exist, at least in the value chain if not in the direct operational sphere.
- Some tech businesses are also well positioned to harness their technology for nature restoration and regeneration.
- Ahead of future fundraises, it is also worth noting that biodiversity is the fastest developing ESG theme in global capital markets, with strong parallels and interdependencies with the climate crisis. Nature is the foundation of our societies, economies and human existence – from the bees that pollinate the food we grow, to the precious metals powering our technologies, to the very air we breathe and water we drink.

LEGISLATIVE TAILWIND

Mirroring climate's TCFD, the Taskforce on Nature-Related Financial Disclosures (TNFD) is working on developing a global framework to bring more transparency and consistency in how organisations take account of nature-related financial risk. Its formal application is still a few years away but it's nevertheless indicative of the direction of travel.



SFG04: THRIVING NATURAL WORLD

WHERE TO START

PRE-SEED/SEED

- Be aware that nature and biodiversity loss is seen as critical as climate change and that businesses will be expected to disclose their impact and contributions.

SERIES A

- Organise staff events and volunteering activities contributing to nature conservation and bring nature into the urban environment.

- Bring plants into the office space.

If you're building a business with a physical product and physical supply chains:

- Consider business impacts on nature and biodiversity

SERIES B ONWARDS

- Seizing opportunities for nature-positive action
  This comes in many forms including:
  - Bringing plants into the office, shown to boost team wellbeing
  - Organising staff events and volunteering activities contributing to nature conservation, such as tree planting
  - Choosing offsets with strong nature co-benefits. This will typically be investing in nature-based solutions projects, such as wetland conservation or ocean alkalinity enhancement

- Assessing potential business impacts on nature and biodiversity, either in your immediate operational sphere, or in your value chain. This could include:
  - Sites/operations located in or near biodiversity-sensitive areas
  - Pollutant emissions
  - Water / land intensity
  - Exploitation of natural resources (e.g. precious metals)

This is a relatively emerging area, with tools such as the WWF Biodiversity Risk Filter being developed to help companies visualise their impacts and risks for free.

For businesses involved in the production and/or distribution of physical goods, the impacts and dependency on nature may be more obvious, including in the choice and sourcing of materials and ingredients and packaging practices. Key business risks include reductions in the volume and quality of supply and increased prices.

SFG04: THRIVING NATURAL WORLD

DATA COLLECTION

The theme of biodiversity is still in its infancy and few early-stage investors may ask for data related to biodiversity impact, unless committed to reporting on Principle Adverse Impact (PAI) indicators under the SFDR regime.

Biodiversity related mandatory PAI indicators comprise:

- Water emissions
- Hazardous waste emissions
- Activities negatively affecting biodiversity-sensitive areas

USEFUL RESOURCES AND FURTHER READING

Measuring business impacts on nature
CAMBRIDGE INSTITUTE FOR SUSTAINABILITY LEADERSHIP

The Chairperson's Guide to Valuing Nature
WORLD ECONOMIC FORUM

A buyer's guide to natural climate solutions carbon credits
WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

SFG04: THRIVING NATURAL WORLD

EXAMPLES AND TESTIMONIALS

01. voi.

When **Voi** designed its Environmental Management System before having it ISO 14001 certified, they carried out an eco-mapping and risk assessment of value chain and activities. Within the scope of the company's operations, vehicles ending up in water was identified as a key risk to biodiversity. To address this risk Voi took a three-step approach:

- Prevent: They implement no parking zones near waterways using GPS and educating users. Vehicles are also designed to be watertight.
- Identify and rescue: Voi tracks vehicles ending up in water and deploy their on the ground teams to retrieve them as soon as possible.
- Partner: For vehicles that are unsafe for their teams to retrieve, Voi partners with local NGOs and diving organisations to retrieve scooters.

02. GoCardless

GoCardless challenged its employees to a Race to Nature, a company-wide fundraising event aiming to reach 15,000km or the distance from London to Cop27 in Cairo, over a 10-week period through running, cycling, swimming and walking. The collective effort led GoCardless to:

- Plant 5000 Trees with Rewards.Earth and The Green Task Force
- Protect rainforest elephants for 20 days with Rebalance Earth
- Train 10 teachers to deliver the Innovate for Climate courses in Schools with Apps For Good
- Restore 5 kelp forests with Green the UK
- Sponsor 30 Sea Dragons off the Australian coast with Sea Dragon Search
- Support the Climate Giant Project with the Whale and Dolphin Conservation charity

They also made a toolkit and webinar available to other companies wishing to set up their own Race to Nature campaign.

"The Race to Nature was a key part of our sustainability strategy in 2022, not just because it meant we could create a real positive impact for tackling climate change, protecting nature, and supporting communities - but it also played a key role in embedding sustainability across GoCardless. We had over 170 employees taking part and collectively covering 32,000km in 10 weeks - all making the effort to help the world around us. It was such a successful initiative, we'll be running a Race to Nature 2023!"

— BEN KNIGHT, HEAD OF ENVIRONMENTAL SUSTAINABILITY AT GOCARDLESS.

SOCIAL
SFG05—08

SFG05: FAIRNESS AND EQUAL OPPORTUNITIES

WHY IS THIS IMPORTANT?

Did you know?

The EU average gender pay gap was 13% in 2021

Fairness and equal opportunities is a wide-ranging topic which can take many different forms depending on the context. We break it down into three areas:

1. **Having an overarching commitment to human rights**
2. **Treating employees fairly and equitably**
3. **Giving back to the community and acts of philanthropy**

1. Having an overarching commitment to human rights

Quite literally, human rights are rights inherent to all human beings. These rights typically include the right to life, liberty and security, freedom from slavery and torture, freedom of association, the right to work, and many more.

In the context of early-stage and high-growth tech companies, human rights cover a wide spectrum of topics: from freedom of expression, employment contracts and labour rights, to data practices and privacy, supply chains, and the diversity of your team.

While it is a theme that cuts across many of the other ones presented in this guide, it is important to explicitly consider it in its whole. An overarching commitment to human rights provides the backbone to the effective identification, prevention and mitigation of human rights risks and breaches, which is the responsibility of any business, as set out by the UN Guiding Principles on Human Rights.

Technology start-ups should consider human rights not only in the context of their direct employees, but also indirect workers, such as:

- Outsourced tech-based services, for example overseas based tech support companies, and outsourced customer service centres
- Distribution/delivery workers
- Temporary or casual workers
- Local outsourced services – e.g. canteens, cleaners

They should also carefully integrate the risks and impacts of emerging technologies for human rights, dignity, autonomy and privacy as they develop their products and services.

If manufacturing is involved, it should be a priority to assess manufacturing suppliers against a code of conduct based on the International Labour Organisation's principles.

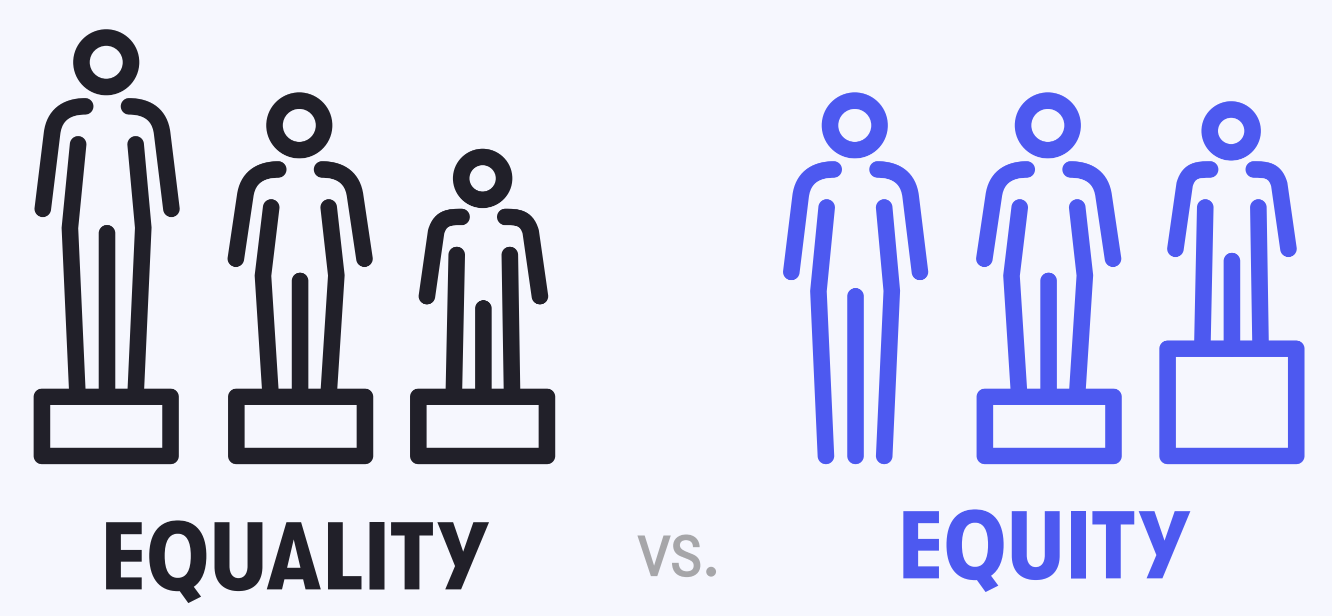
LEGISLATIVE TAILWIND

An explicit stance or policy on human rights (which could be incorporated in the company's code of conduct) is becoming increasingly essential as new regulations such as the Norwegian Transparency Act, the German Supply Chain Due Diligence Act, and the EU's proposed Corporate Sustainability Due Diligence Directive are rolled out to hold larger enterprises accountable for ensuring that human rights are observed across their operations and supply chains.

SFG05: FAIRNESS AND EQUAL OPPORTUNITIES

WHY IS THIS IMPORTANT?

2. Treating employees fairly and equitably



- It is within the gift of any organisation to ensure that employees are treated fairly and provided with equal opportunity. It needs to be in the fabric of the company leadership values and culture, reinforced by mechanisms. It is worth remembering that treating people fairly often means treating them differently.
- Fair remuneration and compensation is not only the right thing to do but also integral to attracting and retaining the best talent. In this context, the gender pay gap requires special attention. There are two types of pay gaps:
  - The "unadjusted" pay gap (often referred to as the gender pay gap) measures the average difference in pay between all men and women within a company.
  - The "adjusted" or "unexplained" pay gap, by contrast, calculates the difference in pay between women and men after accounting for the factors that determine pay, like job role, education, and experience.
- In both cases, data shows that the gender pay gap is real, and regulation is being rolled out to demand greater transparency and accountability of businesses on this issue.
- In the UK and the US, the ethnicity pay gap is also increasingly discussed and documented, showing the difference in the average pay between staff from ethnic minority backgrounds compared to 'White' staff in a workforce.

3. Giving back to the community and acts of philanthropy

- There is an expectation for businesses to give back to the local community in which they operate. This can take many forms, but is often done through volunteering and fundraising activities, supporting the more marginalised and disadvantaged groups, or a particular societal cause.
- Corporates are increasingly incentivising and facilitating the individual philanthropy of their employees by providing some benefits such as payroll giving, volunteering days.
- Charity days and other collaborations and challenges are also a great driver of team engagement.

LEGISLATIVE TAILWIND

The EU's new Directive for pay transparency is mandating pay transparency for job-seekers, right to information for employees, and reporting on gender pay gap. In the first stage, employers with at least 250 employees will report every year and employers with between 150 and 249 employees will report every three years. In 2028, employers with between 100 and 149 employees will also have to report every three years. Where pay reporting reveals a gender pay gap of at least 5% and when the employer cannot justify the gap on the basis of objective gender neutral factors, employers will have to carry out a pay assessment, in cooperation with workers' representatives.

Many states and cities in the United States are also adopting pay transparency laws, requiring covered employers to list salary ranges in job postings and advertisements.

In the UK, any employer with 250 or more employees has had to report their gender pay gap data since 2017.

The ethnicity pay gap is not currently mandated but is increasingly common practice in the UK, with calls from charity groups to make it mandatory to help address pay disparities between employees from different ethnic backgrounds.

SFG05: FAIRNESS AND EQUAL OPPORTUNITIES

WHERE TO START

PRE-SEED/SEED

Treating employees fairly and levelling the playing field

- Be fair and transparent about pay. Reevaluate packages of first joiners as the team grows to avoid frequency bias.
- Offer team members free shares or stock options.

SERIES A

Having an overarching commitment to human rights

- Consider human risks for both direct employees and indirect workers.
- Express an overarching commitment to human rights and integrate it in your values and practices.

Treating employees fairly and levelling the playing field

- Put in place salary bands to be fair and transparent about pay.
- Check for frequency bias and gender pay gap - favour a payroll system that includes a pay analysis tool.
- Offer team members free shares or stock options.
- Formalise employee benefits package (see SFGs 7 and 8).
- Introduce a paid parental leave policy beyond statutory requirement, supporting all types of new parents in a gender neutral way.

Giving back and philanthropy

- Find a team member to organise the first charity/ community event, either closely linked to team skills and capabilities (e.g. Fintech company doing something on financial education), or for a cause that impacts all (e.g. environmental pollution). Run as team building event.

SFG05: FAIRNESS AND EQUAL OPPORTUNITIES

WHERE TO START

SERIES B ONWARDS

Having an overarching commitment to human rights

- Introduce a due diligence process embedded in the company's operations so the company can be sure that everyone, particularly indirect workers, is respected and protected and any human rights breaches are identified and remedied by the company itself, not exposed publicly by a third party.

Treating employees fairly and levelling the playing field

Fair compensation:

- Striving for pay equity by defining clear principles for pay and performance early on. Base salary should reflect the value to the market and value to the company. Creating a codified and transparent performance review process early is instrumental in fostering a culture of equal opportunity.
- Put in place salary bands early. Fairness aside, having to do so retroactively at scale is extremely fiddly and hard.
- Be aware for example of frequency bias, whereby the more recent the hire, the more closely to market pay, putting at a disadvantage the longer-term employees.
- One simple practice worth putting in place early: Ensure all managers have a gender lens when they do salary reviews--at the manager level and at the company level. This quickly brings to light any bias, and allows the company to act on it preemptively
- There also are some pay analysis tools (sometimes built into payroll system solutions) which can help you identify, measure and address pay gaps.

Enhancing the compensation package through:

- Offering competitive employee schemes linked to value creation. This could be equity compensation (e.g. free shares, stock options), or profit share (e.g. bonus). OptionPlan provides the largest set of benchmark data, comprising over 20,000 option grants from more than 1,650 start-ups across the US and Europe.
- Offering good employee benefits. Put in place an attractive package of employee perks and benefits and make sure that you regularly communicate about it and report on it. Consider using an all-in-one benefits platform such as Cobee, Thanks Ben, or specific benefits such as meal vouchers through Swile or "Ticket restaurant" cards (France).

Financial education:

- Help employees take care of themselves and their finances, from basic budgeting skills and access to tax advice. You should be able to arrange for a free introductory session from your pension service provider or broker.

Parental leave policy:

- You have the opportunity to offer parental paid leave beyond the statutory requirement
- Designing a paid-leave parental policy is integral to attracting and retaining talent, female talent in particular.
- Supporting new parents in a gender neutral way is also increasingly seen as tackling the systemic challenges and inequalities faced by women in the workplace. By normalising time out, we are creating a more levelled playing field between men and women with regard to parenthood. Nordic countries are showing the way, with Sweden for example playing out parental benefit for 480 days for one child.
- Consider both "birthing" and "non-birthing" leaves. Statutory requirements can be unkind towards adoption, surrogacy, etc.
- This is why at Balderton we have introduced a gender blind parental leave package, offering 6 months fully paid to all new parents.
- A return to work or support initiative will help employees transition back into their role.

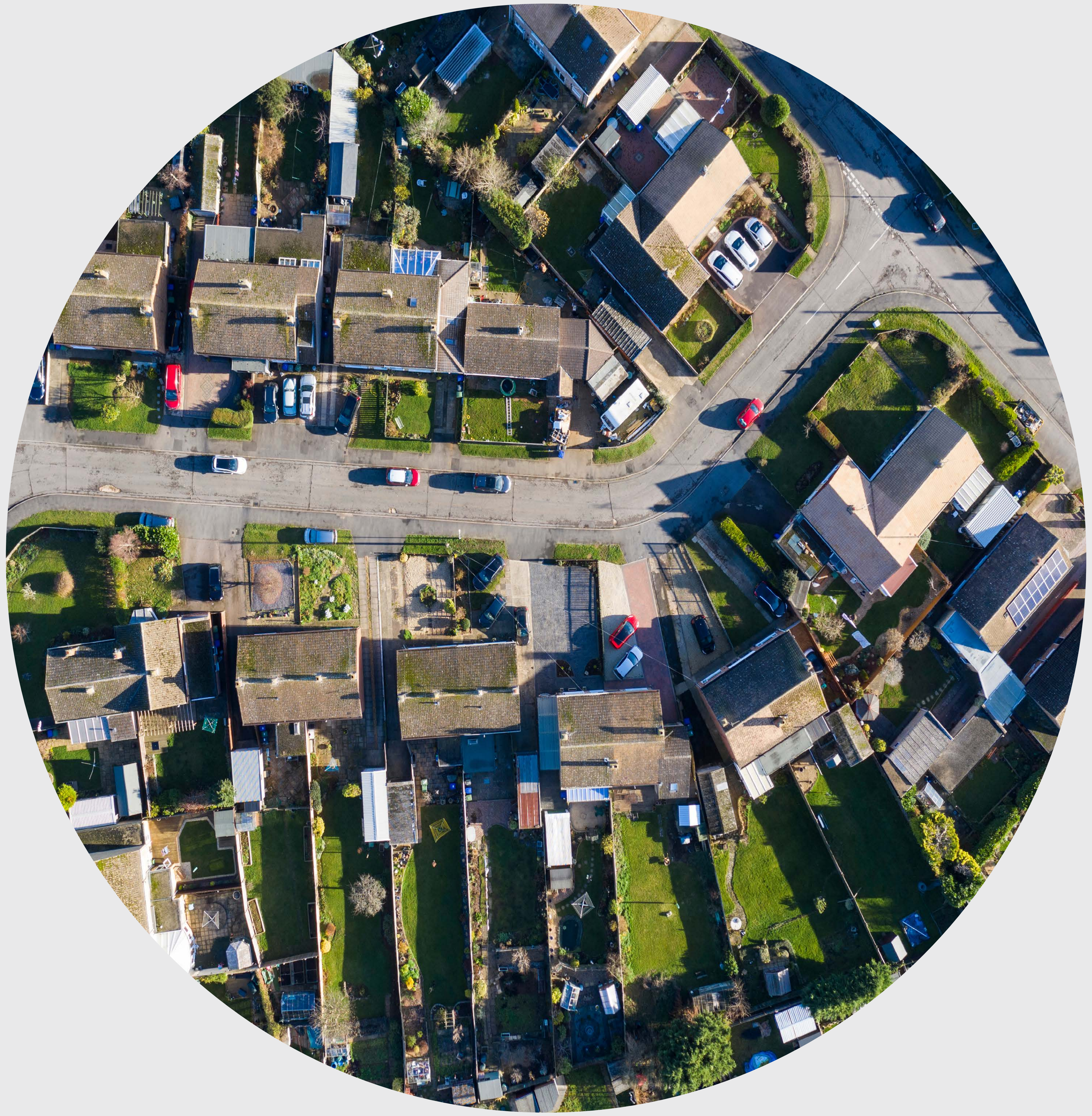
SFG05: FAIRNESS AND EQUAL OPPORTUNITIES

WHERE TO START

SERIES B ONWARDS (CONTINUED)

Giving back and philanthropy

- Volunteering and charity giving: Introduce early on a volunteering day allowance and organise a team Impact Day. It is a great source of team building. At Balderton we choose to support vulnerable and marginalised groups of society and partner with local charities in our London Borough of Camden.
- Workplace giving: Giving your employees the opportunity to give to charity, often with fiscal incentives, and a company gift-matching scheme. For example, many platforms support pre-tax payroll giving in the UK.
- Outreach: Contributing to social mobility by supporting initiatives that support talent access to your industry. This could be a great addition to your hiring strategy.



SFG05: FAIRNESS AND EQUAL OPPORTUNITIES

DATA COLLECTION

- % FTEs offered to participate in a scheme linked to value creation.
- £/€ charity contribution.
- Gender pay gap (%) explained by position and seniority, and unexplained.
- Promotion velocity, attrition rate and global workforce increase of underrepresented groups (e.g. women, ethnic minorities, employee living with a disability, etc.).
- Ethnicity pay gap (%).

USEFUL RESOURCES AND FURTHER READING

Fair remuneration and compensation

Living Wage Foundation - organisation helping people receive a wage that funds their everyday living.

Fair and competitive remuneration software solutions:

- Gapsquare: Fair Pay Analytics for Inclusive Employers
- Ravio: Make smarter salary, equity and benefits decisions

OptionPlan

INDEX VENTURES

Parental leave

Parental Leave in Start-Ups

ESG VC

Benchmarks on the parental benefits provided by start-ups across the UK and Europe

ESG VC

The Start-up Founder's Guide to Creating and Using a Parental Leave Policy

ALLRAISE (US)

Pay gap reporting

An update on ethnic pay gap reporting in the UK

PEOPLE MANAGEMENT

SFG05: FAIRNESS AND EQUAL OPPORTUNITIES

EXAMPLES AND TESTIMONIALS

01.

Zuto
GoCardless

Pay gap reporting

See **Zuto's** standalone Gender Pay Gap Report 2021, downloadable from their website.

See **GoCardless**' gender pay gap reporting as part of its 2022 Diversity Report.

"I know that we are not closing our gender pay gap fast enough. We on the Executive team take responsibility for driving the changes we must see in order to increase the proportion of women in senior roles over the next three years. As GoCardless embarks on the next phase of growth, I am confident that we are taking positive steps to build a workplace that serves many and more.""

— HIROKI TAKEUCHI CO-FOUNDER AND CEO AT GOCARDLESS.

02.

smol

Equal opportunities and fair remuneration

"As an employer, we believe that we have a responsibility to offer quality job opportunities to those who face barriers to employment. It's always felt important to us that those who are the most disadvantaged should have fair and equal access to quality jobs. In turn, this only strengthens our team and business. Upskilling employees and providing better paid work that is more stable, with valuable career progression is something we continue to champion; and those who mentor and train will benefit in turn by developing the skills to nurture somebody else's development."

— HILARY STRONG, CHIEF MARKETING OFFICER AT SMOL.

03.

smol

Giving back and philanthropy

smol has rolled out many social initiatives with direct ties to its core product, with the aim of raising both awareness and funds to support important causes.

"Working with charities, organisations and community groups plays an important role in educating all of us at smol and inspiring us to always do more. As a brand we have a responsibility to shine a spotlight on issues and to drive for meaningful change. Tackling hygiene poverty, ocean plastic pollution, and social inclusion through charitable initiatives and sponsorship really makes sense for a cleaning brand and is a great source of pride for our team."

— HILARY STRONG, CHIEF MARKETING OFFICER AT SMOL.

SFG06: DIVERSITY AND INCLUSION

WHY IS THIS IMPORTANT?

Did you know?

Historically, diverse founding teams deliver higher cash return to investors at exit, earning 30% higher median realised multiple on IPOs and acquisitions.

On diversity

- Diversity describes the range of human differences within a group of people. Many studies have shown how businesses that have diverse workforces and management outperform their peers in almost every business metric.
- As much as it feels like a no brainer, diversity is hard in practice. It requires deliberate intent and effort from day one. Unconscious bias, pre-existing structural barriers in the education and job markets, and tokenism are all common challenges facing organisations.
- There is a myriad of diversity lenses such as gender, ethnicity, sexual orientation, disability, age, socio-economic background, to name a few. Not all differences are visible and even less quantifiable.
- It takes mindsets, skills, and behaviours to take diversity deeper than a simplistic (and dangerous) box ticking exercise, and no better time to do it than early on to shape the culture and practices of the organisation.

On inclusion

- In terms of the workplace, inclusion involves people's well-being at work, safeguarding people's mental and physical resources, and championing rights and cultural differences all of which collectively help people to succeed at work.
- An inclusive environment allows individual contribution to matter and employees are able to perform to their full potential, no matter their background, identity and circumstances.
- For all businesses with a web presence, and more acutely for software businesses, digital accessibility is another key dimension of inclusion. Digital accessibility allows all users to access content without difficulty, including people with disabilities and using specialised software or hardware.

LEGISLATIVE TAILWIND

Gender diversity

2022 saw the roll-out of a new EU law introducing gender balance targets on company boards. By 2026, companies will need to have 40% of the underrepresented sex among non-executive directors or 33% among all directors. The UK's FCA meanwhile introduced multiple diversity targets for listed companies including at least 40% of the board to be women; at least one member of the board to be from a non-white ethnic minority background; and at least one of the senior board positions to be a woman.

Hiring persons with disabilities

In many EU countries, organisations of 20 or more employees are subject to hiring quotas for people with disabilities (4-6% depending on the country). Countries operate different types of penalties if quotas aren't met, from monthly penalties to annual contributions to a fund for the vocational integration of people with disabilities. See here for more detail by country.

Digital accessibility

Web Content Accessibility Guidelines (WCAG) explains how to make web content more accessible to people with disabilities. WCAG covers websites, applications, and other digital content. It is developed by the World Wide Web Consortium (W3C) Web Accessibility Initiative (WAI). WCAG is an international standard, with many organisations expected to meet Level AA Conformance.

SFG06: DIVERSITY AND INCLUSION

WHERE TO START

PRE-SEED/SEED

- Build as diverse a team as possible, focusing on gender, ethnic and other diversity lenses, to achieve diversity of thought, perspective and experience.
- Don't just surround yourself with people in your immediate network and beware of affinity bias.
- Make diversity part of your company's values.

SERIES A

- Publish a diversity policy.
- Conduct a D&I audit to understand where you are and what to focus on.
- Continue driving for diversity in recruitment:
  - Include diversity and inclusion statements in job descriptions
  - Check job descriptions for use of inclusive language using free available tools
  - Introduce a referral bonus scheme for underrepresented employees
  - Codify interview process to follow identical approach for all applicants
  - Work with organisations promoting diversity in VC
- Create an inclusive culture:
  - Flexible working arrangements
  - Internal events celebrating different cultures and traditions
  - Promote a culture where all employees have a voice
  - Not tolerating any micro-aggressions
  - Encourage Employee Resource Groups and employee-run communities (e.g. Bookclub, Runclub)

SERIES B ONWARDS

On diversity

- Put diversity front of mind of building your team from day one. This should include your leadership team and Board. Many companies focus initially on gender diversity, while hiring from different cultural backgrounds and nationalities will also be enriching for your company.
- Formalise this in a Diversity policy. This should articulate why you value diversity as an organisation, what measures you are putting in place to promote diversity, equity and inclusion, and avoid discrimination, and how you create an inclusive working culture from day one. Remember that your employee population is the biggest testament to your commitment.
- Recruitment is a key window of opportunity to shape a diverse team. Make sure you go the extra mile to source female and other diverse candidates. The diversity of your initial candidate pool matters - studies have shown that when there's just one woman in the finalist pool, their chances of being hired are statistically zero.

CONTINUED

SFG06: DIVERSITY AND INCLUSION

WHERE TO START

SERIES B ONWARDS (CONTINUED)

- When there are at least two women in the final pool - the odds are 194 times greater. Have your teams run regular sourcing sessions to help diversity and help recruiting, and focus your attention towards organisations or communities that actively increase access to jobs for diverse candidates. Early talent development activities such as internships and apprenticeships can also be a powerful source of diversity. Include diversity and inclusion statements in job descriptions and use of inclusive language in job postings. This can be tested with some of the free tools to assess bias within job descriptions, for example here, or with the more expert help and insight from companies like Develop Diverse.
- Set up compliant internal data collection processes: This should always be on a voluntary self-identification basis (asking employees to fill in a survey at the point of joining and/or on an annual basis.This can be done on an anonymous basis). The geography/ies you operate in will have specific laws with regard to personal demographic information.
- Consider doing a D&I audit: and/or commission a diversity audit, for example with The Allyance. Such audits can help reveal unconscious biases in recruitment and identify particular areas to focus your efforts on.

On inclusion

- Foster an inclusive culture, for example through
  - Flexible working arrangements
  - Internal events celebrating different cultures and minorities
  - Workshops or speaker events on the topic of unconscious bias/ conscious inclusion
  - Ensuring all employees (especially groups that may be under-represented in your workforce) have a voice.
  - Zero tolerance for micro-aggressions.
- Encourage Employee Resource Groups to advocate for inclusion based on gender, sexual orientation, ethnicity and other forms of diversity. They play a significant part in achieving inclusive representation, developing workplace culture, and providing employees with support.
- Choose an inclusive and accessible built environment, e.g. disabled access, unisex toilets, breastfeeding and faith rooms. Include a reasonable accommodation policy inside your D&I policy.
- Put digital accessibility at the heart of dev work. Ensure that your key product and tech leaders have basic accessibility awareness training.

INCLUSIVE INTERVIEWING PROCESS TIPS FROM DIVERSITY VC

- Ensure at least two non-majority candidates are interviewed
- Follow identical interview process for every candidate
- Use multi-selection methods rather than just interviews eg. ability tests, case studies, to open up variety of assessment and minimise risk of biassed decisions
- Use several assessors across a range of stages, use individual assessors rather than interview panels. Collect individual feedback before gathering the team to lower chances of correlated errors and prevent conformity that reduces judgement quality
- Offer referral bonus for underrepresented employees
- In referencing, find out what they are like in a working environment, whether they will help preserve or improve the culture of your business, and what is important to them?
- Ask promotion and prevention focused companies equally to all kinds of founders
- Follow up with those who got offers and those who didn't and ask what could have gone better about the process. Examples included in DiversityVC toolkit

SFG06: DIVERSITY AND INCLUSION

DATA COLLECTION

Data collection on diversity should always be carried out carefully as it constitutes sensitive personal information. Make sure to seek advice on the specific parameters demanded by your jurisdiction to collect diversity data legally and sensitively. Typical parameters include consent, data storage, anonymity, and collection/storage by third parties.

- Gender data is rapidly becoming a table stake and, in some jurisdictions, a regulatory requirement. Gender data in leadership, Board and overall organisation will often be asked by growth and buyout investors.

Other metrics to consider include:

- Disability employment data (%)
- Compliance levels for digital accessibility

USEFUL RESOURCES AND FURTHER READING

On Diversity and inclusion

Diversity & Inclusion in Tech: A Practical Guidebook for Entrepreneurs
DIVERSITY VC & ATOMICO

11 ways to build diverse, equitable and inclusive start-ups
FOUNDERS FACTORY

Why diversity isn't just a trend, but truly a real asset
FORBES

On Digital accessibility and inclusion

Building more-inclusive technology
HBR

Digital Accessibility Report
CONTENTSQUARE

SFG06: DIVERSITY AND INCLUSION

EXAMPLES AND TESTIMONIALS

01. TOUCAN

Hear from our portfolio company **Toucan** on why start-ups should make diversity a top priority:

"At Toucan many of our first employees were women, which helped us to hire more women as we grew. We weren't as quick to hire people of colour, though, and we're still playing catch-up when it comes to increasing ethnic and racial diversity. So pay attention to your first few hires: they set the stage for everything that follows."

— CHARLES MIGLIETTI, CO-FOUNDER AND CEO AT TOUCAN.

02. GoCardless

See **GoCardless**' inaugural Diversity report reporting on the company's diversity make-up, including gender, ethnicity, orientation, disability and neurodiversity and age, and sharing all the initiatives in place to continue driving diversity and inclusion forward, from W, to X Y Z.

"As a company, we build simple and secure bank payment solutions for people and businesses everywhere. For this to work, we need to reflect the customers we are serving. Through greater diversity and inclusion, we will be more attuned to our customers' needs, build better products and services, and make higher-quality decisions as a business. (...) As we continue to scale quickly and internationally, attracting a diverse workforce and creating an inclusive environment where employees from all walks of life can thrive is key to our success."

— EVA DUCRUEZET, CHIEF PEOPLE OFFICER AT GOCARDLESS.

03. lovecrafts

Check out how **LoveCrafts** got shortlisted for the Culture Pioneers 2022 Inclusion Award, with judges applauding "a number of commendable DEI initiatives across the organisation. It's clear that creating a more diverse and inclusive workplace for all is at the heart of what LoveCrafts does."

"LoveCrafts has weaved diversity and inclusion (D&I) D&I into the heart of what we do – appreciating its importance for both our customers and our employees. Our D&I committee is a revolving membership made up of employees across all teams and all levels of the organisation, with buy-in from the executive and c-suite to ensure that initiatives are fully supported. It is not regarded as one person's job but part of everyone's job."

— HANNAH WINTER, GENERAL COUNSEL AT LOVECRAFTS.

SFG07: GOOD HEALTH AND WELLBEING

WHY IS THIS IMPORTANT?

Did you know?

87% of start-up employees said that working at a start-up had negatively impacted their mental health at some point.

- This is an important topic for all organisations but especially for start-ups: the demands, challenges and risks that come with running a small business can bring personal pressures and impact on health and wellbeing, at a time where your people are your greatest assets.
- Health and wellbeing starts at the heart of the company's leadership style and culture. While many employers have rolled out initiatives like mental health days or weeks, four-day workweeks, and mental health benefits or apps, they're not enough. Employees need and expect sustainable and mentally healthy workplaces, which requires taking on the real work of culture change.
- A lot of mental health issues are related to leadership, so watching out for negative or toxic behaviours and hiring well have a huge role to play.
- Cultural change can then be supplemented by a top employee benefits package, which will benefit the business in many ways, be it employee retention, reduced stress and sickness absences, increased productivity and enhanced overall employee experience and team culture.
- Choosing the right employee benefits is a balancing act. Companies, especially start-ups, need a cost-effective solution. But one that employees will want and actually make the most of. The good news is that not all employee benefits need to cost a fortune. Things like flexi-time and remote or hybrid working arrangements, gym membership discounts, or free healthy snacks can go a long way.

SFG07: GOOD HEALTH AND WELLBEING

WHERE TO START

Beyond statutory compliance with health and safety standards (health and safety policies, fire equipment and signage, site risk assessment, first aiders and more) and mandatory annual and sick leave (as per your geography), there are a range of employee perks and benefits that can be rolled out to support employee health and wellbeing. To deliver the maximum value for money, your best bet is to ask employees directly what they want and to weigh it up with what your organisation can afford. The good news is that not all perks and benefits come at a price.

PRE-SEED/SEED

- Ensure your team is looking after themselves and help build boundaries.

SERIES A

- Ensure strong internal communications to reduce unknowns and uncertainty and making sure there are open channels for communication where employees feel they are being heard.
- Create a culture where employees can work flexibly if they need to.
- Organise team socials and support employee-run clubs e.g. running club, book club.
- Consider including private health insurance, access to digital healthcare services and childcare vouchers in employee package.

SERIES B ONWARDS

No investment:

- Offer flexible hours and opportunities to work remotely.
- Employee-run clubs e.g. running club, book club.
- Leverage national awareness days such as “World Mental Health Day” (Global).
- Ensure strong internal communications to reduce unknowns and uncertainty and making sure there are open channels for communication where employees feel they are being heard.

SERIES B ONWARDS (CONTINUED)

Small investments:

- Office snacks, team lunches and socials
- Gym membership discounts
- Corporate subscription to Headspace

Larger investments:

- Childcare vouchers or preferential childcare arrangements.
- Health insurance package including employee assistance programme.

Other actions:

- Ensure there is a dedicated space for different needs including breastfeeding, prayer or meditation.
- Invest in ergonomically sound equipment, such as chairs, standing desks and other accessories. Consider offering them to employees for their home office set-up.
- Roll out an employee wellbeing programme. Many platforms offer cost-effective ways of doing that, such as Lifesum, Heka, BetterSpace or GoVida.

SFG07: GOOD HEALTH AND WELLBEING

DATA COLLECTION

- Measure employee net promoter score (eNPS): eNPS is a metric used to measure employee engagement, satisfaction and loyalty towards a business. Monthly or quarterly reporting can help you get your finger on the pulse of employee satisfaction. eNPS surveys can be easily run through employee feedback platforms such as Workday Peakon.

USEFUL RESOURCES AND FURTHER READING

Five tips to manage employee wellbeing in start-ups
STARTUPS MAGAZINE

Eight things start-up employers should know about burnout
STARTUPS MAGAZINE

It's a new era for mental health at work
HBR

SFG07: GOOD HEALTH AND WELLBEING

EXAMPLES AND TESTIMONIALS

01.

voi.

Voi launched its 'Wellbeing Champion Programme', whereby employees volunteer to drive awareness and organise various initiatives to promote wellbeing and mental health. Since the inception of the programme, Voi has welcomed external 'experts' who have held presentations and fireside chats on topics ranging from stress management, to efficiency, to focus. To encourage physical activity, which is directly linked to mental wellbeing, two global 'moving challenges' have been held as well. At the Stockholm headquarters, Voi employees take part in breathing sessions twice a week, which are broadcasted digitally for all employees globally to partake in.

02.

ZEGO

Zego has made therapeutic coaching available to all their staff, working with an external provider to offer a wide range of supporting combining coaching and therapy. Zego covers the cost of twelve sessions a year for people to use however they like, from learning to be better at public speaking to talking about more personal things like relationships.

03.

tibber

Tibber invites its employees to a 30-day challenge once a year to provide an opportunity to reflect on what change means and leading by example to inspire others to change. Employees chose their focus, from digital detox, to mediation, exercising, to not eating any meat or not buying unnecessary stuff.

"This really is about taking our own medicine. Tibber exists to help people adopt more sustainable practices. This 30-day challenge helps raise awareness among staff of the importance of looking after themselves and making meaningful change towards a more sustainable collective future. And it's a lot of fun. It fills up our slack channels with photos from home, and makes us more connected as a team and as humans."

— HANNE HOVE, HEAD OF SUSTAINABILITY AT TIBBER.

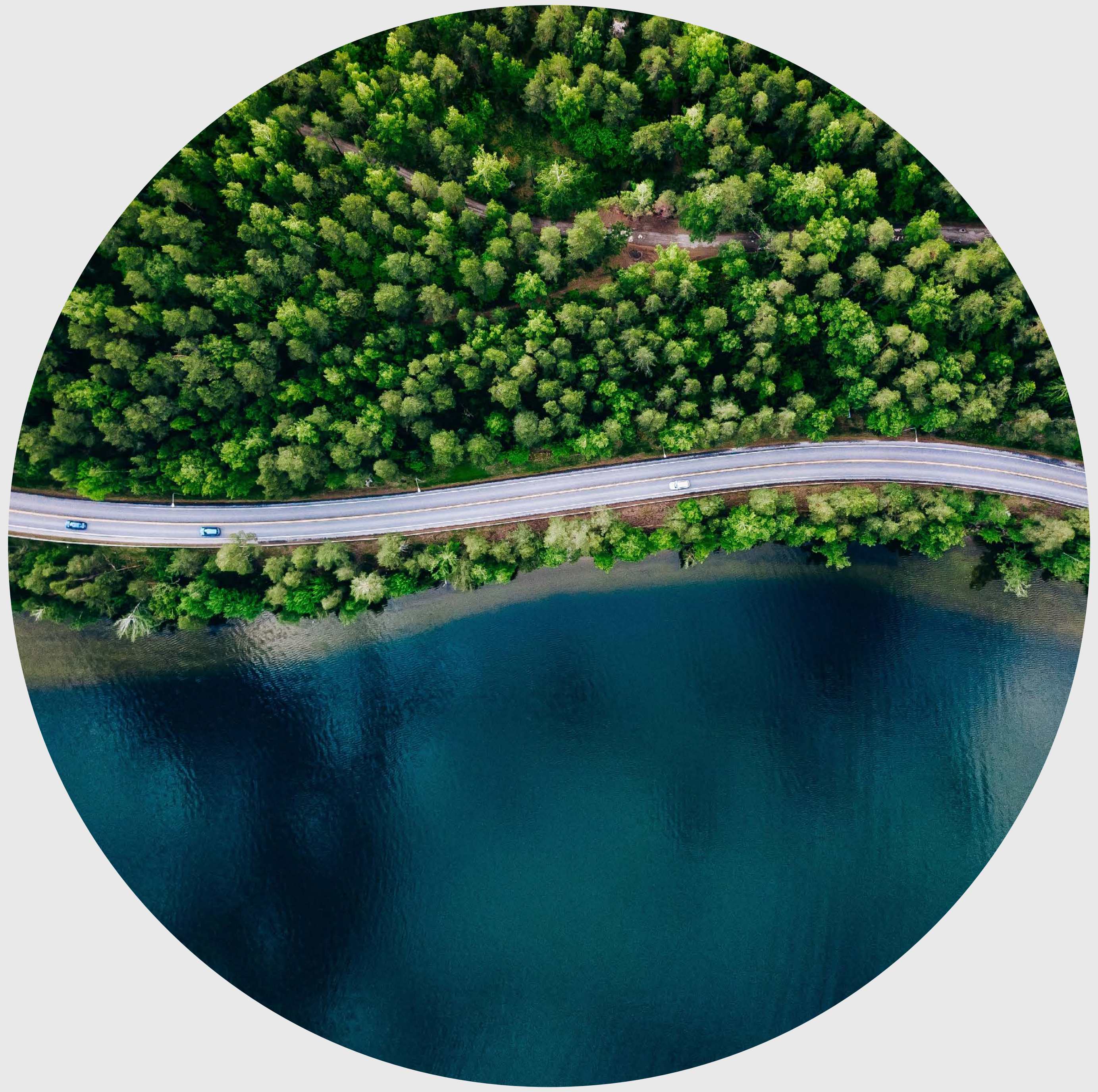
SFG08: LIFELONG LEARNING

WHY IS THIS IMPORTANT?

Did you know?

91% of Gen Z employees rate professional development as one of the most important factors for choosing where they want to work

- Personal growth is one of the most sought after attributes of any role.
- There are many cost-effective ways to nurture a culture and opportunities for learning. Making it easy and relatable is key. And don't underestimate the power of learning from each other.
- Ensure that training or coaching is embedded in the context of the organisation - be it through alignment to values, or performance framework. Consider setting up accountability groups that require articulating how the learnings have been used.
- Establish a systematic learning needs assessment and monitoring process to ensure that all employees access learning and development–not just those who proactively seek it.
- Offering your staff access to blended content is great but doesn't guarantee engagement. Self-directed learning is at its best when it's curated.
- Ambitious people often leave scale-ups because they feel that their learning curve has plateaued. Reframing some of the day job activities as growth and stretch opportunities is paramount.



SFG08: LIFELONG LEARNING

WHERE TO START

PRE-SEED/SEED

- The day job is full of learning curves and stretching opportunities!

SERIES A

- Tap into learning & development opportunities that don't cost a penny:
  - Leveraging open source knowledge: Lunch and learns, or TedTalks company-wide events are a great way to strengthen company culture. This could be structured around the company values, or simply the interests and passions of staff.
  - Book club / Company library with book suggestions crowdsourced from your staff is another great asset. Many start-ups also send a list of suggested readings or gift books/ebooks as part of the new-joiner process.
  - Peer coaching/ knowledge sharing: Cross fertilise organisational knowledge, diversify thinking, and strengthen 1-to-1 relationships between different layers of the organisation by matching people from different functions (e.g. engineering and commercial functions).

SERIES A (CONTINUED)

- Network participation: Encouraging staff to join relevant industry and thematic networks outside of the organisation.
- Uncovering untapped potential: Asking your staff what are the hidden skills that they have that the organisation doesn't know about.

SERIES B ONWARDS

- Build L&D into the performance review process to underline management's commitment to it as being important, and to ask what the worker needs to be able to do their job better, more efficiently, more confidently or to grow to the next level.
- Convene in-person training workshops, on broad topics like diversity and inclusion, to being a good communicator or management skills.
- Offer a dedicated annual training budget and/or protected time for personal growth to encourage staff to invest in their own growth and development
- Provide access to an online learning platform. Ensure that the platform has been configured and curated for your organisation to make it relevant and engaging to your employees and maximise uptake.

SERIES B ONWARDS (CONTINUED)

- Continue tapping into learning & development opportunities that don't cost a penny:
  - Leveraging open source knowledge: Lunch and learns, or TedTalks company-wide events are a great way to strengthen company culture. This could be structured around the company values, or simply the interests and passions of staff.
  - Book club / Company library with book suggestions crowdsourced from your staff is another great asset. Many start-ups also send a list of suggested readings or gift books/ebooks as part of the new-joiner process.
  - Group coaching (either paid or self-directed) is a great way to build a sense of cohort and community while mentoring or reverse mentoring can strengthen 1-to-1 relationships between different layers or functions of the organisation. Furthermore, 1-to-1 peer coaching between engineering and commercial functions can be a great way to cross-fertilise organisational knowledge and diversify thinking.
  - Network participation: Encouraging staff to join relevant industry and thematic networks outside of the organisation.
  - Uncovering untapped potential: Asking your staff what are the hidden skills that they have that the organisation doesn't know about.

SFG08: LIFELONG LEARNING

DATA COLLECTION

- % utilisation of annual training budget
- # days invested in L&D

USEFUL RESOURCES AND FURTHER READING

How to make Learning & Development work for your start-up
BOBBY POWERS ON MEDIUM

EXAMPLE AND TESTIMONIAL

kaia health

Kaia Health puts a strong emphasis on learning from each other, through the pairing of each new joiner with a mentor, and regular running of lunch-and-learns and company-wide training and speaking events. Additionally, Kaia offers all its employees an annual education budget plus four days off to attend events and conferences and work towards a certification of their choice.

"We help each other to deliver the best results! This is the philosophy that I believe in! It is how we can do more to enable and empower each other! Always reach out to offer help when you can!"

— ZHAOYANG JIA, PEOPLE OPERATIONS AT KAIA HEALTH EUROPE.

GOVERNANCE
SFG09—10

SFG09: HIGHEST ETHICAL AND GOVERNANCE STANDARDS

WHY IS THIS IMPORTANT?

Did you know?

Bad things can happen more easily where there is little or no proper corporate governance:

- John J Ray III, in his first bankruptcy filing as the new CEO of FTX on 17 December 2022 said that in over 40 years of legal and restructuring experience, he had never seen "such a complete failure of corporate controls..."
- In the UK, a publicly listed company saw its stock price drop, institutional investors sell their shares, and some analysts predicting UK sales growth could be severely impacted by bad publicity after poor governance allowed third-party suppliers to pay below the minimum wage to some of their UK-based workers.

- Corporate governance is based on four generally accepted basic principles: fairness, transparency, accountability, and responsibility. These principles must be observed from the creation of the start-up, accompanying the development of the company's governance, even when it occurs gradually.

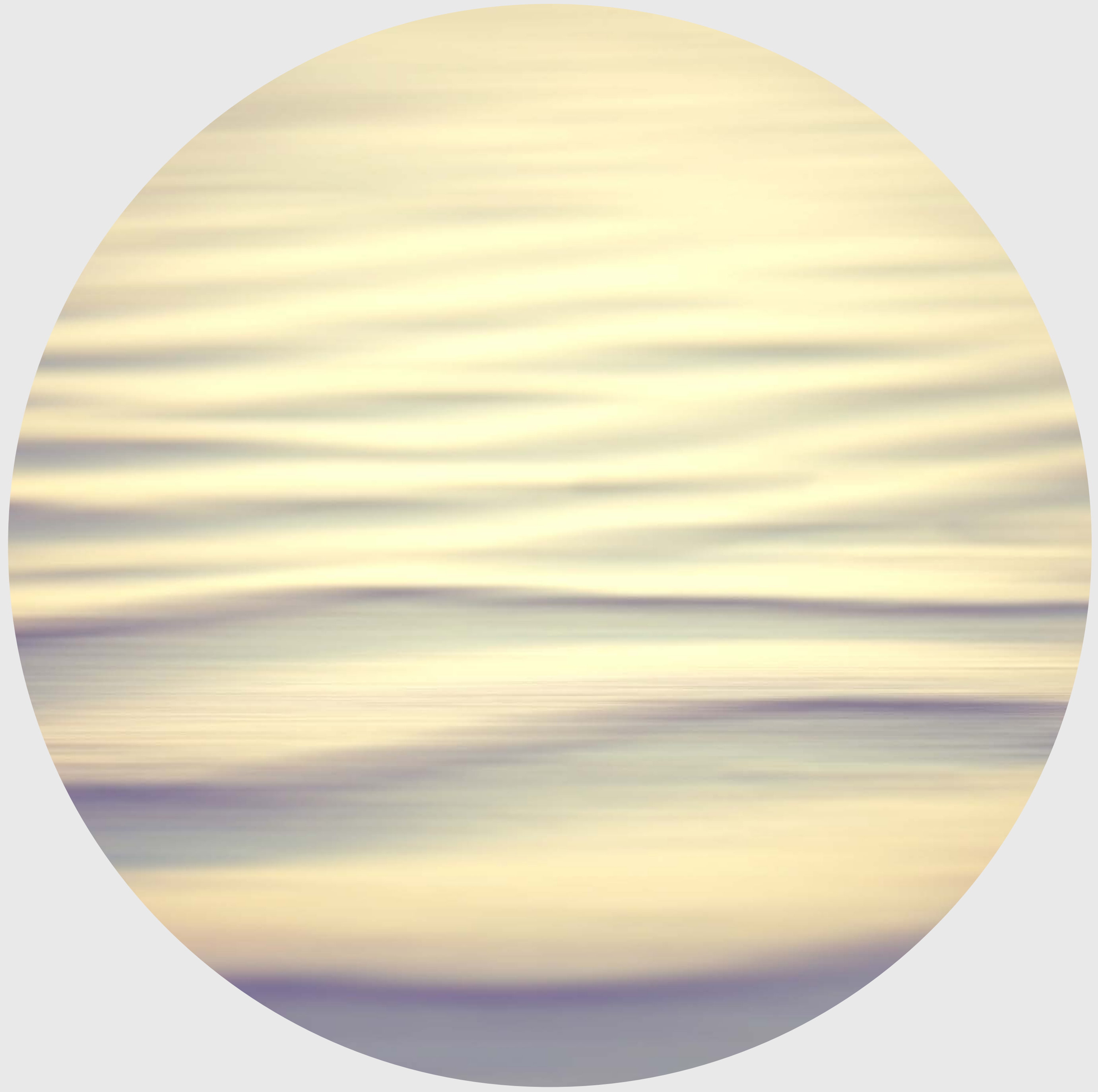
- The ethical and governance standards that you implement will underpin your company's culture, the way it operates, and your team's behaviours.

- In some cases, having appropriate governance structures and policies is not optional: for example, for regulated businesses, these are likely to be a prerequisite.

- The policies are also important to stakeholders other than just your employees, and may be of relevance to customers, suppliers, investors and regulators.

- The board is responsible not only for setting, but also for monitoring the policies. Others (such as auditors) may also have responsibility for checking compliance with some of them, but the primary responsibility rests with the board (which may be collective and/or individual responsibility).

- In addition to the benefits of having good governance, having appropriate policies in place and monitoring compliance (and taking appropriate steps to address non-compliance or remediate where necessary) will potentially help to mitigate any consequences where anything slips through the net. Conversely, not having an appropriate policy in place, or failing to monitor it are likely to compound any failing.



SFG09: HIGHEST ETHICAL & GOVERNANCE STANDARDS

WHERE TO START

PRE-SEED/SEED

- Understand the key risks and regulations which apply to your business; engage specialist advisors early on.
- Adopt board-like routines if not a formal board, i.e. a regular meeting between founders (and seed investor, if appropriate) to discuss business updates and key strategic deep dive topics.

SERIES A

- Set up a formal board. Discuss your company's ethics and governance framework with your board and leverage experience of the board members.
- Create and publish company policies e.g. a code of conduct, anti-harassment and discrimination policy, code of ethics, bribery policy, health and safety policy.
- Communicate policies to the business with purpose. This is not a tick box exercise, management should be involved in delivering the key takeaways from the policies.
- Put in place systems and processes to monitor good governance (e.g. regular board meetings) and compliance (e.g. quarterly confirmations from employees) and take remedial action where necessary.

SERIES B ONWARDS

- Review the key risks and regulations which apply to your business; engage specialist advisors early on.
- Discuss your company's ethics and governance framework with your board and leverage experience of the board members (and new board members as they join): ask questions such as what are our values? What behaviours do we want to promote or prevent?
- Once your company has a clear pathway on these key issues, put pen to paper and create/update company policies e.g. a code of conduct, anti-harassment and discrimination policy, code of ethics, bribery policy, health and safety policy.
- Policies should avoid legalese and be drafted so that they can be digested and understood by the whole business. There is no point in having a 100+ page policy that no one reads! Policies should be focussed on risks that are material to your business e.g., regulated activities/GDPR and data handling and should be proportionate to the relevant issue and its consequences.
- Communicate policies to the business with purpose. This is not a tick box exercise, management should be involved in delivering the key takeaways from the policies.
- Put in place systems and processes to monitor good governance (e.g. regular board meetings) and compliance (e.g. quarterly confirmations from employees) and take remedial action where necessary.
- Policies should be relevant and proportionate to your business and the risks it faces and should be periodically reviewed by the board and updated where necessary to ensure they stay relevant and proportionate as your company grows - what is relevant and proportionate to a business in the start up phase will likely be different to what is relevant and proportionate in the scale up and growth phases. Also bear in mind that additional policies may be required as you scale.
- Incoming investors will review your policies and procedures on successive investment rounds, and will require you to put in place missing policies or upgrade policies which are no longer fit for purpose. Try and stay ahead of the game by making sure you have reviewed your policies and upgraded where necessary ahead of being found out in a due diligence process.

SFG09: HIGHEST ETHICAL & GOVERNANCE STANDARDS

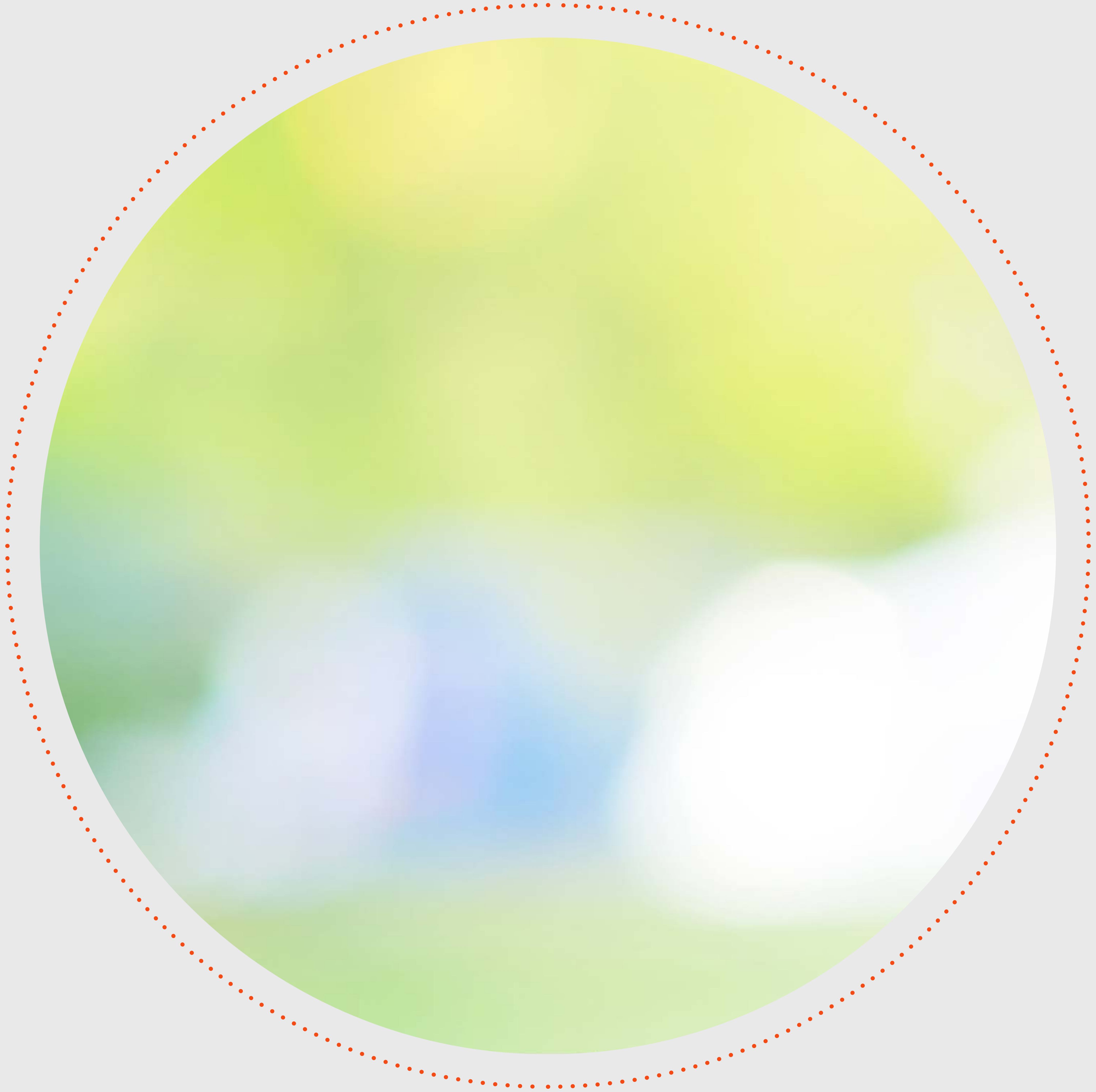
DATA COLLECTION

- Employee acceptance of code of conduct and other compliance policies and procedures (%)
- Annual number of policy breaches
- Employee/Board member training rate (%)
- Board actions completion rate (%)

USEFUL RESOURCES AND FURTHER READING

On Board with Balderton: The 101 guide to board meetings
BALDERTON CAPITAL

Lack of governance is what is keeping CEOs up at night
STARTACUS



SFG09: HIGHEST ETHICAL & GOVERNANCE STANDARDS

EXAMPLES AND TESTIMONIALS

01. merama

Merama set up a dedicated and comprehensive Compliance Program to implement appropriate processes, procedures, and policies, from writing new policies to establishing an Ethics Committee, implementing a whistleblowing channel, and delivering annual training alongside an ESG, cybersecurity, and compliance onboarding course. Merama's commitment extends to its subsidiaries, having rolled out a Compliance program for Merchants.

"Our commitment to compliance and ethical behaviour forms part of the company's core values and principles. We see this as inseparable from integrity and good judgement. We were well positioned to promote these values with our Merchants and to help them put effective compliance and ethical practices in place. We started the Compliance department in January 2022, and by the end of the year, we had 19 subsidiaries with active whistleblowing channels; 12 had implemented and communicated Compliance Policies; 7 had general Compliance Training sessions for all their collaborators; and 8 of the Ethics Committees - composed of members of Merama and the Merchants on an equitable basis - had held meetings to address received reports."

— PAZ MONGELOS, COMPLIANCE DIRECTOR AT MERAMA.

02. Ramp

Ramp created an authority delegation matrix to clearly establish who within the business has authority to sign specified documents, which documents need to go to the Board for prior approval or just be reported to the Board after signature, and what to do with the documents once signed. This comprehensive policy creates efficiency within the business by enabling appropriate levels of delegation in order to streamline the process of negotiating and signing documents, whilst setting clear accountability and governance.

"At Ramp, we recognise that delegation of responsibility is essential for scaling any organisation. Our delegation authority matrix has been a key tool in achieving this, providing clarity and accountability while streamlining our operations."

— SZYMON SYPNIEWICZ, CO-FOUNDER AND CEO AT RAMP.

SFG10: DATA RIGHTS ARE HUMAN RIGHTS

WHY IS THIS IMPORTANT?

Did you know?

In 2022 there were 4,100 publicly disclosed data breaches, equating to 22 billion records being exposed, including from companies like Okta, Google, Twitter, Uber, Microsoft, Dropbox, Twilio, LastPass according to cshub.com.

Data rights are human rights because in today's digital age, individuals generate and share an enormous amount of data. This data often includes personal information such as names, addresses, financial information, and even biometric data such as fingerprints and facial recognition data.

The right to privacy is one of the fundamental rights that is threatened by the collection, storage, and use of personal data. Additionally, data can also be used to discriminate against individuals based on factors such as race, gender, or sexual orientation. This can lead to further human rights violations.

Protecting data rights is essential to ensuring that individuals are able to exercise their fundamental human rights. Data security should therefore be a focused investment from day one of your business. It shouldn't be taken lightly, as incidents such as a data breach can be very damaging to customers and to your reputation, and could result in substantial fines or other regulatory action.

The responsible handling of data, and in particular personal data, is crucial to protect from cybersecurity risks - the most prevalent being:

- **Social Engineering** - The process of hacking people rather than systems remains one of the most popular methods for compromising security as up to 85% of all data breaches (Source) include an aspect of human involvement. The 4 common types are Phishing (email based), Vishing (voice based), Smishing (SMS based) & Impersonation.

- **3rd Party exposure** - Attacks facilitated by granting 3rd parties, e.g. contractors or external systems, privileged access to company data from networks and devices that are less well protected, maintained or monitored.

- **Configuration mistakes** - Either from an external source or via privileged internal access, configuration mistakes can lead to security gaps that are unknown to the company security teams.

- **Ransomware** - A method of denying access to a company's data by encrypting it and demanding a 'ransom'. The average cost of this type of attack in the UK is $1million with system access typically restricted for at least three weeks.

- **Insider threats** - Insider threats involve employees or other trusted individuals who intentionally or unintentionally compromise the security of a system or network. This can include stealing sensitive data or inadvertently introducing malware into a network.

- **Password attacks** - Password attacks involve attempting to guess or steal a user's password in order to gain access to their accounts. This can be done through brute force attacks, where an attacker tries to guess a password by using various combinations of letters, numbers, and symbols, or through credential stuffing attacks, where stolen usernames and passwords from one site are used to attempt to access other sites.

There have also been increased data security risks caused by remote working. Like with public Wi-Fi networks, the lack of physical security, decreased visibility for security teams to monitor network activity, makes it more difficult to identify and respond to potential security breaches in remote working environments.

SFG10: DATA RIGHTS ARE HUMAN RIGHTS

WHERE TO START

PRE-SEED/SEED

- Understand business model and product related data risks and obligations.
- Hire a security-savvy developer.
- Build and implement data privacy controls by implementing a 'Security by Design' culture across the business.
- Develop appropriate policies and procedures for your business to minimise data security risks.
- Deploy endpoint security solutions as the first layer in your security stack.

SERIES A

- Formalise data security responsibilities across your team and consider hiring a CISO (Chief Information Security Officer).
- Continue developing appropriate policies and procedures to address additional risks.
- Engage a third party to conduct regular security assessments and and promptly remediate issues highlighted.
- Invest in a training platform and schedule regular, mandatory, cyber and regulatory training for all.
- Adopt a fundamentally zero-trust approach to infrastructure and architecture. Only work with vendors who adhere to these principles.
- Invest in solutions that will help you manage cybersecurity threats (e.g. email phishing) and allow for secure software development (e.g. source code scanning for sensitive information).
- Maintain regulatory compliance with GDPR, CCPA and other relevant obligations.
- Plan and document what you will do in the event of a breach.

SERIES B ONWARDS

- Continue monitoring for data related risk across your business and all applications and developing appropriate corresponding policies and procedures.
- Maintain regulatory compliance: improve adherence to compliance mandates like GDPR, CCPA and other relevant obligations, develop strong audit of email security risk.
- Hire a CISO (Chief Information Security Officer) if you haven't already done so, and, if appropriate, build a dedicated security team.
- Build software with a fundamentally zero-trust approach to infrastructure and architecture. Only work with vendors who adhere to these principles.
- Audit your suppliers to check their GDPR/ other data compliance.
- Consider cyber insurance.
- Invest in enterprise risk solutions helping to:
  - Enable secure software development by scanning source code to detect API keys, passwords and other sensitive information in real-time. For example, GitGuardian.
  - Support zero-trust architectural decisions that help ensure your company's software and the data you store is secure by design.

CONTINUED

SFG10: DATA RIGHTS ARE HUMAN RIGHTS

WHERE TO START

SERIES B ONWARDS (CONTINUED)

- Manage cybersecurity threats in real-time by reporting key areas of insider risk (like unusual credential use or data movement).
- Improve employee behaviour through regular simulations of phishing and training.
- Deploy an ASM platform to fully understand your risk profile.

The suggestions above are just some of the key areas to watch, there are many others including: pen testing, bug bounty programs, security logging and investigation tools, application security (which starts with secure designs), supply-chain security, implementing a zero-trust architecture, securing your cloud infrastructure, running internal phishing campaigns to raise awareness, proper 2FA etc.

DATA COLLECTION

- Number of data breaches
- Number of cybersecurity threats/attacks
- % employees completing cybersecurity and other IT training
- % employees failing phishing tests

USEFUL RESOURCES AND FURTHER READING

- GDPR Checklist available to ensure GDPR compliance
- Common attack vectors on authentication available from Ory here
- Cybersecurity Template/Checklist available here
- Guidelines to detect phishing
- Secure identity management with Ory
- Platforms helping against code breaches/data breaches (eg: Gitguardian)
- Small Business Guide: Cyber Security
  NSCC
- Secure design principles
  NSCC
- 10 STeps to Cyber Security
  NSCC

SFG10: DATA RIGHTS ARE HUMAN RIGHTS

EXAMPLES AND TESTIMONIALS

01. merama

Merama sees cybersecurity and consumer data protection as fundamental elements of its ESG approach. The company has implemented seven information security policies and created a Cyber Awareness Program to promote cybersecurity and personal data privacy awareness throughout the organization. During 2022, the team carried out a Data Protection Compliance risk and gap analysis and documented the Data Protection Management System for Merama's holding companies and 20 subsidiaries.

"We've invested a lot to design and implement an efficient, globally standardized data protection infrastructure by providing systematic rules to cover policies, processes, and activities that involve personal data processing. This effort includes hiring knowledgeable, hands-on data protection professionals who undertake the DPO's responsibilities and understand and ensure compliance with the Data Privacy Laws applicable to all countries where we operate. This topic was of utmost importance to our stakeholders and us, so we started to assess and address the most critical aspects firsts, the Privacy Notices."

— LUANA ROSA, GLOBAL HEAD OF ESG AT MERAMA.

02. TESSIAN

Tessian has pioneered a new category of security software called Human Layer Security, tackling the most vulnerable asset of an organisation when it comes to cybersecurity: people. Today, 90% of today's data breaches are caused by some form of human error and Tessian uses machine learning to stop data breaches and security threats caused by human error - without disrupting employee workflow. Customer stories can be found here.

"People make 35,000 decisions every day; it just takes one wrong decision or one instance of human error for an employee to cause a catastrophic security breach. In the same way we have firewalls to secure networks, and endpoint detection and response platforms to secure devices, enterprises now need advanced security technology to secure their people."

— TIM SADLER, CO-FOUNDER AND CEO AT TESSIAN.

04. HOW TO OPERATIONALISE

The following sections offer practical guidance and advice when it comes to the operational elements of ESG.

While there's no one size fits all approach, the below guidance covers what we've seen work well in early stage businesses - from incentivisation and ownership, to best practices when writing your ESG policy, to engaging your board and much more.

At Balderton, we are committed to putting our expertise, support, and our network to work for our founders.

For more operational advice for start-ups, visit Build with Balderton.

AN OVERVIEW OF THE OPERATIONAL JOURNEY:

1. Identify your material ESG topics
2. Write your inaugural ESG policy or impact statement
3. Assign owners
4. Engage your board
5. Set goals
6. Measure your progress
7. Communicate to stakeholders

WRITING YOUR INAUGURAL ESG POLICY OR IMPACT STATEMENT

Publishing a policy is a great way to create shared understanding and common definitions internally, while signalling awareness and intent externally.

Typically, an ESG policy focuses on business behaviour and operations. Meanwhile, an impact statement focuses on the impact the business is having in the world. Depending on your business priorities and stage, you may want to publish one or both of these.

In any case, it's important to think carefully and choose the language that is going to work for you. Choose your winning combination of ESG/Sustainability/Responsible Business/Impact and policy/framework/statement/programme/manifesto/plan, to describe this one statement or document that articulates your awareness of and commitment to ESG and/or impact.

SOME TOP TIPS TO REMEMBER

- Add a quote from your founders or CEO - only if they mean it!
- Keep it simple and forget the quest for uniqueness - prioritise something that will work for your business and your people, and can be easily actionable.
- Consider tying it back to existing frameworks, such as the UN's SDGs - a language for sustainable development spoken by many, globally.
- The more you can tie your sustainability narrative to your core products and services, the better.
- Give your ESG programme a name to further personalise your ESG efforts.

This workshop from ESG VC is a great resource as you develop your policy.

EXAMPLES TO INSPIRE YOU

ESG policies

Ezoic's "Ezoic Cares" programme
Merama's Sustainability statement
Vivenu's Responsibility at Vivenu page
Beauty Pie's ESG Commitments

Impact statements

Voi's Sustainability commitment page
Vestiaire Collective's Sustainability Manifesto
Infarm's Impact Vision paper
Brigad "une entreprise a mission"

A company that has both

Wagestream's ESG policy alongside its Mission statement

FAQS ON WRITING YOUR ESG POLICY

01.

When should I write my first ESG policy?

- While it's never too late to write your first sustainability statement, we strongly believe that the sooner this is articulated, alongside or as part of your business mission and values, the more integrated it will be with your business strategy and brand.
- The policy should directly shape or reflect the framework that you are or will be using to drive this agenda internally.

02.

I don't feel we've done much at all as a business, is it too early to publish a statement or policy?

- Communicating awareness and intent is a great way to start your ESG journey. Authenticity and humility are your best friends. No lofty statements or pretending that you're "working on something". Acknowledging that this is a journey and that you're only getting started.
- In our communication section, we show how even some of the most mature and advanced businesses on this agenda talk about climate action, diversity and other sustainability topics as a journey and "learning out loud".

03.

What should be in an ESG policy (or equivalent)?

- Start by acknowledging the need for greater sustainability and the role of business in shaping a more sustainable future.
- Define and distil what this means to your business. Many statements and documents are structured around the three pillars of people (care for your employees, your customers, and the wider community), planet, and governance. Remember that the most successful strategic (i.e. value creating) ESG approaches are informed by materiality (see drop-down below).
- Include commitments and targets if any have been set.
- Set a cadence for the regular review of your statement and document, which should evolve as you take action.

04.

Should I publish my ESG policy on my website?

- This is up to you. Some start-ups prefer to keep their ESG policy document internal and only share it with some stakeholders (e.g. investors). We believe that an ESG policy is a powerful communication asset and should sit on your website, or a public-facing version of it at least.
- Companies more advanced on their ESG journey may decide to publish a sustainability or impact report (see reporting section).

Have any more questions about ESG?
Get in touch today.

DEEP DIVE

IDENTIFYING YOUR MATERIAL ESG TOPICS

The most successful and strategic (i.e. value creating) ESG approaches are informed by materiality.

In the context of sustainability, materiality means focus on the ESG topics that matter the most to your business. To identify these, you need to combine two complementary lenses (also known as “double materiality”):

1. What ESG topics are most likely to impact financial performance. This could be internal (e.g. diverse talent; data privacy management; energy bills) or external (e.g. social unrest; consumer sentiment; extreme temperatures) social and environmental trends.

2. What ESG topics are most impacted by the organisation. This focuses on how the business impacts the world it operates in, be it people or planet, and the responsibility that comes with it. Indirectly these could have an impact on financial performance as poor management/ aggravation of negative impact can lead to reputational damage and value destruction, while amplification of positive impacts could create additional value.

Note that what is material to your business performance will change as your business grows and diversifies, world events happen, and societal trends evolve. This is why an ESG approach needs to be highly dynamic, iterative and regularly evolved over time - and why OKRs provide a helpful goal-setting framework (more on this in our goal-setting and prioritising section).

ARTICULATING ESG GOALS AND PRIORITIES

This could be done through the lens of (a) business sustainability or (b) global sustainability, or a combination of both:

(a) Business sustainability framing. Tying back your sustainability efforts to your core business strategy. For example, themes like responsible product design, or client service excellence would be woven. Sustainability would also be featured as a business value or strategic pillar.

(b) Global sustainability framing. Articulating your contribution to global sustainable development goals. The UN’s Sustainable Development Goals (SDGs). This is a great way to signal alignment and engagement with the leading shared agenda for sustainable development. The colourful SDG icons are some of the widely recognised “sustainability visual identity” in the market, offering a common language for all system actors.

OWNERS & SPONSORS

Without clear ownership and accountability, and backing from the top, ESG efforts are likely to stall or never truly get going.

Early-stage companies won't have the resources to dedicate a role to ESG. And that's perfectly ok, so long as there is clear founder backing and that the designated operator sees the opportunity to take on ESG under their wing as a growth opportunity.

1. Expressing founder commitment

In early-stage businesses, the sponsor should be no other than the founder and/or CEO. They should express early on the importance – and their personal commitment – to addressing ESG themes material to their organisation and value proposition, not only because it's the right thing to do but because it is intrinsically linked to long-term value creation.

- Aligning ESG visions and principles within a company contributes to developing a purposeful culture, which itself will be instrumental to implementing a seamless and successful ESG integration.

2. Finding the right owner(s)

Across the Balderton portfolio alone, we have a wide variety of role titles also looking after the ESG agenda, including: Founder, Chief of Staff, Head of Strategy / Strategy Business Analyst, Head of People, Finance Director, Operations Director, Marketing Manager, Head of Legal, Strategic Project Manager.

- There is no right or wrong answer, simply considerations. Who you choose to own the ESG agenda should ultimately be a factor of:
  - Individual experience, passion and bandwidth. Ultimately you need someone who will have the capacity and confidence to take on this agenda.
  - Main driver for ESG implementation. Different individuals will likely end up at the helm depending on whether the inception of an ESG programme was demanded by the Board, prompted by regulatory change, inspired by customer feedback, or instigated by staff.
  - Priority ESG themes. Should you decide to start on the D&I front, the People function is well placed to advance social ESG topics as part of their day-to-day role, while Operations or Finance are closest to the data needed to calculate carbon footprint. Strategy or Marketing can also be great homes for ESG as transversal functions.
- Ultimately, the role of owner is one of orchestration, coordination and communication. This remains true as the company grows and appoints a full- or part-time head of sustainability. We like this Deloitte report that describes chief sustainability officers as "sense-makers in chief" - because there is a lot of noise and distraction, of hype and jargon. But ESG is common sense.

3. Convening a working group

Under the leadership of the designated owner, a working group can be a great idea to tap into staff passion, discretionary time and effort, and sometimes even uncover relevant experience and expertise from previous roles to leverage. A working group is a great vehicle to ramp up capacity around the agenda while also cascading ESG down the different functions and across the whole business.

ROLE OF THE BOARD

Getting your Board on board with ESG

- The Board is ultimately responsible for overseeing a company's ESG risks and strategy. Some leadership teams will be asked by their Board to start working on ESG. Others may find the need to introduce the topic and contextualise its importance. Great ways of doing that include:
  - Reinforcing the business case
  - Feedback from employees, customers and other relevant stakeholders
  - Looking at what your competitors are doing
  - Exploring the ESG related challenges the larger, more mature businesses in your or adjacent sectors are facing
- Making ESG a regular Board agenda item helps to:
  - Receive direction, support and challenge from the Board
  - Pre-empt risks and opportunities more effectively, and
  - Signal company commitment to ESG
- As the company grows, ensuring that the board has sufficient experience and capabilities to take on this responsibility will be critical. Board ESG upskilling can be achieved through enrolling in an ESG training course, using a consultant, or recruiting a new director or board observer with ESG experience.
- Without forgetting that an effective Board is integral to strong governance. This requires a Board that is unafraid of healthy debate and tackling uncomfortable conversations, and whose members can bring experience to the table and help handle tough situations. In On Board with Balderton, our 101 guide to board meetings for early stage CEOs, we share practical tips and insights on how to build a high-performing board and how to structure the meetings and run them on the day to maximise results.

This HBR article holds further practical tips when it comes to engaging your board on this topic.

REGULATORY TAILWIND: BOARD ESG RESPONSIBILITIES

Boards of listed and large private companies are increasingly subject to diversity and climate-related regulation in their composition and oversight responsibilities, respectively:

Board diversity

- By 2026, EU companies listed on the EU stock exchanges will need to have 40% of the underrepresented sex among non-executive directors or 33% among all directors under EU law.
- For UK listed companies, 40% of the board should be women, at least one of the senior board positions (Chair, CEO, CFO or Senior Independent Director (SID)) should be a woman, and at least one member of the board should be from an ethnic minority background excluding white ethnic groups (as set out in categories used by the Office for National Statistics).
- Additionally, disclosures on Boardroom diversity are increasingly mandated by investors.

Board oversight of climate risks and opportunities

- The Taskforce on Financial Related Disclosures (TCFD) was developed to bring more transparency and consistency in how organisations take account of climate-related financial risk exposures
- TCFD disclosure guidelines comprise four pillars, starting with governance. Companies who fall in scope of TCFD reporting are required to disclose the organisation's governance around climate-related risks and opportunities, which includes explaining the board's oversight of climate change.
- While TCFD initially emerged as voluntary recommendations, it is now actively shaping the climate risk regulatory framework. The UK is mandating TCFD-aligned disclosures for listed companies, large private companies, and all financial services firms by 2025, with the EU expected to follow.

GOAL SETTING, MEASURING & REPORTING

Goal Setting: Setting clear goals

Equipped with a clear ESG framework, it's time to set goals and to turn ambition into action. Sequencing the work based on existing knowledge, bandwidth and budget, will help establish what can be done immediately ("quick wins"), what can be done in the medium-term and what is a longer term goal.

An OKR (objectives and key results) framework lends itself well to ESG goals and action plan:

- They allow you to dream big (the Objectives) while simultaneously having a tangible plan of action (the Key Results) - which lends itself particularly well to the topic of sustainability.
- They bring transparency and create greater accountability and collaboration across the organisation - tying your ESG OKRs back to your firm-wide OKRs signals the strategic importance of sustainability and helps build alignment and whole-of-firm effort toward ESG goals.

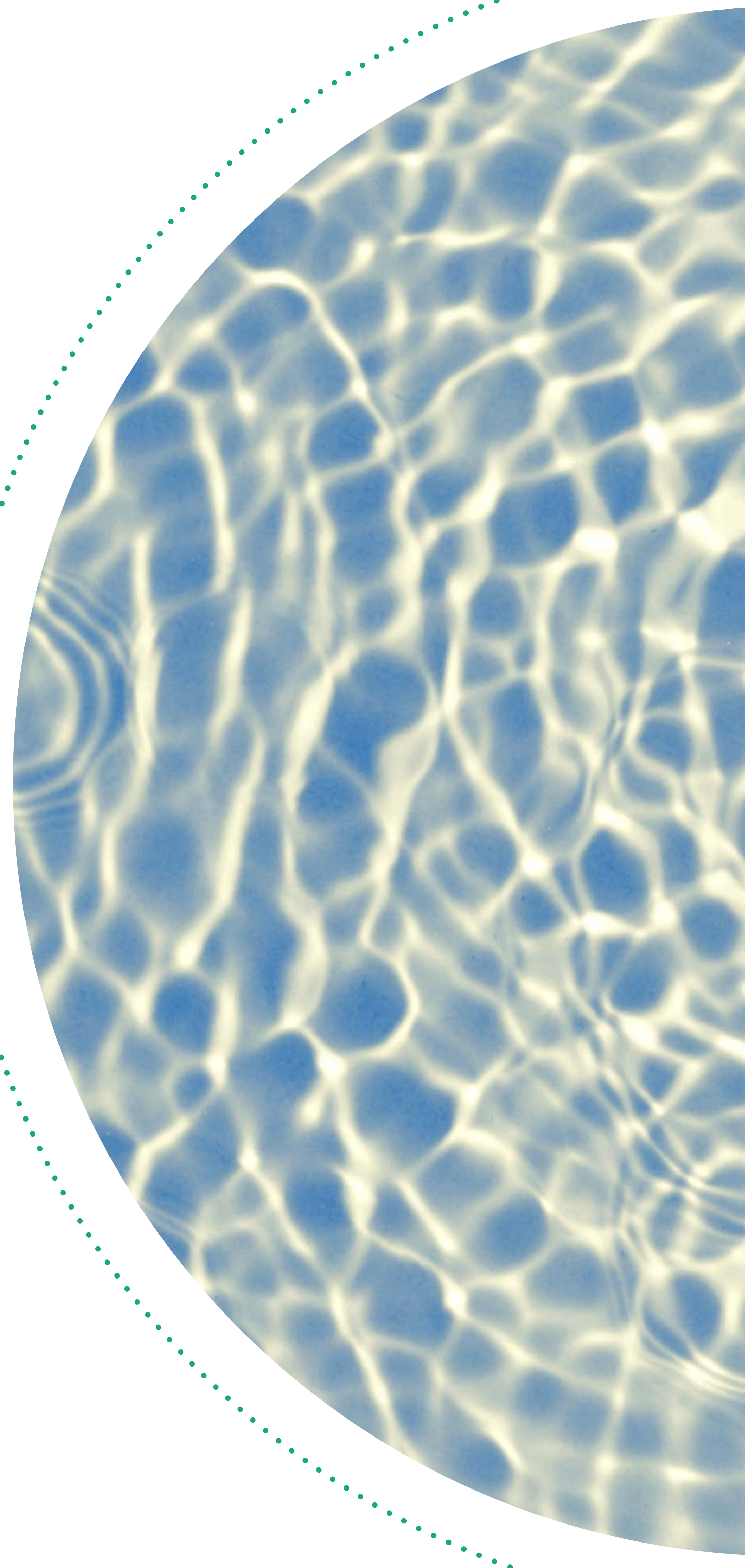
They have a regular reporting cadence (quarterly, bi-annually or annually, depending on the business) - creating the transparency and accountability mechanism required to maintain momentum and ensure ESG doesn't fall by the wayside.

Measuring: Why measure ESG performance

"You can't improve what you don't measure" holds partially true when it comes to ESG. While there are undoubtedly things that can be done in the absence of measurement (e.g. hire more diverse candidates, publish new policies), the tracking of ESG metrics are instrumental in helping you gain insight into your ESG performance, track progress, prioritise action, support your reporting obligations, and tell your ESG story.

ESG metrics quantify and enable the measurement of progress towards ESG goals. This is necessary for the following reasons:

- Tangibility of commitments: Without ESG metrics, your verbal commitments can't be grounded in any data. This can often lead to big promises without any accountability.
- Optimising what you measure: If you aren't keeping track of the numbers, it can be difficult to know if you are making progress or not. You won't be able to decide If you need to adjust if you have nothing to base the decision on.
- Transparency against progress: ESG involves many stakeholders including the public, investors, governments, and business partners. These stakeholders want to see accurate reports including details of ESG metrics so that they can evaluate your company's ESG initiatives.



Measuring: What to measure

The choice of metrics by which you'll measure and report on your ESG performance should:

- Be proportionate with where your organisation's level of ESG maturity - better to report well on ten metrics to start with and build out your ESG scorecard over time
- Be strategically relevant to your business - your metrics should be directly aligned to your ESG framework and strategic objectives
- Cover "expected" KPIs - these are at a minimum typically around team diversity and carbon footprint. You can leverage additional sources to establish what this base should be, including:
  - The ESG_VC framework, designed to provide an entry to ESG scoring, comprising 48 measures against ESG objectives. The framework can be implemented from Seed to Growth stage, across companies spanning B2B and B2C sectors, resulting in a tangible ESG score benchmarked against other framework users. The framework can be downloaded for free from the ESG_VC website.
  - Your investors' ESG data requests: VCs and PEs are rapidly rolling out ESG data collection exercises to their portfolio, driven by their sustainability beliefs and commitments, as well as their own investors' transparency and reporting requirements.
  - The Future Fit Business benchmark, another good resource offering a library of goals and KPIs, organised around "breakeven goals" (minimum actions) an "positive pursuits" (above and beyond).

Reporting: Building an ESG Report

Reporting on your ESG performance does not necessarily mean publishing a full sustainability report. A two-pager is a great way to get started.

At its core, a sustainability report should:

1. Reiterate leadership commitment to sustainability
2. Tell your ESG story for the year
3. Report on key ESG metrics
4. Signal priorities for the coming year

Your ESG policy or framework provides the ideal organising structure for the report, and many companies will include it upfront to frame the report.

Here is a bit more detail on what you could include:

1. Reiterate leadership commitment
Open the report with a statement from your founder or CEO, reflecting on the year's sustainability achievement and tying it back to overall business development and performance.

2. Tell your ESG story for the year
This retrospective on your company's sustainability efforts and achievements should cover:

- What were some of the year's key milestones and events
- What has been achieved
- What is still work in progress
- Any setbacks you've encountered and how you're managing them

2. Tell your ESG story for the year (continued)
Transparency and humility are key here, bearing in mind that sustainability is a never-ending journey, with many wins – small and big – to celebrate along the way.

3. Report on key ESG metrics
Leave sufficient time to do the data collection exercise required to report on your ESG metrics. Aim for the process to become more and more efficient with every annual reporting cycle.

A summary infographic page can be a visually compelling way to communicate your progress. Year on year trend reporting is also a very compelling way to tell your ESG maturity story through data.

4. Signal priorities for the coming year
Within each individual section or in a closing section of the report, it is good to signpost intentions and priorities for the coming year (which will have started by the time the report gets out). If you are setting OKRs/ targets for the year, here is the place to announce them.

Before and throughout developing your report, always remind yourself of your target audience. Who are they and what will they expect to see. You could start with an internal sustainability report for your staff and Board members only.

See for example Brigad's 2023 Mission report.

Need some inspiration? Read our sustainable future goals report.

> *"This first mission report is another brick laid along the pathway of our ambition; it is a desire to bring to fruition everything we work for every day, to make it visible and measurable. Much like a compass, it should help us to never lose sight of our direction and to continue developing a sustainable and responsible solution that is at the service of our users."*
>
> — FLORENT MALBRANCHE, CO-FOUNDER AND CEO AT BRIGAD.

INTEGRATED REPORTING

Integrated reporting is the side-by-side reporting of financial and non-financial data. It demonstrates integrated thinking of the relationship between financial and non-financial factors that determine a company's performance and of how a company creates sustainable value in the longer term.

See for example H&M's integrated annual report 2021 describing integrating their annual and sustainability report as "an important step and a natural development since sustainability is an integral part of our business".

COMMUNICATING

Why it's important
Lack of a dedicated person looking after communications and fear of greenwashing allegations are the two main reasons why start-ups don't communicate on their ESG thinking and actions early on.

However, this is a missed opportunity. Signalling awareness, commitment and intent can go a long way in kicking off your ESG journey. Communicating early helps to:

- Articulate a shared definition and vision of what ESG means to your company, making it more tangible and relatable for your team.
- Earn the respect and trust of your customers and wider stakeholder groups as you communicate with humility and care.
- Hold you accountable to your stakeholders and likely drive more rapid progress.
- Create opportunities for knowledge sharing and collaboration with other start-ups and the wider ecosystem.
- Make ESG part of your start-up story and brand awareness work from the get-go.

See this GSK report as an example of how even large corporations are communicating on sustainability through a language of "journey sharing" and "learning out loud".

How to get started
Communicating on ESG should always be based on principles of integrity and transparency. There is nothing wrong in acknowledging that this is work in progress, so long as you have a plan to translate your promises into action.

- Start with internal communication: a founder or CEO statement sharing their vision of why ESG is important, what do they see as immediate priorities vs. longer-term ambitions for their business, and what they expect of everyone in contributing to the delivery.
- This could then be turned into an externally facing blog article for your website.
- Incorporate principles of sustainability in company values.
- A dedicated page of your website, outlining the crux of your ESG policy.

> *"So here we are setting out where we are on our journey. The headline is: we are making good progress against our goals. But it has not always been easy, and there are areas where we need to accelerate action. So, we're also sharing some of the challenges that we have faced and the lessons we have learnt along the way."*
>
> — EMMA WALMSLEY CEO AT GSK.

DEFINING YOUR PURPOSE

Purpose encompasses what is often also known as mission or vision statements, which are often ill-defined and for start-ups often not useful. Talking about purpose instead gives a clear sense of direction and forms part of the "North Star" that every start-up should have at some point.

For more on this, see:

Start-ups - the one sentence you need to grow
SIFTED

Operationalising purpose
OBVIOUS

FINDING THE BALANCE BETWEEN GREENWASHING AND GREENHUSHING

- Greenwashing—the term referring to businesses exaggerating their commitment to and actions towards sustainability—is now firmly rooted in our modern-day lexicon. The EU is cracking down on greenwashing with the imminent roll-out of a new Directive on Green Claims to put greater controls on how companies substantiate and communicate their green claims. The proposed rules will require brands to back up any eco-marketing with robust and verified evidence, or risk fines of at least 4 percent of revenue.
- While this is a welcome development in support of meaningful climate action, it is likely to accelerate the observed growing trend of "greenhushing".
- Greenhushing refers to companies purposely keeping quiet about their sustainability goals, even if they are well-intentioned or plausible, for fear of being labelled greenwashers.The main downside of greenhushing is possibly one of stalling progress, as publishing green actions has the power to inspire others, shift mindsets, and encourage collaborative approaches.
- Striking a balance between greenwashing and greenhushing is paramount. This is particularly true of the many start-ups we speak to and who feel that they haven't done enough and would rather continue advancing on their sustainability journey than talking about it.

We loved reading What is 'green hushing'? The new negative sustainability trend, explained.

05. GOING THE EXTRA MILE

DELIVERING IMPACT THROUGH YOUR CORE PRODUCTS AND SERVICES

You don't need to have founded your company as an impact-first business to leverage your products and services for impact.

The more you bring environmental and social support and impact into your core business model, the more you are leveraging your core business operations to deliver positive impact at scale. Coupling growth with impact is the corporate world's biggest asset in contributing to a sustainable future.

Read this compelling article, quoted below, on which start-ups should focus on total addressable impact.

> *"Start-ups have something that the Fortune 500 do not: the ability to choose what problems to go after. The large battleships that make up corporate America are not agile enough to pivot toward society's most important problems. But as start-ups, choosing focus areas is far easier".*

There are many ways in which products and services can be leveraged for impact, which we've summarised into four main categories:

01. Utilising core technology to support a charitable cause (i.e. product philanthropy)	○ **Kili** uses its labelling technology to annotate and clean a dataset for developing a model for plastic detection in rivers. ○ **Levity** puts its AI technology towards groundbreaking study in the study of human trafficking. ○ **Hotjar** offers free business accounts to nonprofits, to help them gain a better understanding of their user base and drive greater engagement. Over 1,000 nonprofits use it and the program is almost fully automated and run by customer care.
02. Facilitating customer charitable giving and impact initiatives	○ **Ezoic**, the AI-driven tech platform for digital publishers serving over 4,000,000,000 charity ads using unsold publisher inventory, gives their clients the option to donate ad inventory to campaigns promoting nonprofits while benefiting their own websites. ○ **smol** encourages customers to give free washes to those in need every time their order processes through their "donate a wash" scheme. Donated products are distributed to the community by the Hygiene Bank (UK charity). ○ **Stripe** offers its customers to direct a fraction of their revenue to help scale emerging carbon removal technologies.
03. Introducing new products and initiatives to mobilise customer action	○ The **Celonis** Shipping Emissions Reduction App and the Celonis Sustainable Spend Management App i helps Celonis customers pinpoint process inefficiencies to cut costs, save time, and improve sustainability. ○ **Go Cardless** developed a free greenhouse gas calculator for small businesses and for households ○ **Vestiaire Collective** created the leaf feature on its app and website to help members reduce the carbon impact of transportation of their purchases by (1) filtering for products that are closer to them geographically and (2) choosing the direct shipping option, removing the intermediary step of warehouse shipping. They also introduced a Fashion Activist badge to reward members who are both sellers and buyers, providing them with boosted visibility on the Vestiaire platform and social channels as change makers for the fashion industry.
04. Tying revenue growth to giving back	○ Joining the 1% for the Planet movement, committing you to donate 1% of annual sales to environmental causes.

BECOMING BCORP CERTIFIED

"The BCorp community is the unsung hero. From help with the assessment to generating marketing ideas, there's so much to learn from other businesses facing similar challenges. It's one of the most rewarding parts of the movement"

– PETER KIRBY, CO-FOUNDER AT TRED.

Why consider it

BCorp is a private certification of for-profit companies of their social and environmental performance. To achieve BCorp status, firms have to meet high levels of overall social and environmental performance, public transparency and legal accountability to balance profit and purpose.

Originally developed for small and medium-sized consumer goods businesses, the certification is now increasingly awarded to companies of all sizes and sectors, including large multinationals. This has led some commentators to question the credibility of this widely recognised gold standard - which was born to drive a movement of business as a force for transformational good, rather than being merely "less bad".

For us however, when it comes to the BCorp certification, the value is as much in the trust, credibility and brand value that comes with the BCorp "stamp of approval", as with the process of becoming certified. There are many accreditations and business collaborations (local, national, global, industry specific) that can be helpful on your ESG journey - BCorp is just one example, there may be others that are more suitable for your organisation.

The B Impact Assessment is one of the most comprehensive corporate sustainability frameworks, breaking down a company's impact into the five pillars of (1) governance, (2) workers, (3) community, (4) environment and (5) customers. Each question is an opportunity to reflect on your current practices and opportunities to improve them. In this regard, the B Impact Self-Assessment can be a great resource without necessarily pursuing the formal certification process, and can be accessed and downloaded for free.

Going through the BCorp Impact Assessment typically leads companies to:

- Tighten up governance practices
- Hone mission and embed it into the company
- Refine the business model to maximise positive impact
- Become more transparent
- Take better care of employees
- Expand practices for giving back
- Establish a socially responsible and inclusive supply chain
- Increase support of the local economy

Becoming a BCorporation requires significant commitment and investment in time and resources, as well as financially (see below for further detail). However, BCorps all concur on having seen a positive return on investment. Alongside the "usual suspects" of employee engagement and satisfaction, or attracting customers and investors with shared values–which could arguably be achieved through a robust ESG approach or impact programme–the BCorp status comes with specific benefits of its own, including:

- Cost savings, be it through accessing discounts and benefits from other B Corps, or benefiting from other products and services offering preferential rates to not-for-profits and BCorps. Anecdotally, some BCorps have also reported discounts on their office lease.

- Access to BCorp community: When you register as a B Corp, you also get access to the B Hive – a platform the B Corp community can use to connect, collaborate, access resources and share knowledge. Many BCorps report on the community as the biggest value add of the whole scheme.

How it works in practice

The B Corp Certification process requires that you complete the B Impact Assessment and get a verified score of 80 points or more out of 200.

You are responsible for carrying out your company's assessment and attaching all supporting evidence (e.g. organograms, policies). You then need to submit it and wait for the formal verification process run by your assigned BCorp reviewer. Once approved, the certification lasts three years before you need to recertify.

Note that all BCorps must meet a legal accountability requirement to achieve and maintain certification. The exact legal change requirement will vary based on your location and structure; but in essence it requires amending your articles of association to say that you will consider the impact of your decisions on all stakeholders, not just shareholders.

Some tips

- **Manage timing and resourcing expectations:** The BCorp certification process is a notoriously resource-intensive process given the length and breadth of the assessment questionnaire and supporting evidence requirements. Protecting the time of key staff members will be instrumental in completing your submission in an efficient and effective manner

- **Plan ahead:** While time to submission is within your complete control, it is worth factoring in a minimum additional six months for your submission to get to the top of the verification review pile. With this in mind, consider filling in the questionnaire in anticipation of developments that you know will take place in the coming half-year. For example, project headcount if you're on an accelerated growth trajectory, or say that you have policies that are currently being drafted. You can always submit the attachment at the verification stage.

- **Appoint a strong project manager:** While this should be a whole of team effort, it is essential to have a dedicated person managing the process and coordinating the various input needs.

- **Play to the points:** You will see that assessment questions have different weightings in the final score. Approach them strategically.

- **Document everything:** You will be required to provide evidence across the five pillars, requiring significant documentation. As a general rule in ESG, it's good to document everything as some stories and anecdotes from the past may come in hand for the future

- **Get help from a local BCorp leader:** There are local BCorp teams across Europe who can help provide guidance and assistance. They can also keep you informed on local events and workshops. You can get in touch here.

- **Factor in submission and annual fees:** A one-off submission fee is payable when you submit your company for certification. Certification fees are paid annually and we have fee bands in place to ensure B Corp Certification is affordable for all businesses. See here for the latest fees.

Further resources

How to BCorp for start-ups
500 GLOBAL

Webinar: Becoming a BCorp
MMC

B Corp Certification for Start-ups: The Complete Guide
CULTIVATING CAPITAL

PENDING BCORP STATUS FOR START-UPS

It's a B-Corp requirement that you have at least 12 months of trading history (and revenue) when you apply.

The Pending B Corp status is designed to give start-ups and smaller companies time to prepare for the rigorous process of full B Corp Certification. Taking this step signals to current and future investors that a company is already thinking about measuring and managing its social and environmental performance, leveraging one of the market's leading frameworks.

"For our first B Corp certification in 2021, we set up a project group that included our CFO, CPO, co-founder and the Impact team. We met once a week to agree on the areas for progression and deadlines. Then each person was responsible for mobilising the relevant people in their teams. We also communicated toward the whole company as it became a company target that year. We tried to fill in the whole initial questionnaire fairly quickly to get an idea of the number of points we needed to address. Not all aspects of the B Corp assessment questionnaire are logical for all companies. This is why we would advise companies not to wait too long to submit the questionnaire as during the audit phase you are assigned an analyst that allows you to work with B Corp to clarify the logic behind the questions. This helps you to understand what's needed from your business to meet the criteria."

– DOUNIA WONE, CHIEF IMPACT OFFICER AT VESTIAIRE COLLECTIVE.

WE'D LOVE TO HEAR FROM YOU ON YOUR JOURNEY AND ALL THINGS ESG.

Get in touch!

We'd love to hear your feedback.