2023 Research and Trends

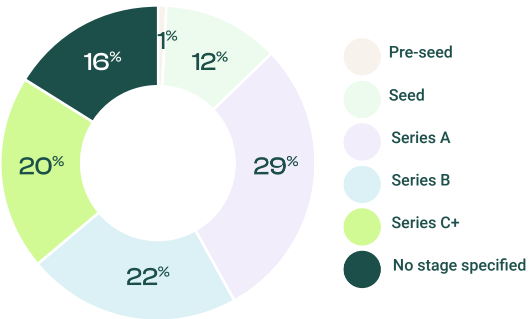
Turning Intention into Action

ESG_VC

450
companies submitted data

100%
increase in submissions (2021-2022)

Breakdown of companies by stage:



Key sectors:

- 21% SaaS
- 7% Fintech
- 6% E-commerce
- 5% Manufacturing

Our analysis at a glance

1 The environmental agenda is lagging in start-ups.

Companies tend to perform weaker on environmental metrics than social and governance factors, meaning investors and the wider ecosystem must provide greater support and education on these issues.

2 Companies are prioritising the mental health agenda.

Businesses participating in this year's reporting showed a particularly robust level of support for the mental health and well-being of their employees.

3 SaaS companies are outperforming on social issues.

People are the lifeblood of software companies, and it is clear that SaaS companies are therefore focused on building diverse and inclusive environments for their teams.

4 Female representation is still lacking on start-up boards.

Almost half of all companies surveyed for this year's report do not have any female representation on their board - a shortfall that must be tackled.

5 Start-ups need to use artificial intelligence responsibly.

Only a fifth of companies surveyed provide staff codes of conduct on responsible use of code and AI - we are likely to need more focus on this issue as the technology advances.

6 Governance is the backbone of ESG, and offers a quick win.

Companies have a clear and immediate opportunity to implement ESG policy and put sustainability on the board agenda, ensuring a commitment to improve.

A view from the ESG_VC steering group

Over the past year, leading funds across the globe worked towards a common goal: Developing a leading framework for ESG aimed at start-ups, while also creating a community of founders and investors dedicated to advancing the ESG movement. Behind this initiative stands ESG_VC, now counting more than 200 firms among its members spanning Europe, North America, Australia, New Zealand, Asia, alongside thousands of portfolio companies who benefit from the initiative's framework and resources. I am delighted to introduce a major outcome of our joint initiative - the latest annual research report into the state of ESG within the venture capital industry delivered by ESG_VC and the BVCA.

Through its unique bottom-up approach, ESG_VC prioritizes founders and their teams, ensuring they are equipped to navigate the world of environmental sustainability, corporate governance or social values. I am thrilled to announce that the 2023 report includes data and research contributed by over 450 companies, a testament to the high level of engagement fostered by the ESG_VC team across the community.

But conversations on ESG are not enough. Even today, the industry still lacks a universal framework. Most, if not all, venture-backed businesses are now being asked to undertake ESG Due Diligence Questionnaires to understand their current position and then provide annual updates. This presents a challenge as these businesses receive numerous differing requests. While there is no universally applicable "Golden Framework" for all parties involved, ESG_VC has developed a set of 57 questions that cover the key areas necessary for VC firms, ensuring the process is succinct and mutually beneficial for businesses.

Whether you are an investor or an entrepreneur, ESG is an ongoing journey. Given the additional scrutiny of the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD) and others, it is important that we not squander this opportunity by treating our obligations as a one-off exercise. Instead, we should build upon these principles iteratively to achieve a truly sustainable future.

Klaus Hommels
Founder & Chairman,
Lakestar

Notes from the author

ESG_VC exists to help early-stage companies and their investors to measure and improve their ESG performance. This begins with measurement – gathering meaningful data enables us to set targets, provide support, and track progress. It is, therefore, incredibly encouraging to see that we have doubled the number of companies submitting data into this year's analysis, following a successful pilot.

Since we established the initiative in 2021, we have benefited from the spirit of collaboration that underpins our industry, and we are pleased to count more than 200 VC firms among our members. It is through working together that we can take the encouraging progress that we have made to date and translate it into meaningful impact on our environmental, social, and economic objectives.

I would like to thank the BVCA for its continued support and the vital role it plays in developing this research. As Chair of ESG_VC, Beringea is also grateful for the significant efforts of the wider steering group, which includes Atomico, Astanor, Lakestar, Par Equity, Seedcamp, and Social Value Portal, as well as our growing network of ecosystem partners, such as Marriott Harrison, who helped develop this report.

We hope you find these insights valuable to your ESG efforts, and we would encourage anyone interested in learning more about how we support investors and companies on their ESG journeys to visit our website and get in touch.

Henry Philipson
Co-founder
ESG_VC

Methodology

As the industry body representing private capital in the UK, we are pleased to be able to support ESG_VC through acting as its data and research partner. This report has been produced to highlight the positive contributions being made by venture-backed businesses, and to begin to develop a framework to help these businesses work with their investors to strengthen their ESG performance.

For this year's report, you will see that we've taken a slightly different approach to our research in 2022. As ESG_VC has evolved, so has its measurement framework. These developments, which included strengthening its analysis of cyber security and responsible use of technology, were key to ensuring the initiative delivered value for companies and investors. However, they have created certain challenges in collecting and analysing data consistently, as some metrics will have changed during different reporting periods for member firms.

You will see that this report, therefore, focuses on the performance of companies against specific metrics rather than aggregate scores. We believe this still provides a meaningful level of benchmarking that can help both companies and investors to shape their ESG strategies. To do this, we've analysed data that was submitted by 16 venture capital firms on behalf of 450 portfolio companies across the UK and Europe.

Please note that there may have been duplicate entries within the data, and not all companies were able to respond to all metrics. Only the BVCA research team had access to the underlying data.

Suzi Gillespie
Head of Research
BVCA

Selected contributors

ASTANOR Where tech meets nature
Balderton.
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CLARENDON FUND MANAGERS
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HIGHLAND EUROPE
LAKE STAR
mercia asset management
MMC
Molten
par equity
scaleup capital
VOLUTION

Environmental

Steady progress must be accelerated.

A growing minority of companies measure their carbon footprint.

While the relative proportion of companies measuring their carbon footprint has grown by 5%, it is still falling short of a volume necessary to hit net zero targets.

Proportion of companies that report they have measured their carbon footprint:

2021	11%
2022	16%

Through measuring, companies are able to offset emissions.

A small uptick in the number of companies using offsetting tools reflects the growing numbers of companies measuring their footprint and taking action to reduce it.

Proportion of companies that currently use offsetting tools or initiatives:

2021	9%
2022	11%

Net zero targets are lagging as companies skip to implementation.

Only 1 in 20 companies has a programme in place to achieve net zero carbon - a smaller figure than last year - in spite of larger proportions of companies taking the practical steps of measuring and offsetting their carbon footprint.

Proportion of companies that have a net zero target and strategy in place:

2021	7%
2022	5%

Healthy targets for the year ahead need focus from companies and investors.

Substantial proportions of companies have set themselves the objectives of measuring their carbon footprint, implementing offsetting initiatives, and developing a net zero policy. These companies must be supported to meet these ambitious targets.

In the next 12 months...

22% of companies plan to measure their carbon footprint.

20% plan to have a policy and programme in place to achieve net zero carbon.

14% plan to use carbon offsetting tools and initiatives.

How we can help

To help companies get to grips with the complex environmental agenda, ESG_VC has run a series of webinars providing practical guidance on the steps needed to move forward on your net zero journey:

Carbon accounting

Measuring your carbon footprint is a critical step towards understanding your environmental impact as a business, and how to manage it.

In this session, hosted by Par Equity, you will learn the basics of running your first carbon footprint measurement from Carbon Neutral Britain, the specialist certification and offsetting initiative.

Key takeaways

1. **Understand what is considered part of a carbon footprint.**
2. **Consider how to measure your carbon footprint as an organisation.**
3. **Begin to think about carbon neutrality and offsetting.**

Watch our webinar

Reducing your footprint

Now that you've begun to think about measuring your carbon footprint, you will want to start considering how to reduce it.

Hear from Fran van Dijk, CEO of One Stone Advisers and a panel of start-up experts on how to pragmatically mitigate the carbon footprint of early-stage, high-growth companies.

Key takeaways

1. **Uncover the 'quick wins' for reducing your carbon footprint.**
2. **Think about setting carbon reduction strategies as a start-up.**
3. **Get first-hand insights from start-up operators on reducing emissions.**

Watch our webinar

Life cycle analysis

For companies seeking to take an advanced approach to understanding their environmental impact, a life cycle analysis is critical.

This session, hosted by Astanor Ventures, brings together practical advice from start-ups alongside expert guidance on impact measurement processes for operators and investors.

Key takeaways

1. **Understand when and why to complete a life cycle analysis.**
2. **Learn how to consider running an analysis of your product or service.**
3. **Map out the impact measurement process for your firm or company.**

Watch our webinar

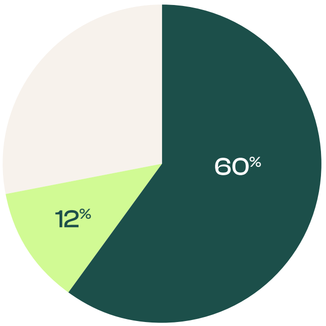
Social

An area of strength driving the industry forward.

Almost two-third of companies provide support on mental health.

Having grappled with the impact of a pandemic and having shown a greater understanding of mental wellbeing, we've seen widespread action on mental health in start-ups.

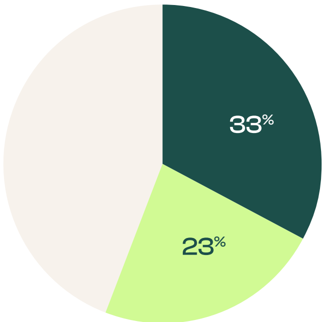
60% of start-ups reported in 2022 having a policy or strategy to support staff with mental-health and wellbeing – a further 12% plan to in 2023.



A healthy proportion of companies are investing in DEI training.

A third of companies are already providing training and – combined with those intending to deliver training in the year ahead – more than 50% will provide DEI training in 2023.

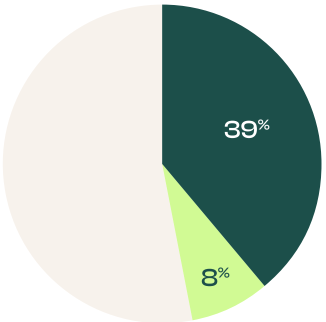
33% of start-ups reported already providing equality, diversity, and inclusion training in 2022 – and a further 23% plan to in 2023.



Many start-ups are tapping into new pools of talent.

Roughly two in five companies have a specific recruitment programme in place to reach people from diverse backgrounds, such as working with specialist recruitment firms or partnering with universities.

39% of start-ups had a recruitment programme in place in 2022 to reach people from diverse backgrounds – and a further 8% plan to in 2023.



However, representation among senior leadership is lagging.

While many companies are laying the groundwork for long-term improvements in diversity, equity and inclusion across the ecosystem, there remains a need for greater support on how to open access to leadership roles for people from under-represented backgrounds.

45%
do not have any female representation on board.

15%
of start-ups have no female representation within their senior management.

How we can help

To help you make further progress on your social objectives as a business, we have hosted a series of webinars to support start-ups looking to learn the best practices of diversity, equity, and inclusion:

Tackling gender pay gaps

Measuring, monitoring and reducing pay gaps is a challenging process for any early-stage company - but it is pivotal to fostering diverse and inclusive teams.

In this session, hosted by Talis and Fair HQ, you will get to grips with identifying and measuring pay gaps - with a specific focus on the gender pay gap - as well as how to tackle and reduce them.

Key takeaways

1. Understand how to run a pay gap audit in your company.
2. Comply with legal gender pay gap reporting processes.
3. Evaluate how to reduce pay gaps within your growing business.

Watch our webinar

Delivering DEI surveys

Understanding the people and culture that underpin your organisation is critical to improving your recruitment and retention as a start-up.

This webinar features expert advice from The Equality Group on measuring for inclusion and diversity, from the legal considerations to best practices from an HR and talent perspective.

Key takeaways

1. Learn when, why, and how to collect diversity data.
2. Understand the key role of measuring for inclusion alongside diversity.
3. Discover the legal questions to consider when surveying for DEI.

Watch our webinar

Build diverse boards

Achieving diversity within senior leadership is a fundamental challenge facing many start-ups across the ESG_VC community.

This session, hosted in partnership with Empowering People of Colour, looks at the steps companies and investors can take in order to drive greater ethnic diversity at the board level.

Key takeaways

1. Understand the barriers facing under-represented groups at board-level.
2. Discover the talent pools that could bolster your start-up board.
3. Build recruitment processes that foster more diverse leadership.

Watch our webinar

Governance

Improvements in corporate policy threatened by looming AI risks.

We are seeing growing numbers of companies embed ESG policies.

More than a fifth of companies have an ESG policy in place, which represented a steady uplift on the figures from ESG_VC's initial pilot in 2021.

Proportion of companies that have adopted a formal ESG policy:

2021	18%
2022	21%

Sustainability is also steadily making it onto the boardroom agenda.

An increase – albeit small – in the number of companies reporting sustainability as a regular item on their board agenda is cause to believe that companies are placing greater importance on accountability when it comes to sustainability.

Proportion of companies reporting sustainability is a regular item on their board agenda:

2021	16%
2022	19%

Policies can provide a simple but meaningful improvement for start-ups.

Corporate governance is a vital tool for embedding responsible business practices. While many companies have already made significant progress in these areas, they can provide a 'quick win' for others.

80% of companies have a remote working policy in place.

63% have an anti-bribery and/or anti-corruption policy in place.

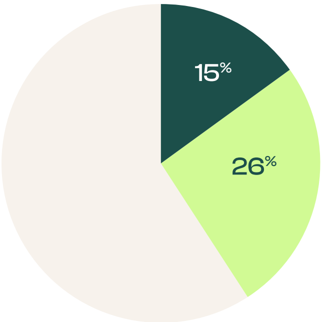
61% have a corporate code of ethics in place.

48% have an anti-harassment policy in place.

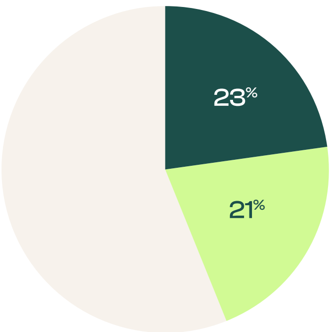
Governance processes underpinning DEI are a key area of focus

We might argue that too few companies are systematically surveying for inclusion and diversity, and many find pay gap analysis challenging. However, businesses are making these issues core objectives for the year ahead.

15% of respondents reported conducting an annual diversity and inclusion survey in 2022, and 26% plan to introduce a survey in 2023.



23% of companies already have initiatives in place to reduce or impact the gender pay gap, and 21% plan to implement one in 2023.



And yet, technology risks and AI need greater scrutiny within start-ups

Artificial intelligence has become a growing area of concern for businesses, citizens, governments, and regulators. However, a relatively small proportion of start-ups surveyed by ESG_VC members offer guidance on the use of AI, and many do not have sufficient training or controls in place when it comes to security.

21%
of companies offer codes of conduct and relevant training on AI.

30%
of companies train their staff annually on cyber security.

43%
of start-ups have set up cyber security controls to monitor risks in their data infrastructure.

How we can help

ESG_VC hosts regular webinars on corporate governance - you will find the full range of sessions on our YouTube channel, including our workshop on the responsible use of technology and AI:

Using artificial intelligence responsibly

We partnered with academics from INSEAD, the leading European business school, to gather a panel of experts on the responsible use of artificial intelligence and technology.

Key takeaways

1. Learn how to develop or deploy responsible AI and tech in early stage companies.
2. Understand the regulatory landscape that can impact companies leveraging AI.
3. Consider how to collaborate with the ecosystem to build technology more responsibly.

Watch our webinar

Spotlight

SaaS and the Sector Trends

Across the two years of data collected and analysed by the BVCA on behalf of ESG_VC, it has been clear that there are subtle but meaningful contrasts in the performance of companies across different sectors.

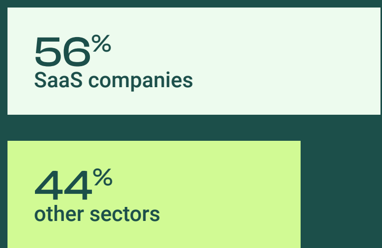
In particular, we have seen important differences between the performance of software-as-a-service (SaaS) companies – which represented 21% of businesses analysed in this year's research – and other key sectors, such as fintech, e-commerce, and manufacturing.

These contrasts have largely centred on the strength of SaaS businesses within their social and governance initiatives, and their relative under-performance on environmental issues. These two trends were highlighted further in this year's research – in the data that follows, we have compared the performance of companies that identified themselves as SaaS businesses versus the remainder of companies that reported themselves as operating in other sectors.

Over time, ESG_VC and the BVCA will seek to interrogate these trends further through building larger and more detailed sector breakdowns of data, as this has been a challenging area to develop within the framework and reporting.

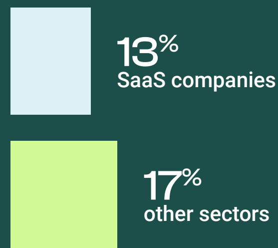
67% of SaaS companies will provide DEI training in 2023 vs 53% of companies in other sectors.

56% of SaaS companies provide additional weeks of paid primary parental leave above statutory requirement vs 44% in other sectors.



71% of SaaS companies have a policy or strategy in place to support staff with their mental health and wellbeing vs 57% in other sectors.

13% of SaaS companies measure carbon footprint vs 17% in other sectors.



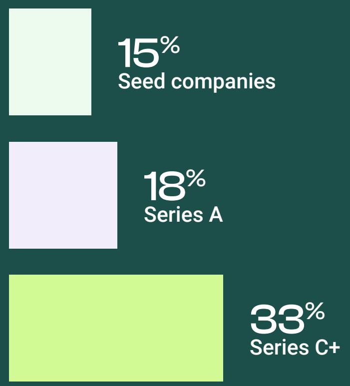
The ESG journey

Mapping key initiatives by stage

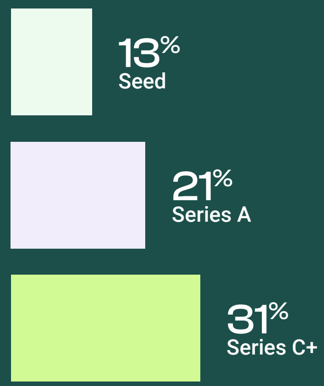
When we look at cornerstone metrics, such as whether companies measure their carbon footprint or whether they have an ESG policy in place, we see a clear progression as companies scale, as shown on the right.

Below, we have sketched out a roadmap of initiatives for companies to consider as they grow, based on our analysis of the data and qualitative feedback.

15% of Seed stage companies measure their carbon footprint, 18% of Series A, and 33% of Series C and beyond.



13% of Seed stage companies have an ESG policy in place vs 21% at Series A, and 31% by Series C.



The Roadmap

SEED
Build your foundations

- Develop an ESG policy
- Implement a remote working policy
- Switch to renewable energy
- Provide DEI training to your team
- Develop your board and sustainability agenda

Series A-B
Identify your strengths

- Measure your carbon footprint
- Implement a recruitment programme for under-represented groups
- Deliver an annual DEI survey
- Provide codes of conduct for AI and cyber

Series C+
Develop your expertise

- Set a net zero target and strategy
- Measure and address your gender pay gap
- Screen your supply chain for carbon efficiency
- Develop a corporate code of ethics
- Identify targets for leadership diversity

Helping companies to thrive

We spoke with two operators within companies across different sectors and stages of growth to get a first-hand perspective on how ESG_VC can provide start-ups with the tools to turn positive intentions into practical action.

Rachel Thompson
Head of Sustainability, MPB

Stage: Series C+

Sector: E-commerce

Investors: Beringea, Gresham House Ventures, Vitruvian, Acton

The framework helps us to see our ESG progress in the round, and also highlights the linkages between issues. In 2022, the scoring showed us that we are both ahead and behind the curve on different issues, and so we've been able to identify where to put our focus in the year ahead.

Based on our scores we have initiated three projects focused on our people. First, we made it a priority to initiate a workforce diversity survey before the end of 2022. Then we expanded our GHG Scope 3 data collation to include staff commuting for which we gathered data through a workforce survey. We also developed our first employee volunteering programme which has now commenced.

I think the building blocks of a good ESG programme include: a code of conduct with employee training; a programme for employees to volunteer in the community; and assessing the company's carbon, energy, water, and waste footprint and setting reduction goals for each of them. We used the ESG_VC Measurement Framework as an excellent gaps and opportunities tool to shape our focus areas and would highly recommend it.

Our main ESG objectives for the year ahead are to firstly incorporate our workplace policies alongside our values into a formal code of conduct and ethics. Second, to find a sustainable, credible, and financially efficient solution to get to 100% usage of renewable electricity that doesn't involve simply buying cheap paper credits. Third, to extend circularity (buying or leasing used products) into our procurement of equipment, furniture, and marketing merchandise.

Rachel Dungate
Operations and Sustainability Manager, Legatics

Stage: Series A

Sector: SaaS

Investors: Gresham House Ventures, Force Over Mass Capital

The ESG_VC Measurement Framework showed us two key takeaways in 2022. First, that data is vital to incentivising and directing change. For smaller organisations, data on ESG factors, such as emissions, can feel difficult and burdensome to collect. However, data is essential to understanding your baseline and where to concentrate your efforts, which is important when resource is constrained.

Second, our approach to measuring and tracking ESG performance cannot be exhaustive. Many frameworks are good at measuring ESG in the format of formalised data-tracking and policies, but not the ad hoc procedures and quick wins which start-ups typically need to prioritise.

The framework helped us prioritise the key actions to focus on. As a smaller company, it can be difficult to know how to prioritise – even with a material analysis – as the impact isn't always clear, so the framework helped us to spot these opportunities and be efficient.

In terms of new initiatives implemented since completing the framework, we have:

- Started donating climate services in accordance with business flights
- Introduced modern slavery reviews to supplier procurement
- Introduced company-wide D&I training
- Conducted an annual eNPS survey
- Made further community donations
- Reported on framework suggestions in monthly board packs (useful for accountability!)

The framework gave us practical, realistic solutions to deliver on our strategy. Our ESG strategy prioritises our needs as a business and practical solutions to deliver it – the framework helped identify specific actions we could take to make a positive impact. It wasn't necessarily a strategic lever, but it provided practical, realistic solutions we needed to implement and hold ourselves accountable to.

Reflecting on our findings

This second annual research report by ESG_VC shows good progress within the industry in recognising the importance of ESG — but there remains more to do.

The venture capital ecosystem is evolving fast in this area. ESG has become a core part of investors' strategies (beyond traditional impact funds) and, whether it's a legal requirement or not, we envisage the adoption of solid ESG credentials becoming prerequisite to raising finance from the majority of VC firms in the coming years. The BVCA's model documents for Series A investments, published earlier this year, contain template language requiring ESG compliance, and we expect this to lead to a greater uptake of policies across the industry.

Encouragingly, the report notes some improvement in the adoption of social policies with the mental health agenda and diversity and inclusion ranking ahead of environmental policy adoption. These topics have generally seen more attention than the environmental side, which lags among start-ups (perhaps understandably given it is often the costliest element).

Policy-uptake will likely accelerate across each category and although this is a good start it won't achieve much in isolation — cultural change and learning across the sector is needed to drive success. The webinars and workshops provided by ESG_VC and highlighted in this report are invaluable. It's never too early to embed these practices and companies should start early – for example, sustainability policies are easier to deploy with a blank canvas. We are keen to support businesses as they develop their strategy and, in particular, their policies on wellbeing, D&I and AI use, as identified in this report.

ESG_VC is a growing force for good within the industry and we look forward to continuing to support them in pushing this message and delivering market-leading insights and advice. On a practical level, the roadmap on page 12 is a useful tool that will very quickly demonstrate what a business should be working towards at each stage of ESG compliance and offer clear steps to get ahead.

The report sets a good benchmark from which we hope to see more progress next year.

MARRIOTT HARRISON

David Strong
Partner,
Marriott Harrison

Join our community

ESG_VC is a growing community of start-ups and venture capital firms with members spanning the UK, Europe, Canada, the USA, Australia, and New Zealand.

We offer a range of benefits to investors and companies, and we do not charge for the resources we make available to the industry.

For investors, becoming a member will enable you to access:

- ESG resources for due diligence and portfolio management
- Support with regulatory compliance including SFDR
- Free workshops for your portfolio
- Support with LP reporting on ESG
- Networking with ESG specialists across the VC ecosystem
- Recommendations on advisers, platforms, and consultants

For companies, you can either sign up directly to access our events and resources or you can speak to your investors about becoming members.

We are also working with a range of corporate partners, so please get in touch if you would like to learn more about how we work with the wider ecosystem.

Website LinkedIn Email