jumpGuide

Sustainability: Best Practices that Drive Growth

By Rachel Henderson on behalf of IVP, with generous support from Corinne Hanson, GreenPlaces, and Brian Matt, NYSE

Environmental, Social, and Governance or "ESG" has quickly become a top priority for public companies and startups alike. More and more, customers are seeking environmentally friendly brands, investors prioritize businesses with sustainable practices, and employees choose to work at companies that make a positive impact. There's the reality, too, that ESG regulation is only increasing across industries, making sustainability practices a requirement for any high-growth company to achieve a meaningful outcome. In the first of three posts, we're addressing the "E" of ESG: how startups can cultivate environmentally-friendly practices that propel growth and ensure that their businesses aren't left behind.

Why Sustainability Matters

Companies that create sustainable business practices have a marked advantage compared to their competitors: their messaging tends to resonate better with customers, they have higher employee retention, and they're better prepared to deal with regulatory compliance.

The earlier a company can put these policies into practice, the better. Studies have found that having a clearly articulated purpose that seeks to positively impact the environment and society promotes faster growth among new businesses. Drawing on research from the NYSE and the sustainability consulting firm GreenPlaces, this guide helps companies address sustainability and integrate environmentally-friendly objectives into board and executive meetings.

Designating a Leader

For early-stage companies	While the CEO is often the best person to spearhead sustainability initiatives, this may be unrealistic for founders with demanding schedules. If that's the case, then the CEO should assign this task to another leader. This designated leader should be a goal-oriented executive who reports directly to the CEO on the company's progress. There is no "right" answer for who should fill this role; a CMO who's passionate about the environment might work well at one company, while a Chief Legal Officer with a thorough understanding of the regulatory landscape might work well at another.

For mid-size startups	As a company grows, it should broaden its sustainability efforts–this is especially critical for companies that aim to go public in the future. The primary approach involves creating organized groups, called Green Teams, that are focused on sustainability. Green Teams are headed up by company-designated leaders and are composed of employees who take on daily actions to achieve realistic sustainability goals. Typical Green Team assignments include office-orientated initiatives like establishing recycling or composting programs, cutting down on energy usage, or minimizing food waste. While Green Teams are especially effective at mid-size companies, they can continue to benefit companies after they've gone public. eBay and Genentech, for instance, have successful employee-led Green Teams that created eco-friendly incentives, including solar employee reward programs and preferred parking for hybrid vehicles at company offices.

For late-stage companies approaching public markets	Late stage companies should seek to formalize their sustainability efforts by establishing an ESG Committee. This is a formal committee, made of department heads representing stakeholders across the business, each of whom have clearly defined ESG KPIs. Their primary objective is to ensure that the company delivers on the material sustainability goals determined by each department head and regularly communicates required actions with the CEO and the board.

For early-stage companies → **For late-stage companies**

CEO	Dispersed Green Team	ESG Committee
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Choose Your Champion		

Define Sustainability Goals

Clearly defined goals are key to implementing positive changes and bringing awareness to sustainable practices. Early on, companies should focus on easy-to-implement goals that broaden with the company as it grows.

One way to identify key sustainability goals is through what's known as a "materiality assessment," a company-wide inventory that determines the footprint and impact of the business–from materials used to manufacture products to the amount of waste produced by company offices.

While materiality assessments vary from company to company, a good way for a mid-stage company to begin this process is by engaging with their customers, department heads, and employees on issues of sustainability. This could involve asking your company's five largest customers about their own sustainability goals and regulatory requirements, surveying employees on how company offices can cut down on waste or electricity usage, or interviewing department heads about eco-friendly suppliers.

With these surveys, the goal is to assess both the core risks your business may be exposed to and to gain insight into any upcoming disclosures your customers may be required to report. (Often, in order to fulfill their own regulatory requirements, large companies request that companies they do business with disclose emissions). Once you identify opportunities for improvement and upcoming hurdles, you can make a plan to enact solutions.

For early to mid-stage companies

The following suggestions may seem basic, but small actions early on make a big difference later on:

- **Establish e-waste management, compost, and recycling programs**
- **Promote a paperless office** by printing double-sided and setting usage limits on printers
- **Conserve electricity usage** by installing LED lights, dimmers, and motion sensors
- **Create recognition programs** and rewards to publicly celebrate sustainability-focused achievements

For late-stage companies approaching the public markets

New regulations are increasingly requiring ESG disclosures. Among them is a group of proposed rules by the SEC that require SEC-registered companies to make climate-related disclosures. Additionally, there are two state bills targeted at California companies making more than $500 million a year, which require the disclosure of climate-related financial risks and emissions classified as scope 1, 2, and 3, depending on a company's scale. A thorough understanding of the regulatory landscape, as well as tracking carbon footprint data, can ensure that companies are in compliance with the aforementioned regulatory guidelines as they approach a public offering. Some of the most common ESG reporting frameworks used by public companies are SASB, TCFD, CDP, and GRI.

To prepare for regulatory disclosures, companies should seek to broaden their sustainability focus by instituting the following practices:

- **Get external feedback by hiring a sustainability consultant** who can assess which programs within the company are most effective and what steps should be pursued in order to be regulation-compliant.
- **Evaluate business relationships critically** from vendors to materials, striving to build relationships with eco-friendly suppliers that implement conservation strategies.
- **Set up programs to track and measure carbon emissions** by investing in carbon accounting software. This plays a critical role in the reporting and disclosure process required by regulators.
- **Factor sustainable goals into your company's budget** and quarterly plans and engage the board and major stakeholders in sustainability efforts and planning. The best way to do this is by making the company's ongoing sustainability goals an agenda item at board meetings.
- **Compare your goals and impact to that of other companies.** The NYSE and other data providers offer data published by public companies (including greenhouse gas emissions or board and workforce diversity), as well as best practices from those companies.

Companies should prioritize sustainable solutions to ensure that their businesses are prepared to compete in a market where being more sustainable is viewed favorably by customers and investors alike. With a strong culture of sustainability, companies will have an easier transition to the public markets and the increased reporting requirements that come along with it. IVP is committed to financially supporting our companies as they pursue their sustainability goals, whether through conducting a materiality assessment or by providing references or introductions to ESG consultants. Reach out to Rachel Henderson at rhenderson@ivp.com with questions or for additional support.

Get Started

STEP 1 Identifying the right approach for your company	STEP 2 Identifying stakeholders and evaluating engagement
STEP 3 Assessing materiality	STEP 4 Establishing governance
STEP 5 Integrating ESG into business strategy	STEP 6 Telling your story
STEP 7 Reporting frameworks and standards	STEP 8 ESG research and ratings

Chart inspiration from NYSE