Sustainability Guide for Startups

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1. Terminology

SUSTAINABILITY

Sustainability is the concept of balancing economic, ecological, and social goals to ensure that the present generation can fulfill its needs without jeopardizing the capacity of future generations to satisfy their own needs.

This approach, as defined by the United Nations, emphasizes living in a manner that does not exploit the well-being of tomorrow's generations. Sustainability thereby extends beyond environmental conservation and encompasses various criteria for a dignified future, including economic prosperity and social security.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

ESG have become the three pillars of sustainability for companies and the primary approach in assessing a company's accountability for its impacts and sustainability claims. These ESG pillars are:

> Environmental focuses on how a company's activities affect the world, including issues such as waste and resource management, greenhouse gas emissions, energy efficiency, and deforestation.
>
> Social considers how a company engages with and impacts the community and society at large, including worker rights, safety, diversity, education, labor relations, supply chain standards, community relations, and human rights.
>
> Governance examines the structure and accountability of a company, including ethical business operations, risk management and the long-term economic sustainability of the organization.

ESG plays an increasingly important role as ESG reporting requirements are legislated and as investors pay attention to the extent companies – including startups - have anchored ESG principles into their business models, culture and practices.

Earlier sustainability efforts were often classified as Corporate Social Responsibility (CSR). CSR is still used to refer to sustainability strategies companies employ to ensure that their activities are carried out ethically, where ESG refers to criteria used to measure a company's overall sustainability.

Measurement has been recognized for its importance in creating standards and accountability – reducing 'greenwashing' (ie. conveying a false impression or misleading information about how environmentally sound a company is).

SUSTAINABLE DEVELOPMENT GOALS (SDG)

SDGs were set by the UN in 2015 are 17 goals aiming to catalyze sustainable development.

Overview of the Sustainable Development Goals (SDG)[1]

[1] Own illustration based on the Sustainable Development Goals of the United Nations.

Investors and customers increasingly value businesses that contribute to sustainable development. Incorporating SDGs into a startup's mission and operations can enhance its appeal, attracting socially-conscious investors and customers.

IMPACT INVESTING

Impact investing refers to investment strategies and practices that aim to achieve not only financial returns but also measurable positive social and environmental impacts.

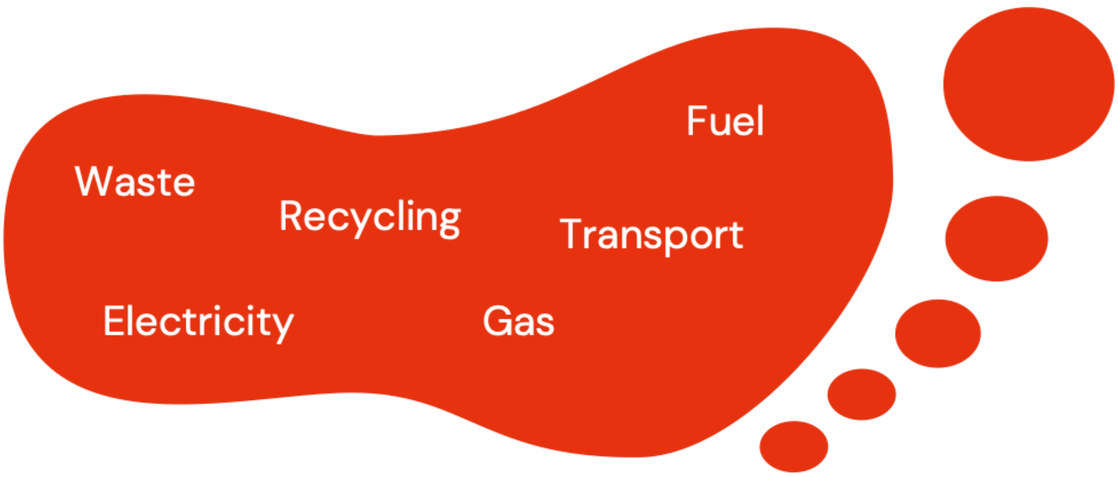
Impact Investors prioritize the impact or mission of businesses when selecting portfolio companies. These investors go beyond traditional financial metrics, emphasizing the importance of creating meaningful, measurable, and beneficial changes in social and environmental dimensions through their investment decisions.

SUSTAINABILITY RATINGS / INDICES

Various organizations assess companies' sustainability performance, providing a rating or index as metrics to inform investment decisions.

With differing criteria and calculations, these can differ across ratings provider. Nevertheless, ratings can provide useful information on what ESG factors are considered, particularly in your industry and can be useful for startups in reviewing ratings for large suppliers and how large customers or competitors are performing.

CO_2 OR CARBON FOOTPRINT



Factors influencing the carbon footprint of a company[2]

[2] Own illustration

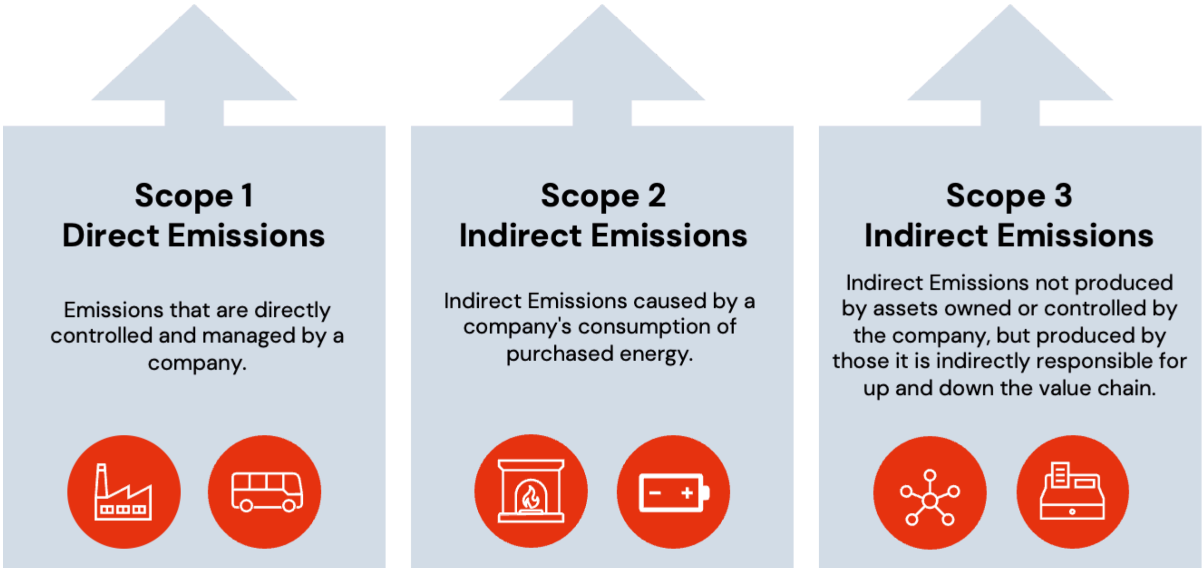
Carbon footprint refers to the measurement of a company's climate impacts, primarily assessed through greenhouse gas emissions (GHG). As greenhouse gasses have different global warming power, the carbon footprint is measured by converting to equivalent carbon dioxide (CO_2) emissions .

Companies report their progress in reducing emissions in categories:

Scope 1: Emissions directly controlled and managed by a company.

Scope 2: Indirect Emissions caused by a company's consumption of purchased energy, such as electricity, heat, or steam.

Scope 3: Other Indirect Emissions not produced by assets owned or controlled by the company, but produced by those it is indirectly responsible for up and down the value chain, eg.a company processing raw materials, but not involved in the extraction process, would have the relevant emissions from the extraction attributed to Scope 3.



Different scopes measure direct and indirect emissions[3]

EU TAXONOMY FOR SUSTAINABLE ACTIVITIES

The EU Taxonomy is a regulatory classification system introduced by the European Union to help direct investments to the economic activities most needed to meet the European Green Deal objectives. It establishes European standards as a market transparency tool to help companies define which of their

[3] Own illustration

economic activities are environmentally sustainable and to give investors security.

Since 2023, large listed EU companies must report against the EU Taxonomy's two climate objectives – climate change mitigation and climate change adaptation. Reporting according to the EU Taxonomy will be mandatory for larger Swiss companies operating in the EU from 2025. While such reporting requirements have limited relevance for startups, understanding the standards and requirements can help startups to associate which sustainability standards apply to some of their stakeholders (e.g. business partners) and where the sustainability trend is heading for large companies.

EU Taxonomy website[4] provides further information, including a calculator on reporting obligations.

CORPORATE SOCIAL REPORTING DIRECTIVE (CSRD)

The CSRD entered into force in January 2023 to strengthen the rules on social and environmental information that companies have to report. This impacts large EU companies, listed SMEs and non-EU companies if they generate >EUR150m in the EU market.

Further and current details can be found on the European Commission's website here and financial consultants and advisors publish papers, podcasts etc.

[4]https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en#200903

2. Why Sustainability Is Important for Startups

Sustainability and ESG reporting are important for startups because of their role in business success. From attracting investors and top talent to mitigating risks and building a positive brand image, integrating ESG practices can create a strong foundation for startups to thrive in the long term.

Although sustainability considerations may not be the top priority for startups in the early stages, it is worthwhile to set the groundwork early and incorporate sustainability considerations into the business model. As a company grows, the complexity and difficulty of altering established processes increases (eg. implementing environmental practices is more manageable dealing with one supplier than with 10 or 50 suppliers) and early consideration reduces potential future switching or remediation costs due to regulatory changes or pressure from investors or customers.

2.1. SUSTAINABILITY IS A BUSINESS OPPORTUNITY

Integrating ESG principles makes compelling business sense:

- **Creating a Sustainable, Resilient and Long-Term Viable Business:** through building sustainable business models, addressing environmental and social challenges and maintaining robust governance practices.

- **Promoting Innovation:** through fostering the development of sustainable products, improved operational efficiency, and new market opportunities.

- **Enhancing the Brand and Reputation:** as companies committed to social and environmental responsibility are favored by consumers, employees and partners.

- **Attracting Investment:** by accessing a broader range of funding opportunities, including Impact Investors and funds dedicated to sustainable and responsible investments.

- **Attracting and Retaining Talent:** by creating a positive workplace culture, with satisfied employees who want to stay, who feel they are making the world a better place.

- **Providing Competitive Differentiation:** where ESG practices can differentiate to attract customers and business partners increasingly prioritizing sustainability.

- **Reducing Costs:** by improving energy efficiency, reducing packaging and waste etc

- **Engaging and Contributing to the Community:** where active participation in community development projects establishes strong relationships and goodwill, contributing to a positive impact in business operations and beyond.

2.2. RISK MITIGATION

Incorporating ESG principles into a startup's operations is essential from a risk mitigation standpoint:

- **Complying with regulation:** As regulatory attention on ESG considerations increases, startups incorporating these principles early on can comply with current and emerging regulations and standards.

- **Identifying ESG risks:** By considering environmental impacts, social responsibility, and governance practices, startups can identify and mitigate risks associated with reputation, compliance, and operational issues.

- **Minimizing damages**: Establishing appropriate controls and processes helps reduce damage to the business's financials and reputation. Being proactive can prevent costly fines, revenue loss, and reputational damage.

3. How Startups Can Incorporate Sustainability

Incorporating ESG principles in a startup's business and planning involves a structured approach to align the operations, culture and strategy with sustainable and ethical practices.

3.1. MATERIALITY ANALYSIS

Firstly, startups should identify and prioritize the ESG issues most relevant to their company, industry and stakeholders, asking which ESG issues:

- are particularly important to us from a financial perspective?
- represent opportunities and risks?
  - These can be internal issues such as diversity or data security or external issues such as ecological trends or consumer preferences.
- might influence or impact us most?
  - This is about the extent to which a startup's business affects people or the environment and how it can deal with this as responsibly as possible.
- matter most to your stakeholders: To Customers? Employees? Investors? Regulators?
  - The regulator should be prioritized immediately, while other topics might be postponed to the future.

Prioritize the ESG issues that align with your business goals and have the most significant impact.

3.2. SET ESG GOALS AND OBJECTIVES

Having identified and prioritized the ESG issues most relevant to your company, the next step is to set goals – the high-level, desired longer-term outcomes - to incorporate into business plans.

While goals might be as high-level as Reduce Carbon Footprint or Increase Workforce Diversity, ideally, they include more specificity e.g. Achieve Net-zero Carbon Emissions by 2030 or Reach Gender Parity in Leadership roles by 2030.

Objectives are also required for business plans – the specific, actionable steps you will take to achieve the ESG goals. Staying with the carbon footprint example, objectives could include actions for the next 12 months: switching to electric vehicles for company logistics, installing energy efficient lighting, offsetting GHG by planting 10,000 annually etc.

Objectives require specific and measurable actions against which progress can be reported, for

- for internal accountability.
- to optimize and to check whether measures are effective.
- to report to stakeholders.

Once the goals and objectives are set, concrete plans and actions to achieve those should be determined. Each action should have a responsible person, a time horizon and allocated resources.

If goals or objectives on specific topics are set and communicated to stakeholders, startups should make sure to cover expected KPIs and benchmark them with key competitors.

There is a wide range of ESG issues that might be relevant, too wide to cover here. The following examples are intended as illustrative examples:

- **Environmental**
  - Greenhouse gas emissions
  - Air and water pollution
  - Biodiversity
  - Deforestation
  - Recycling and waste management
  - Water security
  - Energy efficiency
  - Product carbon footprint

- **Social**
  - Diversity and inclusion
  - Labor standards
  - Animal welfare
  - Product safety
  - Responsible sourcing
  - Sustainable supply chain
  - Conflict minerals

- **Governance**
  - Board composition
  - Management diversity
  - Shareholder rights
  - Executive compensation

- Reporting and disclosures
- Conflict of interest
- Shareholder actions

3.3. ESG REPORTING

That doesn't mean that startups must adopt full ESG reporting, but general reporting could include a page about sustainability covering:

- ESG priorities and goals
- ESG KPIs
- ESG actions, progress and remediation plans (if required)

Reporting and communication to key stakeholders is often forgotten by startups since they fear greenwashing, or no one oversees it. However, it is important to see ESG as an opportunity to:

- Connect with like-minded stakeholders (customers, partners, investors)
- Build your brand awareness
- Make ESG tangible and important internally.

3.4. ARTICLES OF ASSOCIATION / CORPORATE PURPOSE

Incorporating sustainability considerations into the Articles of Association or the corporate purpose can help to guide decision-making and to ensure that growth and success are built on a foundation of sustainability and ethical governance. Further, it helps to attract investors, employees, and customers who prioritize ethical and responsible business practices.

To embed ESG into the corporate purpose, startups should define their mission and vision in a way that emphasizes long-term value creation and responsibility towards the environment, society, and governance. The Articles of Association can explicitly outline commitments to ESG by incorporating specific clauses, such as: "The company shall prioritize sustainable practices in all its operations, aiming to reduce environmental impact and promote ecological balance."

Finally, to have a common understanding internally and create a shared understanding regarding sustainability practices, an impact statement or ESG policy could be a next important step. What could that include?

- **Mission statement and Vision**: the overarching mission and positive impact a startup aims to have on the world.

- **Core Values and Principles:** A statement of the startup's dedication to sustainable practices.

- **Impact Areas:** specific goals and initiatives aimed at sustainability related goals.

- **Strategies and Actions:** Details on how the startup integrates sustainability and ethical practices into its operations, products and partnerships.

- **Goals and Metrics:** Specific, measurable, achievable, relevant, and time-bound (SMART) goals related to the startup's impact areas.

3.5. IMPACT MEASUREMENT

Finally, it is important that startups also measure the impact of their sustainability efforts. This allows them to determine whether they are achieving their goals or whether they are falling short of them. Unlike outcomes, impact is about long-term changes or effects on the environment or society that result from an action plan. In other words, impact is more far-reaching than an outcome and is also partly indirect and dependent on external factors.

An example: Suppose a start-up uses a sustainable material for the production of T-shirts. The outcome of this measure could be that the use of this material reduces the start-up's CO_2 emissions. The impact, in turn, could be that in a few years' time, the opinion of customers is influenced and they increasingly recognize the importance of sustainability in materials in the textile industry.

It also makes sense to define indicators to measure the impact at some point. For example, these can be measured with customer surveys, but also with competitor analyses.

4. Certificates and Labels for Startups

Obtaining a sustainability label can provide startups with a competitive edge by differentiating them in the market and attracting sustainability-conscious consumers. It enhances brand credibility and reputation, fostering trust among customers, partners, and investors.

However, many sustainability labels are not suitable for startups due to high certification costs and the significant investment needed to implement required practices. The label's criteria often demand extensive documentation and continuous reporting, which can overwhelm startups with limited administrative capacity. Additionally, many certification schemes are designed for larger companies and may not be scalable to the smaller operations of startups. Moreover, some labels may lack market recognition or relevance for a startup's specific sector, reducing the perceived benefits of obtaining them.

Before applying for a sustainability label, startups should look at the following aspects:

- **Stakeholder Audience:** Who are the target stakeholders that are expected to recognize and value the label?

- **Material areas:** Which material issues and risks does the label address?

- **Scope:** What is the scope of the label (product level, process level, company level)?

- **Sector and regional recognition:** In which sector and region is the label recognized?

- **Costs:** How high are the costs of getting the label and maintaining it?

- **Ressources**: What practices and documentations are required to obtain the label?

Here are some labels that could be of interest to start-ups and scale-ups:

PEOPLE AND PLANET FIRST LABEL: for enterprises that put People and Planet First. Verified enterprises include social enterprises, fair trade enterprises, cooperatives, mutualist organizations, post-growth enterprises, not-for-profit businesses, earned-income nonprofits, social businesses, regenerative businesses and more. The People and Planet First verification focuses on five core standards in order to keep assessment costs low, bridge language divides and legal differences and open global opportunities for all enterprises that put people and planet first.

B CORP: an international certificate awarded by the non-profit organization B Lab to companies for their social and ecological impact. The certificate is not awarded to individual products or divisions, but measures the overall social, ecological and economic performance of the company, focussing primarily on public transparency and legal accountability. Start-ups or smaller companies may pursue Pending B Corp status. Pending B Corp status is designed to give these companies time to prepare for the rigorous process of full B Corp Certification and signals to investors that a company measures and manages its social and environmental performance.

ZNU LABEL: helps companies to become more sustainable step by step and calls for continuous improvement. It integrates all three dimensions - environmental, economic and social - and demands and promotes the development of an integrated management system for more sustainable management. The audit effort depends on the number of locations and employees.

5. Funding for Sustainability Oriented Startups

5.1. VENTURE CAPITAL FUNDS[5]

Apprecia Capital: invests in purpose-driven founders with bold ambitions to lead a virtuous cycle for the planet's and human health. Their fund supports early-stage teams with their entrepreneurial mindset, expertise, and network to deliver momentous innovations and solve the systemic challenges.

Alpana Ventures: a Swiss VC focusing on digital transformation, investing to embed innovative business models into start-ups and back them to become global market leaders. Applying ESG criteria, their portfolio companies help create a more sustainable future.

Blue Horizon: invests in transition to a Sustainable Food System, with an end-to-end approach that extends beyond alternative proteins, starting with better crop practices right through to sustainable packaging and smarter distribution. They generate impactful investments with a philosophy they call Double Positive: positive, above-market returns for investors and positive measurable impact for the planet, humans and animals.

Collateral Good: a climate-first Zurich-based venture capital platform, that aims to transform polluting industry systems to more sustainable ones. They invest from Seed to Series A, opportunistically can go to Series B&C.

DART Ventures: believe the world's biggest challenges can be tackled by combining breakthrough technologies and global collaboration. The fund invests in the health of people and the planet with the goal of generating sustainable value and leaving a better world for future generations. DART is woven into the U.S, and Swiss ecosystems and connects the best of both.

ECBF: a venture capital fund dedicated to growth-stage investments within the European Circular Bioeconomy with the European Investment Bank as cornerstone investor. Their mission is to provide access to finance for innovative solutions that enable the transition from a linear economy to a more sustainable

[5] Copyright (c), 2024, Sources: SECA & Startupticker.ch (Fundraising Radar - Swiss Venture Capital Report), SICTIC & Swiss Startup Association.
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circular one. Their targeted investment sectors include new technologies and business models in Agtech, blue economy, and bio-based chemicals, specialities and materials, nutrition, packaging, personal care, construction, and textiles. Investment opportunities in circularity (i.e., conversion of biological resources and waste streams into value-added products) have a high priority.

Emerald Technology Ventures: brings open innovation and venture capital together, with 20+ years of experience investing in the sustainable industrial transformation. They empower corporates to successfully innovate and collaborate with start-ups, and to transition their businesses to a more sustainable future. They have over 50 large corporations as investors and partners in open innovation. Their sectors: energy, water & wastewater, food & agriculture, mobility & urbanization, materials & packaging, industrial, IT.

Sand Born: a team of innovators and change drivers that love hatching ideas and businesses to change our world for the better.

UNA Terra Venture Capital Fund: a VC fund, complemented by a venture studio, providing capital, network and support to accelerate growth and impact of emerging ESG enterprises.

Übermorgen Ventures: an early stage venture capital investment company backing entrepreneurs, who understand that climate change mitigation is not only the responsibility of our generation but also the potentially biggest business opportunity of our time.

5.2. INCUBATORS / ACCELERATORS[6]

Clim Accelerator: A global programme for start-ups to innovate, catalyze and scale the potential of their climate solutions. The accelerator wants to turn cleantech start-ups into successful businesses and harness the power of human ingenuity to drive rapid impact and unlock a net-zero, resilient future for all. The accelerator offers:

- An open-sourced Operating System that provides startups with management tools, content, coaching and mentoring networks.
- Impact Data that helps startups to measure, forecast, and monitor a wide range of environmental and social impact metrics to build a comprehensive view of their long-term impact.
- Access to exclusive funding and investment opportunities and many ClimAccelerators are eligible for grant funding from external sponsors.

[6] Disclaimer: The information might be incomplete due to changing circumstances. In case of remarks, please contact info@swissstartupassociation.ch

- A community of 400+ organizations across the globe working to drive a net-zero carbon transition.

Masschallenge Switzerland: Since 2016, MassChallenge Switzerland has been a leader in helping startups across Europe grow their businesses by accelerating 720 startups across multiple industries that have raised more than $1.2Bn in funding. Their flagship program is the early-stage startup accelerator, which accepts startups from any industry, and in 2024 will be comprised of the agnostic program and 3 industry-specific tracks: Sustainable Food, Sustainable Industry & Climate Solutions, and HealthTech. They only accept startups whose solution will add value to society, and all startups in the accelerator will be advised about how to make their business climate responsible and must intend to offset their emissions or actively reduce GHG to be considered.

Participants gain access to:
- Access to 15+ global corporate partners
- Mentoring from 400+ experts
- Comprehensive curriculum of lectures and workshops, featuring 50+ leading entrepreneurs, VCs, and experts
- The opportunity to compete for up to CHF 1M in non-dilutive cash prizes
- For Food and Climate focused startups, an additional cash prize of CHF 100k for the Louis Dreyfus Company Climate Resilience Prize
- Switzerland-specific advice on regulations and tax, easy access to the EU market, and strong trade links

5.3. LOAN GUARANTEES[7]

Technology Fund: The Technology Fund offers loan guarantees to Swiss companies whose novel products contribute to a sustainable reduction in greenhouse gas emissions. The guarantees bridge any possible gaps between equity financing during the start-up phase and regular corporate loans for more established businesses. Guaranteed loans are a form of non-dilutive funding and do not affect the current ownership structure. The guarantee may amount to a maximum of CHF 3 million. The maximum duration of the guarantee is 10 years.

5.4. AWARDS / COMPETITIONS

W.A. De Vigier Award: awards five young leaders per year, each endowed with CHF 100’000. One important assessment area of the W.A. de Vigier Award is the overall relevance for the society of the startup. In the last years sustainable startups excel at the W.A. de Vigier Award.

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Swiss Sustainability Challenge: The Swiss Sustainability Challenge (SSC) organized by the University of Applied Sciences Northwestern Switzerland and Pax, is an innovation competition that supports projects that contribute to environmental and social sustainability. The winner receives CHF 10,000 including CHF 6,000 in cash and CHF 2,000 in the form of a professionally produced video and CHF 2,000 in the form of an additional 10 coaching hours.

Renewable Material Award: The Renewable Materials Conference presents each year the "Renewable Material of the Year" innovation award, organized by the nova-Institute and sponsored by Covestro. Producers and inventors of innovative technologies and applications based on biomass, CO_2 or advanced recycling are invited to submit their innovations.

6. Further Resources

- ROSE Framework: https://www.roseframework.io
- ESG_VC Framework: https://www.esgvc.co.uk
- Example of ESG questions of a VC: https://emerald.vc/sustainability/
- ESG Labels and Standards: https://assets.kpmg.com/content/dam/kpmg/de/pdf/Themen/2023/11/sustainability-standards-and-labels.pdf