VentureESG

Materiality Maturity Map

How VC-backed companies should think about ESG as they scale

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01. Introduction: The need for a dynamic approach to ESG

Materiality is key to making ESG integration financially impactful — independent of the asset class. Filtering what factors across E, S, and G are relevant at any one point of a company's life is an important first step in doing ESG work. A materiality assessment (see our earlier work on this) is a meaningful starting point but often remains static.

One key question surfaced repeatedly over the last year of our work: What kind of ESG action should be tackled *when*? Or in other words: How do we do *dynamic* materiality, specific to VC-backed companies?

Over the course of a six-month project in 2024, funded by the British Business Bank (BBB), VentureESG asked this question to private and public market investors, exchanges, banks, LPs, and other ecosystem participants. The result is the first version of what we call our **'Materiality Maturity Map' (MMM) tool** to help guide a dynamic approach to ESG materiality as VC-backed companies scale.

The MMM tool is primarily **intended for Heads of ESG at VC firms**, guiding their conversations with portfolio companies about ESG priorities as companies scale and mature. It is explicitly not supposed to be a 'self-serving' tool for investee companies.

In this white paper, we will provide guidance on how to use the tool (see Appendix I) and some contextual findings from our 50+ interviews that informed its development.

As part of the MMM project, we also developed a concise **guide to ESG compliance**. While not comprehensive, it offers businesses essential guidance to support them in meeting key legal standards from the outset, helping to protect employees, customers, and stakeholders.

This project was led by our Research Fellow, Mikaela Murekian, with support from VentureESG's co-directors, Dr. Johannes Lenhard and Hannah Leach.

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VentureESG is a global, community-driven, non-profit organisation founded by venture capitalists (VCs) for VCs. Our mission is to support the integration of effective environmental, social, and governance (ESG) practices across the venture capital industry. We work with 500+ VC funds and 100+ limited partners and asset owners across stages and geographies to support the ecosystem in meaningful and material ESG integration.

Get involved: If you are interested in learning more, collaborating, or contributing to advancing ESG in venture capital, we invite you to reach out or explore our resources.

1.1 Definition of Materialit(ies)

Not all ESG factors hold equal significance in every investment decision or portfolio management case. The relevance of specific ESG concerns varies depending on the industry or sector, meaning companies in different contexts require a more targeted focus on the issues deemed "material" to them.[1]

For the purpose of this paper, we adopt the **definition** presented in VentureESG's *Materiality Assessment For Venture Capital*: "A material issue is one that can significantly influence the financial, economic, reputational, or legal dimensions of a company, as well as the broader system of internal and external stakeholders associated with the company."

In addition, we extend this concept to include the notion of **dynamic materiality**, recognising that certain issues may evolve and become material over time, reflecting the changing context in which a company operates. The concept of dynamic materiality was first introduced by the World Economic Forum in 2020.

Examples of events that may trigger changes in materiality include:

- Expansion into new geographies
- Adding new product and/or services
- Implementing new technologies or processes
- Revising supply chain strategies
- Shifts in corporate strategy or mission
- M&A
- Changes in consumer preferences
- Regulatory changes
- Increased stakeholder pressure

These examples illustrate the need for companies to remain agile and responsive in their approach to ESG materiality, ensuring that their strategies evolve alongside the dynamic landscape in which they operate.

1 Double materiality includes both financial materiality (how ESG factors impact a company's finances) and impact materiality (how a company affects environmental and social conditions). This dual view, emphasised in frameworks like the EU's CSRD, provides a fuller understanding of ESG risks and impacts.

1.2 Limitations

The Maturity Materiality Map (MMM) is not intended to be comprehensive or region-specific. It provides the first version of a flexible framework, but VCs and their investee companies must use additional, localised (especially for the regulatory aspects), and sector-specific guidance. A company-by-company materiality assessment is not included in this version of the guidance.

While the MMM references national legislation such as the UK Companies Act and Gender Pay Gap Regulations, it is crucial to recognise that regulatory requirements as well as some material best practices can differ significantly across regions. Companies should focus on the ESG issues most relevant to their sector and stage of development.

VentureESG is committed to regularly reviewing and updating this guidance to reflect evolving best practice trends and regulatory changes.

02. Material Matters: Themes in Defining ESG Materiality Maturity

In the approximately 50 interviews conducted to inform this white paper, three key themes emerged around the challenges of defining ESG materiality *throughout the maturity and scaling process of startups*. First, there is a **lack of consensus** on what is truly material, with both VCs and companies struggling to prioritise relevant ESG issues amidst limited time and resources. Second, **governance** repeatedly surfaced as the foundational element, with strong governance frameworks often serving as a catalyst for addressing other ESG concerns. Finally, **risk** remains a constant focus as companies mature, with ESG risks—especially in the early stages—closely tied to execution risks. As companies scale and prepare for IPO or M&A, external expectations and scrutiny intensify, requiring robust ESG strategies to navigate the cyclical nature of risk management.

2.1 Theme #1:

Immaterial ESG data collection and limited expertise and resources causing confusion and frustration

A key challenge identified is the absence of consensus on which parts of ESG are considered material, i.e. financially relevant, both at the VC level and within portfolio companies. One commonly mentioned issue stems from the large number of ESG data requests, often coming from institutional limited partners. These data requests are not materially filtered and set misleading incentives where companies focus on generating data on ESG issues that are not material.

In many cases, companies are being asked to address a wide range of immaterial ESG concerns too early, without sufficient guidance. This disconnect has been causing frustration, with founders feeling overwhelmed or even resentful of ESG demands. As one participant noted, “Sometimes, companies are being asked to do things far too early, and the investor has not taken the time to explain what is relevant.” A lack of focus on explaining the usefulness of the collected data compounds this issue.

The confusion is further aggravated by a still very low level of general ESG expertise in the ecosystem, both among many VCs (especially on the investment side) and portfolio companies. Only very slowly are VCs able to go *beyond* ESG data as compliance (e.g. towards their LPs) and help portfolio companies understand the potential benefits of focusing on material ESG issues in scaling companies.

The current market environment is additionally increasing the time and resource constraints of founders further, complicating the company’s understanding of the relevance of ESG. As one interviewee observed, “Many of the companies are completely stretched.” Portfolio companies, particularly those in their early stages, are often focused on product development and scaling, leaving little room for (immaterial) ESG.

Again, VCs must take a more active role in educating their portfolio companies on what ESG issues are material and why they matter, tailored to the company’s stage of growth. Without sufficient time and resources to focus on ESG, both investors and companies risk misalignment, which could lead to wasted efforts, fragmented strategies, or disengagement with ESG altogether. This tool is a first step in addressing this confusion.

Case Study 01:

Targeted Impact: Molten Ventures' Strategic Approach to ESG Materiality

Molten Ventures, a listed UK VC firm specialising in high-growth, disruptive technology companies, has adopted a strategic, inward-looking approach to ESG materiality.

To optimise its resources and engagement, Molten defines an "in-scope portfolio company" as one in which they hold a Board seat and that represents at least £3 million of Net Asset Value (NAV). As of 1 April 2024, this covers approximately 74% of their directly held portfolio by value.

This approach allows Molten to focus its ESG efforts on companies where they can have the greatest impact, ensuring that the issues addressed are both relevant and timely. Recognising that "one size does not fit all," Molten actively pursues one-on-one engagements with portfolio companies, providing tailored, material support that aligns with each company's unique context and growth trajectory.

2.2 Theme #2:

It All Starts With Governance

A recurring theme in discussions about ESG materiality is the critical importance of governance as the foundation for all other ESG considerations. As one VC interviewee noted, "We often try to push the governance side, because we've noticed that if the governance is not in place, it is really hard to focus on the other topics." This underscores the central role that strong governance plays in ensuring a company can effectively address environmental and social issues as it scales too. G-E-S instead of E-S-G.

Good governance includes, among other things, having a dedicated person responsible for ESG: someone who ensures that ESG principles are embedded into the company's operations and decision-making. While this may seem like an obvious step, many early-stage companies overlook it. Another point of solid governance is at the board level, where ESG can be both an important agenda item and a lens for building a better board (e.g. with the right kind of DEI efforts). One interviewee pointed out:

> *"Everyone knows they need to do governance. Sometimes people who are anti-ESG forget about governance. They'll be anti-climate change and anti-DEI, but 'G' is just running a good business. They are basically doing ESG without knowing that they're doing it."*

Governance is not only helpful as a foundation for other aspects of E and S considerations—when G is good, doing E and S is easier—but it is also a great starting point for building conviction. Few founders will dispute the need for a strong governance foundation for any company.

By prioritising governance, companies can create a solid foundation for tackling the 'E' and 'S' aspects of ESG, setting the stage for long-term, sustainable growth. In this sense, starting with governance is not only practical but essential for achieving meaningful progress across the broader ESG spectrum.

Case Study 02:

Base10’s Governance Playbook: A Catalyst for Value Creation

Base10’s Governance Playbook is grounded in insights from over 200 interviews with tech executives and top investors, revealing a key finding: mission-driven companies with strong governance and transparency perform better at IPO and in the long term. To help venture-backed software companies achieve out-performance, Base10 developed a framework that maps governance practices at every stage of the company journey from seed through IPO.

The Base10 Governance Maturity Index measures portfolio companies against the initiatives in the Governance Playbook to give them clear benchmarks and tailored next steps. These initiatives focus on value-creation opportunities, offering guidance on sustainability reporting, human capital best practices, and governance. By treating governance and compliance as value drivers rather than a checkbox, Base10 supports its companies in building resilience and unlocking growth opportunities as they scale.

2.3 Theme #3: The Cyclical Nature of Risk

Risk management is a central theme in ESG, particularly in the early stages of a company’s growth, when the focus is on survival. At this stage, ESG is primarily viewed through a risk lens, with founders working to protect their businesses from legal, reputational, and operational threats. As one interviewee put it, “It’s all about surviving, and ESG is often seen as part of that risk management framework.”

As companies grow, ESG priorities shift from simple risk mitigation to value creation. However, the focus on risk resurfaces in a more sophisticated form when companies approach an IPO or M&A transaction, where scrutiny from investors—whether public or private—and other stakeholders (lenders, exchanges) intensifies. “A couple of years ago it was sufficient to have ‘net zero ambitions,’” one participant explained. “Now investors expect interim targets and a credible path.”

The type of exit also shapes the kind of focus on ESG. Public markets demand rigorous ESG ratings for IPOs, while private equity deals may focus on specific, material risks. “M&A is different,” one participant noted. “Sometimes there will be extreme focus on small issues that wouldn’t come to light in an IPO due to the intense due diligence from PE owners.”

ESG risks also extend to external communications. One participant highlighted the potential legal challenges: “Often ESG is seen as a marketing opportunity rather than a legal disclosure, but that poses serious risks. We’ve seen actual litigation related to ESG statements, especially for consumer-facing companies.”

As ESG expectations become more sophisticated across stakeholders, companies must back their strategies with credible data and actionable plans. “Managing ESG is about execution risk”, as one interviewee concluded, “and the risks of reputational damage, legal consequences, or financial loss”.

Case Study 03:

Addressing ESG from ‘Day Zero’: Antler’s Founder-Focused, Open-Source Sustainability Toolkit

Recognising sustainability as a key factor in business success, Antler developed its sustainability toolkit to help founders integrate sustainable practices from the outset, bridging the knowledge gap that many entrepreneurs encounter. Launched in May 2022, the toolkit is a dynamic, evolving platform, regularly updated with masterclasses, insights, and tools tailored to different stages of the founder journey. Founders can select resources that align with their immediate needs and seek additional coaching as required.

With over 470 visits per month and 2,500 new users in 2024, the toolkit has gained traction across 84 countries, led by Denmark, the UK, and the US. Initially designed for Antler founders, the toolkit has since become open source, inviting broader collaboration among founders and VCs globally. By offering both educational resources and practical guidance, it aims to shift the focus from mere data collection to meaningful understanding and effective implementation. More than a resource, it’s a call for collective action to embed sustainability as a core component of entrepreneurial success.

Conclusion:

Let’s experiment together

Tracking regulatory compliance across a company’s life cycle is reasonably simple. This is one aspect of ESG, especially in Europe or for companies with strong European exposure (through CSRD). However, ESG is fundamentally more than simple compliance.

Across a company’s life cycle, different stakeholders have different ESG demands, from customers and investors to suppliers and governments. Additionally, ESG risks that are sector- and company-specific materialise as a company scales. Tracking these and working towards solid ESG foundations prevents risks from turning into problems.

This guidance document, a first of its kind, brings together the wisdom of a large variety of stakeholder participants who have been experimenting with ESG both as compliance as companies mature and as best practices. As an ecosystem, what we need to focus on now is the next phase of experimentation.

So far, we have very few solid answers as to how companies should build in ESG best practices as they scale. This is where VCs have leverage — both through their due diligence, their board work, and their informal relationship with founders. Let’s work together on the next phase of experiments to use ESG to build better companies, at scale.

Appendix I:

How to use the tool

Using the Materiality Maturity Map

The Materiality Maturity Map is a versatile tool that helps VC firms navigate ESG materiality. It segments key ESG topics into actions across different maturity stages — from early-stage startups to advanced companies. The categories on the left side of the tool align with VentureESG's "Universe of Issues," with an additional category for "Disclosure." The top categories reflect current discussions with limited partners (LPs) on segmenting companies based on their growth stages.

Here's how to use the tool across three different scenarios:

1. Head of ESG: Mapping Strategy and Prioritisation

As the Head of ESG, your primary role is to develop a strategic roadmap that aligns with the company's growth and ESG commitments. The Materiality Maturity Map helps you assess where your company stands on its ESG journey and prioritise focus areas.

Steps:

- **Vertically**: Evaluate your company's current phase (e.g., early, scaling, advanced). For instance, if your company is scaling, focus on intermediate actions such as formalising an ESG strategy or conducting human rights impact assessments.
- **Horizontally**: Deep dive into specific ESG topics like "Climate" or "Governance." Use the map to progress actions from basic regulatory compliance to more advanced commitments, such as setting science-based carbon reduction targets or adopting a board diversity policy.
- **Outcome**: The map helps you create a structured, phased approach to implementing ESG initiatives, setting achievable goals, and tracking progress as your company matures.

Example: In an early stage, you might focus on foundational compliance like waste management. As your company scales, you can expand to integrating ESG into product design, governance structures, and deeper environmental policies.

2. Investment Professional: Guiding Board Discussions and Founders

As an investment professional, your role is to evaluate portfolio companies and guide founders and boards on ESG integration, ensuring they meet investor expectations and regulatory requirements.

Steps:

- **Vertically**: Use the tool to assess the ESG maturity of portfolio companies. If the company is early-stage, focus on compliance with basic standards like health and safety or data protection. For more advanced companies, guide them towards adopting robust ESG frameworks like ISSB or GRI.
- **Horizontally**: Discuss with the board and founders where the company could improve in specific ESG areas, such as governance or supply chain management. Suggest that companies move from reactive compliance to proactive ESG leadership by developing policies such as a Code of Conduct or an inclusive hiring policy.
- **Outcome**: You can use the tool to advise on incremental improvements in ESG performance, which can ultimately enhance the company's marketability and investor confidence.

Example: For a scaling company, suggest they start tracking GHG emissions and prepare for upcoming ESG disclosure requirements. For an advanced-stage company, discuss the potential adoption of ESG-linked compensation to align executive incentives with sustainability goals.

3. Early-Stage Startup: Building a Foundation for ESG

For early-stage startups, ESG can seem overwhelming, but it's essential to lay a solid foundation that will support growth. The Materiality Maturity Map simplifies this process by outlining early actions that are manageable yet impactful.

Steps:

- **Vertically**: Start with essential regulatory requirements (e.g., data protection, health and safety compliance). Focus on easy-to-implement actions that build credibility and align with basic legal standards.
- **Horizontally**: Begin by addressing a few key ESG areas, such as setting up governance policies and outlining a high-level environmental strategy. Early actions like appointing someone responsible for data security or creating a basic waste management plan can establish credibility with stakeholders and investors.
- **Outcome**: The tool helps early-stage startups embed ESG considerations early on, setting them up for long-term success and smoother transitions as they scale.

Example: In the early stages, focus on actions such as publishing a basic sustainability policy and ensuring compliance with anti-corruption regulations. As the company grows, move towards more strategic ESG actions like diversity metrics and carbon emissions tracking.

Appendix II:

Methodology

Semi-Structured Interviews

To develop the Maturity Materiality Map (MMM), we engaged directly with key stakeholders within the venture capital (VC) community to ensure that the tool addresses their specific needs and reflects sectoral priorities. Over a period of six months, we conducted semi-structured interviews with 50 VC ESG leads, external ESG advisors, and investment professionals. These interviews formed the core of our methodology, helping us shape a tool that is both practical and aligned with the realities of VC-backed companies at different stages of growth.

Desk Research and Benchmarking

In addition to the interviews, we conducted extensive desk research to benchmark existing ESG frameworks, including SASB and GRI. This research helped identify gaps in the current toolkit landscape, particularly for venture-backed companies in the earlier stages of their growth. Our benchmarking analysis also highlighted the need for a dynamic, stage-specific approach to ESG, which became a cornerstone of the MMM tool's design.

Iterative Development and Refinement

The creation of the MMM tool was an evolving process, guided by feedback from stakeholders at every stage. Through continuous consultation with ESG leads and specialists, we refined the tool to ensure it remains adaptable to the shifting priorities and expectations of VC firms. This collaborative approach ensures that the tool not only reflects best practices but is also aligned with the practical demands and constraints faced by investors and portfolio companies.

VentureESG