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# Scaling Sustainably

## THE BOARD GUIDE TO BUILDING BUSINESSES THAT LAST

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# Contents

# Part I

# Summary and Context

# Given their strategic and stewardship responsibilities, Boards are uniquely positioned to help businesses scale sustainably.

- We created this guide based on c.40 interviews with Board members and experts, alongside a review of publicly available resources for Boards.
- Sustainability is an integral aspect of all Board responsibilities: strategy, risk management, resource planning, meeting shareholder expectations etc..
  - The business case for doing so is strong
  - Boards of large co.s are legally required to address it.
- However, for a variety of reasons Boards often don't address these issues strategically, if at all. A more intentional, integrated approach would help drive long-term value.
- Deciding which issues, and when or how they are addressed, depends on company type, scale and mission - choosing the right, strategically relevant and material, issues is key to value creation and protection.

We outline 9 steps for how a Board can help a business scale sustainably:

1. **Refine the 'Why'**
2. **Ensure Regulatory Readiness**
3. **Prioritise Strategic Issues**
4. **Clarify Climate Positioning**
5. **Define Performance**
6. **Integrate into Agenda**
7. **Establish Board Accountability**
8. **Secure Resource Commitment**
9. **Recalibrate Regularly**

*We also summarise 4 key questions for a Board to ask itself, and provide a guide for a 30 minute Board discussion.*

*It's not about ticking 'ESG' boxes, it's about building a business to last. And a critical choice for Boards to make.*

# This guide aims to equip Board members with a toolkit to integrate sustainability into their stewardship - and so build businesses that last.

*Feel like the business should do more on ESG, but don't know where to start?*

*Want to drive sustainability programs that deliver a tangible return on investment?*

*Want to address environmental and social issues but not sure if they are relevant to the Board?*

This is a practical guide for Board members - Founders/CEOs, Investment Directors, NEDs - to help them...

- ➔ deliver business success and value creation...
- ➔ by integrating material environmental and social considerations...
- ➔ and ensuring responsible governance.

Scaling sustainably is essential to long-term value creation and therefore integral to Boards' responsibility and fiduciary duty.

OUR DEFINITIONS:

ESG = Good process across multiple environment, social and governance areas.

IMPACT = Positive environmental and/or social outcome of a product or service.

SUSTAINABILITY = creating long-term value by delivering financial performance alongside positive social or environmental impact.

From a board point of view, your role is fundamentally to make sure you've got the right strategy, the right resources and the right governance. ESG is an important element of all three of those.

Board Chair, Ex-Investment Director, Multi-Board Advisor

ESG is both extremely important and nothing special....

...important because it's critical to long-term value,...

...nothing special since it's no better or worse than other intangible assets such as management quality, corporate culture, and innovative capability.

Professor Alex Edmans, London Business School - Institute of Finance and Accounting. In 'The end of ESG'

# Boards can be a powerful lever of more sustainable growth in the start-up ecosystem, so we set out to distill how to make that happen.

## What role do Boards play, and where does **sustainability** fit in?

**Strategy and Long-Term Thinking:**

Boards provide long-term direction and strategic discipline vs more operationally focused management. This is especially critical for sustainability issues, where long-term value creation is key.

**Governance and Accountability:**

Boards set the tone and structures for effective governance, ensuring clear decision-making, risk oversight, and performance monitoring—including on environmental and social priorities.

**Risk and Resilience:**

Boards play a central role in identifying and managing potential and actual risks—regulatory, reputational, financial, environmental, or social —building business resilience.

**Access to Expertise and Networks:**

Boards bring external perspectives, sector expertise, and networks that may not exist in management—enhancing insight and innovation, including sustainability related knowledge.

**Credibility with Investors and Stakeholders:**

A strong board signals robust governance, enhancing access to capital and markets by meeting investor, lender, customer, and supplier expectations — including on sustainability.

**Succession and Leadership Planning:**

Boards help anticipate leadership transitions and close skills gaps—including those critical to diversity, business resilience, and sustainability progress.

## How did we create this guide?

- We reviewed existing publicly available information and guidance for Boards and start-ups
- We interviewed just short of 40 experts and practitioners with hands-on Board and sustainability / ESG experience:
  - 5 Founders, NEDs, and Independent Board Advisors
  - 18 VC Investment Directors with Board seats
  - 4 Board practice experts
  - 12 ‘Heads of ESG’ at VC firms
- We distilled the insights from the desk-research and interviews into this practical guide

Part II

# **Status Quo:** How boards currently deal with sustainability and ESG

# Why, when and how sustainability issues are covered by a Board depends on company type, stage and mission

## 3 KEY FACTORS IMPACTING HOW A BOARD APPROACHES SUSTAINABILITY

### COMPANY Type:

- ➔ What the business does, what operational and supply chain set-up it has, and how inherent sustainability risks or opportunities are to the sector as a whole - these all impact how a Board might address sustainability.
- ➔ Some issues (such as team engagement and regulatory compliance) are intuitively relevant to ALL companies. These regularly 'naturally' come up in Boards (see over) but often not strategically.
- ➔ Some issues are more relevant to different *sectors* (e.g. Health and Safety in a manufacturing based business) and are sometimes covered by the Board, but not in all cases, and again, not necessarily strategically.

### COMPANY Stage:

- ➔ <u>EARLY: (Key Board role: Ensuring product-market fit).</u> Early stage companies have less formalised Board structures, and more reactive issues management, including sustainability related ones.
- ➔ <u>LATER: (Key Board role: Helping the business to sustain growth and scale efficiently).</u> There are increasing opportunities and reasons to build formal assessment and oversight of operational sustainability issues (e.g. risk management, measurement / reporting).
- ➔ <u>PRE-SALE: Key Board role: Setting up the company for the long-term / exit pathway.</u> Larger companies have inherently more formal Board structures and requirements, and structured approach to issues management, including those related to sustainability.

### COMPANY Mission:

- ➔ If the business has a clear social or environmental mission e.g. it's a climate solution, or aimed at improving health outcomes, or wants to be a B-Corp - this is usually integral to Board discussions, and can lead to work on other sustainability areas.
- ➔ Even if not, a clearer mission link to social values or progress - could help engage employees; inspire investors; build brand; and set a positive ambition around growth.

# In general, Boards don't engage with 'ESG' intentionally for a variety of reasons - yet some issues naturally fall in scope

## Why Boards don't address ESG...

- ➔ **Competing priorities:** ESG is crowded out by other urgent matters, or those with a clearer link to short-term value.
- ➔ **Lack of agenda integration:** ESG topics arise reactively, not through structured or strategic discussion.
- ➔ **'Too broad':** ESG feels undefined - Boards lack clarity & knowledge of priorities and ESG related financial impacts.
- ➔ **Short-term focus:** Boards prioritise immediate concerns - ESG issues tend to be longer-term.
- ➔ **Framing barrier:** 'ESG' as a term is polarising—yet underlying issues (e.g. talent, resilience) are core.

## ...and where they naturally do

4 Big (ESG) issues were widely covered by Boards, although typically not defined as part of an ESG/Sustainability session or plan:

- ➔ Team engagement and incentives
- ➔ Diversity (Board / Snr Management)
- ➔ Board structure, financial controls
- ➔ Regulatory compliance

*Taking a more intentional approach to integrating sustainability considerations into the Board will help drive further value protection and creation.*

Particularly at early stages, the risk in any ESG issue is far outweighed by the risk the business will fail.

"

Board Chair, multi-Board Advisor, ex-COO of listed company

> We're very active at an early stage on diversity - if you just keep hiring a bunch of the same white dudes, it's hard to change that culture later

Investment Director, US Fund

> Every Board covers team and organisation - and it's really useful on the Boards I'm on to see the employee engagement survey results particularly where you can see trends over time

Investment Director, UK Fund

> Regulations, maintaining licenses, audits and staying compliant is one of the main topics of a Board of a fintech

Investment Director, UK Fund.

# There is a strong business case for helping a company scale with sustainability built in at Board level

## THE BUSINESS CASE: 5 KEY SOURCES OF VALUE CREATION

**Value protection and risk management:** Proactive oversight of, and reporting on, ESG issues helps safeguard against regulatory, reputational, and operational risks—protecting the company's licence to operate and long-term value. *55% of Board members globally see climate change as an "extremely" or "very important" risk, but 48% believe Boards lack the expertise to oversee climate risks and opportunities [1].*

**Access to capital and increased exit values:** Investors, lenders, and insurers increasingly factor non-financial performance into their decisions. Strong governance can reduce capital costs and improve financing options. *Companies with higher [ESG] ratings benefit from a consistently lower cost of capital [by 10-20%]. [2]*

**Competitive advantage and innovation:** Social or environmental leadership can help a company differentiate, build brand, and attract sustainability-conscious customers. It can also be a driver for innovation in products, services, and business models. *Companies transitioning their product portfolios to include climate solutions are seeing faster revenue growth [3]*

**Talent attraction and retention:** Companies with strong sustainability and diversity commitments are more attractive to skilled talent—particularly younger, purpose-driven employees. *62% of HR executives have seen an increase in questions about sustainability from candidates during the interview process [4]*

**Board effectiveness and strategic insight:** Diverse and sustainability-literate Boards are more effective in decision-making, bringing broader perspectives and foresight. *75% of investors consider how a company manages sustainability-related risks and opportunities as an important factor in their investment decisions [5]*

> It adds value to the company if you're strong on these things, because you'll get a lot more when you sell it, or you IPO it... because you've got a happy workforce, you've got no environmental issues, no tax issues, no social issues, health and safety is strong, you have a strong, robust supply chain that's resilient .... It just makes economic sense to do

Board Chair,
Ex-Investment Director,
Multi-Board Advisor

VentureESG

# Part III

# Nine recommended steps for a Board to take

## We've outlined nine steps to enable a Board to deliver scale, sustainability and long-term value

1. **Refine the 'Why'** – Assess the company's mission and values to ensure alignment with stakeholder expectations of bigger picture social or environmental outcomes.
2. **Ensure Regulatory Readiness** – Oversee compliance readiness with sustainability regulations (e.g. CSRD, climate disclosure, EU AI Act), and ensure proactive monitoring of emerging legal and policy developments.
3. **Prioritise Strategic Issues** – Identify and agree on the sustainability-related opportunities, impacts, risks that are most material to long-term business value.
4. **Clarify Climate Positioning** – Specifically agree on the company's position, strategy and targets related to climate change, including its approach to decarbonisation and long-term energy resilience.
5. **Define Performance** – Set clear sustainability goals and KPIs (in line with strategic issues) and ensure regular performance tracking, and mandate transparent internal and external reporting.
6. **Integrate into Agenda** – Integrate strategic priorities into standard, regular Board processes such as strategy, risk management, performance, and team planning.
7. **Establish Board Accountability** – Establish clear Board and committee-level ownership for sustainability, and ensure all members are equipped with the necessary knowledge and skills.
8. **Secure Resource Commitment** – Approve investment in appropriate people, budget, and incentives to enable execution, innovation, and delivery of sustainability related plans across the business.
9. **Recalibrate Regularly** – Use key business milestones (e.g. investment rounds, pivots, exit planning) to revisit sustainability priorities in line with evolving requirements and materialities.

1.

## REFINE THE 'WHY': All Boards discuss mission. Getting clear on what it means for people or planet can unlock positive progress

**WHY SHOULD BOARDS CARE?:**

A deeper 'why', aligned to environmental or social outcomes can attract and motivate teams and foster performance and innovation by giving growth a meaningful direction. It can also help open doors to values-aligned customers, partnerships and funding.

## HOW A BOARD CAN CAN HELP REFINE A MISSION WITH SUSTAINABILITY IN MIND

For 'IMPACT' COMPANIES, where a central environmental or social mission is clear - e.g. climate tech, health tech, or a sustainability driven brand.

Questions a Board should ask:

- ➔ We say we are all about [health, carbon reduction etc.], but how do we really measure that as an outcome?
- ➔ What adjacent issues will we be expected to 'get right', given our mission is about [health, carbon etc.], and how do we build those into our values, brand and go to market?

*TOMS Shoes offers a cautionary tale: It built its brand on a promise of donating a pair of shoes for each one sold, but faced backlash for creating dependency rather tackling the root causes of poverty.*

For ALL COMPANIES, where there isn't a clear connection with core business and impact outcomes

Questions a Board should ask:

- ➔ What broader societal concerns is our product/service uniquely positioned to tackle? Is there a specific issue or outcome we can champion as part of that?
- ➔ How might having a broader social purpose, add value to our customer or employee brand, and how could we build that e.g. would becoming a B-Corp help?
- ➔ Are there potential unintended social consequences to our business model we need to actively address?

Most software companies are efficiency focussed... they are all about wasting less resource - helping companies sell or manufacture things more efficiently.

Investment Director, UK Fund

# 2. ENSURE REGULATORY READINESS: Sustainability compliance is an obvious, and required, area for Board oversight.

SOME REGULATIONS ***REQUIRE*** BOARD ENGAGEMENT:

CSRD (EU): requires boards to oversee sustainability risks and strategy.
SB 261 and SB 253 (California): mandates board-level climate risk oversight.

## QUESTIONS A BOARD SHOULD ASK AND EXAMPLE REGULATIONS

### Board questions:

**Re. current regulations:**

Are we compliant (or will we be when we hit the threshold)?

What assurance do we have that we are compliant?

Who takes accountability and responsibility for it? Do we need a compliance officer?

**Re. future regulations:**

Could future regulations impact our business, and are we ready?

Is our growth dependent on regulatory change, and what happens if it doesn't?

### Regulation examples:

**EARLY/ALL STAGES:**

- Environment: Various national and international standards e.g. UK Environmental Protection Act
- Bribery and corruption: e.g. UK Bribery Act; EU Anti Money Laundering Directive.
- Employment and H&S: Various on e.g. minimum wage, anti discrimination, employee benefits, and dismissal procedures, safety standards, injury protocols eg. UK Employment Rights Act, Health and Safety at Work Act
- Data / Cyber Security: UK Data Protection Act, EU GDPR, US CLOUD Act, California Consumer Privacy Act (CCPA)

**ADVANCED/PRE-IPO STAGE:**

- Environment:
  - Streamlined Energy and Carbon Reporting - SECR / Energy Savings Opportunity Scheme - ESOS(Threshold: UK, 250+ FTE, £36M+/£44M+ turnover, £18M+/£38M balance sheet)
  - International Energy Efficiency Directive - IEED - audits and measures (Threshold: 250+ FTE, €50M+ turnover).
  - SEC 'Climate-Related Disclosures for Investors', (Threshold: US Listed Companies).
- Diversity:
  - UK Gender Pay Gap Reporting (Threshold: UK, 250+ FTE)
  - US Nasdaq's Board diversity objective.
  - EU Directive on Board gender balance (mid 2026)
- Data / Cyber Security:
  - Sarbanes Oxley Act - SOX; SEC - Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure. (Threshold: US Listed)
- Disclosure and due-diligence:
  - Human rights: e.g. Modern Slavery Act (Threshold: UK, £36m+ turnover), California's Transparency in Supply Chains Act (Threshold: US, $100m+ turnover)
  - Corporate Sustainability Reporting Directive - CSRD (Threshold: EU, 1000+ FTE, €50M+ turnover, and/or €25M+ assets)

# 3. PRIORITISE STRATEGIC ISSUES: Sustainability is broad. A focus on material opportunity and risk, drives value and impact.

**WHAT MAKES AN ISSUE STRATEGIC / MATERIAL*:**

Issues that represent a company's most significant impacts on people and the environment, AND those likely to impact it's financial or operating performance*.

## HOW TO PRIORITISE STRATEGIC SUSTAINABILITY ISSUES AS A BOARD

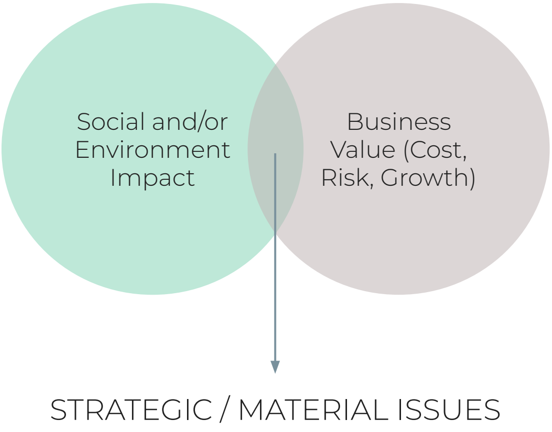
**How to identify strategic issues, risks and opportunities:**

- ➔ Any Stage: Use resources, like Venture ESGs Materiality Napkins; investor ESG due-diligence output; or external experts, or 'Heads of ESG' at VC firms
- ➔ Later Stage: Companies, particularly those near to advanced regulatory thresholds, should conduct a formal 'Double Materiality Assessment' (in line with requirements of the CSRD)

**Questions a Board should ask:**

- ➔ What 2–3 areas offer the greatest potential for value creation AND environmental or social impact—and should therefore be our focus for improvement?
- ➔ What other sustainability issues must the business manage and report on to meet stakeholder and regulatory expectations?

> ESG feels like it should be meaningful but only if it's done in a way that makes business sense - with a focus on 2-3 things - not just a box ticking response to LP requests
>
> Investment Director, and ESG Committee Chair of Bio-tech company.




* 'Materiality' is a concept that combines social and environmental risks AND financial impact on that company. 'Double materiality' is both about financial impacts and impact outcomes (e.g. environmental outcomes), fully aligned with the EU's CSRD requirements, and the emerging global baseline under the ISSB.[see page 7 here]

## 3.1 PRIORITISE STRATEGIC ISSUES: Boards should understand the relevant, sector specific issues

**WHAT's MATERIAL?:**
The '<u>Materiality Napkins</u>' from Venture ESG outline the many potential key strategic issues by sector.

## EXAMPLE SECTOR SPECIFIC ISSUES, WHY THEY MATTER, AND HOW A BOARD SHOULD APPROACH THEM

| Significant Sector *Strategic Issues* | Why Boards (should) care? (What's the impact on shareholder value?) | Questions a Board should ask |
|---|---|---|
| **Fin-Tech** *Issue: (Regulatory compliance), bias, and transparent pricing.* | ➔ *Demonstrating regulatory compliance is critical for customer acquisition (particularly in B2B and infrastructure-focused fintech) and to avoid enforcement action.*<br>➔ *Reducing bias and improving transparency enhances unit economics and mitigates regulatory risks around discrimination/customer misinformation.* | ➔ How transparent on pricing are we (costs, benefits, risks) and where/how?<br>➔ How do we ensure we are not discriminating against customer groups? |
| **Health-Tech** *Issue: Health data security and patient safety* | ➔ *Strong governance of patient data privacy and consent builds trust and meets customer expectations.*<br>➔ *In care delivery models, securing contracts depends on clear assurance of clinical quality and patient safety.* | ➔ What systems and checks do we have in place for consent, and data security?<br>➔ How do we measure and assure patient safety / clinical quality? |
| **Consumer-Tech** *Issue: Consumers concerns - risk / opportunity* | ➔ *Meeting consumer expectations for transparency and authenticity builds brand trust and addresses concerns over social and environmental impacts.*<br>➔ *Failure to do so risks rapid reputational damage via social media scrutiny.* | ➔ What real or perceived impacts do we have, and how do we handle those?<br>➔ How are we communicating our approach, and assuring those claims? |
| **Climate-Tech (Hardware)** *Issue: Supply chain risks - labour rights / H&S* | ➔ *Investors and customers expect robust management of labour rights, health and safety and environmental risks in supply chains.*<br>➔ *Addressing these issues reduces legal exposure and reputational harm.* | ➔ What are the current or potential impacts (or risks) in our supply chain (e.g H&S)?<br>➔ How are we measuring those and monitoring performance? |

3.2

# PRIORITISE STRATEGIC ISSUES: Four cross-sector issues should also be addressed by the Board (if they aren't already)

**WHAT's MATERIAL?:**

The 'Materiality Napkins' from Venture ESG outline the many potential key issues for all companies and by sector.

## PRIORITY CROSS-SECTOR MATERIAL ISSUES, WHY THEY MATTER, AND HOW A BOARD SHOULD APPROACH THEM

| Cross Sector *Strategic Issues* | Why Boards (should) care? (What's the impact on shareholder value?) | Questions a Board should ask |
|---|---|---|
| **Team** - engagement and incentives | ➔ A strong, open, culture, with an engaged and incentivised team, improves performance and attracts and retains talent | ➔ Does the company have the right:<br>◆ policies and mechanisms in place to manage these issues?<br>◆ people, with the right skills to oversee these issues?<br>◆ culture, that encourages staff to speak up, and flag risks and missed opportunities?<br>➔ Do we know what success looks like? What are our KPIs?<br>➔ Who by, and when is progress monitored? |
| **Governance** - structure, controls, oversight | ➔ Good governance helps create value and mitigate risk over the long term. And this starts with a highly effective Board. | |
| **Diversity** - Board and below | ➔ Diverse / balanced hiring at the Board and Snr levels enables improved decision making. Board diversity is becoming a legal requirement in some jurisdictions. | |
| **Data / Cyber** - Security, privacy | ➔ Good security helps win customers (and maintains trust), especially if handling sensitive data (e.g. trade secrets, or consumer health data) or selling to large corporates. Breaches have massive reputational damage. | |

# 4. CLARIFY CLIMATE POSITIONING: Climate related opportunities and risks are likely strategic, but not well dealt with by Boards

**WHY SHOULD BOARDS CARE?:**
**Climate is a key source of both risk and opportunity; it is central to many regulations, investor expectations, and reporting standards; low-impact products attract customers; environmental efficiency cuts costs; and physical risks—such as supply chain disruption—pose growing long-term challenges.**

## 8 QUESTIONS A BOARD SHOULD ASK ON CLIMATE

Understanding / Measurement:

1. Have we measured our environmental impacts? (i.e. our Scope 1-3 carbon, and broader environmental footprint).
2. Have we assessed physical climate related risks (in our supply chain, operations, or customer base)?

Planning / Development

3. Have we got a plan to reduce our own emissions (Scope 1/2) and those we influence (Scope 3)? And one that helps mitigate any physical climate risks?
4. Have we explored innovations that will deliver climate-friendly products or services to our customers, whereby reduced impact becomes a source of growth?

Goal Setting / Assurance:

5. What goals (internally or publicly) do we have on climate, and are they aligned to wider initiatives (e.g. SME Climate Commitment, EV100), or certifications (e.g. B-Corp) to help build our reputation?
6. Are our measurements, targets and/or plans aligned with credible frameworks (e.g. GHG Protocol) and/or validated by an independent third-party?

Governance / benchmarks:

7. How do we track progress towards our goals, and how does our performance compare with peer benchmarks?
8. Who is accountable (on the Board / Exec) and have we set incentive structures (e.g. KPI linked bonus, or an internal price for carbon)?

*See appendix for link to Climate Related Resources, including Venture ESG 'E of ESG' Guidance, and Venture Climate Alliance resources.*

# 5. DEFINE PERFORMANCE: Setting some appropriate, Board level, metrics will drive action

**KEY QUESTION A BOARD SHOULD ASK:**
For our strategic issues, which 2-3 KPIs should the Board monitor (and which are tracked by management) to ensure delivery, performance and transparency?

## POTENTIAL KPIS FOR DIFFERENT OPPORTUNITY AREAS

E.g. CARBON:
- ➔ Absolute footprint (e.g. CO2-e total)
- ➔ Carbon intensity per product / customer / transaction / $ revenue
- ➔ And/or vs industry benchmark / target.)

E.g. REGULATION:
- ➔ Policies developed / disclosures made
- ➔ Assurance / certification / licenses achieved
- ➔ No. of regulatory breaches - and comparison with benchmarks

E.g. TEAM:
- ➔ Employee churn;
- ➔ Employee NPS / culture feedback;
- ➔ Bonus/Incentives in place / met
- ➔ Policies / feedback mechanism in place

E.g. DIVERSITY:
- ➔ Board diversity % (Gender +)
- ➔ Employee diversity % (Gender +)
- ➔ Policy / initiatives in place

E.g. GOVERNANCE:
- ➔ Risk assessment procedures / timelines;
- ➔ Audit findings - No. / Resolution;
- ➔ Policies/People in place (e.g fraud, ethics).

E.g. CYBER:
- ➔ Process / audits in place
- ➔ No. of breaches
- ➔ People / accountabilities in place
- ➔ Policy in place / Training in place

These are not exhaustive of all opportunity areas or KPIs.
Choosing 2-3 key metrics per year for the most strategic issues for your business is a good start.

6.

# INTEGRATE INTO AGENDA: There are a variety of ways to naturally integrate issues into Board process

**SEPARATE OR INTEGRATED?:**
**Boards can and do have a dedicated session(s) on 'sustainability / ESG' but this is likely more appropriate for later stage companies.**

**For many it's better to integrate.**

## 'STANDARD' BOARD MEETING AGENDA ITEMS TO INCLUDE SUSTAINABILITY WITHIN

**Strategy:**

➔ Discuss key sustainability/ESG issues within an (annual) session on strategy and planning, and decide on what the 2-3 priorities to focus on that align with other business objectives e.g. new products, team, environmental impact, brand, compliance etc.

➔ If appropriate, use this time to revisit mission - to build further meaning beyond the current core.

**Risk Management:**

➔ Early stage: An annual focussed discussion on whether the company is compliant in the most important parts of the business. And whether the risk management process, including key ESG issues, is appropriate to the company size.

➔ Later stage: Review strategic/material environmental and social risk areas as part of formal risk assessment and management process - likely delegated to the Audit and Risk Committee.

**Product development:**

➔ Include consideration of options for new sustainability related products / features, and ensure the business case to assess these includes both financial and non-financial (e.g. brand) factors

➔ AND/ OR Review uptake of sustainability related products, features or benefits - alongside other offerings - understanding how they contribute to positive growth, brand, engagement etc.

**Operations / Team:**

➔ Review key environmental (e.g. CO2/energy efficiency) and social impact (e.g. Health and Safety in manufacturing) metrics alongside other operational metrics.

➔ Include a review of key people/HR data (employee NPS, churn, leaver feedback, diversity etc.) within standard sessions and discussions around team, key hires, etc.

# 7. ENSURE BOARD ACCOUNTABILITY: Boards need to take clear ownership and ensure their own competence to do so

## HOW TO ALLOCATE ACCOUNTABILITY AND ENSURE COMPETENCE

There are several options for **allocating Board accountability:**

- ➔ Single Board member accountability: *Why?*: It makes the accountability super-clear, and can be allocated where the expertise and/or passion lie (this is likely the best option in early stage companies)
- ➔ Different Board members with different accountabilities. *Why?*: Issues, and topics are broad. For example, team engagement, diversity, incentives sit more naturally with an HR expert / remuneration committee; where efficiency, data security, supply chain issues might sit with an operational expert.
- ➔ Audit / Risk Committee accountability. *Why?*: Risk and compliance is a key driver, and reporting/disclosure naturally sits here anyway, so topics can make intuitive sense to these Committee members.
- ➔ Expert ESG Observers or Advisors. *Why?*: The whole Board remains accountable but can get regular, or annual, external advice on specific issue(s), or overall ESG position and progress.

For later stage, the EUs CSRD legislation requires companies to disclose the role of different *governance bodies* in sustainability-related matters, and how often they are discussed.

Boards must **ensure it has the right skills** to interpret social and environmental issues that affect the company, and to challenge management on them:

- ➔ For later stage: EUs CSRD requires businesses to disclose the sustainability related skills and expertise of the Board

Having the right skills and knowledge, will enhance Board effectiveness and reputational integrity.

Competence can be achieved through training, expert advice or appointing members with appropriate ESG expertise.

> Boards need to look at themselves and how they operate. They need to be able to live and breath company values, and make sure they are effective and not dysfunctional.
>
> Investment Director, EU Early Stage Fund

# 8. SECURE RESOURCE COMMITMENT: Boards need to ensure the right resources and incentives are in place to deliver progress

## HOW TO ENSURE THE RIGHT RESPONSIBILITIES, BUDGET AND INCENTIVES

### A. Make Responsibilities Clear:

Exec and team responsibilities will depend on stage of company and relevant strategic issues:

- ➔ Early stage: Clearly identify which Exec / team member oversees particular initiatives / measures (e.g. team engagement, regulatory assurance, environmental management)
- ➔ Later stage: Consider appointing someone as a dedicated lead on sustainability and/or compliance/risk (with assumption that there is an additional dedicated lead on HR/team issues, including diversity).
- ➔ ALL: Include relevant sustainability issue experience / expertise as one (of many) factors in key Exec hires, to fill skill / knowledge gaps.

### B. Ensure Budget Is Available:

OpEx budget should be aligned to drive priority strategic issues, but could be spread across e.g. ops, marketing etc.

Include an assessment of social and environmental benefits (and impacts/costs) in Capex decisions.

### C. Align Exec Incentives:

Including ESG metrics (e.g., emissions reduction, DEI targets, safety performance) in remuneration policies ensures management focus.

> The challenge is often band-width for the company - but a really company specific approach and structure [to ESG] will help
>
> ”
>
> Investment Director,
> Global VC Fund.

# 9. RECALIBRATE REGULARLY: Critical junctures in the scale-up journey offer good opportunities for Board review

## WHEN AND HOW TO RE-ASSESS SUSTAINABILITY PLANS

### NEW FUNDING ROUNDS

➔ New investors bring new perspectives, and new due-diligence (including on ESG)

➔ Funding rounds are a good time to:
- Review key risks and opportunities - in part with input from new due-diligence findings.
- Review mission and values with new key stakeholder input

### PIVOT / SENIOR LEADER CHANGE

➔ Start-ups can pivot, and new people at (or near) the top can change the direction

➔ Pivots or Snr Leader changes are a good time to:
- Review key issues - a new direction will likely mean a different set of priorities
- Review strategy and process with new input

### PRE-IPO / REGULATORY THRESHOLDS

➔ An IPO, or reaching a threshold scale, will bring increased scrutiny and regulatory requirements

➔ These junctions are a time to:
- Review and formalise accountabilities and processes to ensure they are fit for purpose
- Prepare for public reporting and increased scrutiny.

### MERGERS AND ACQUISITIONS

➔ Any M&A can change the risk and opportunity profile, with e.g. ESG liabilities in acquisitions posing financial and reputational risks.

➔ Board oversight ensures they are identified and priced in.

VentureESG/.

# Part IV

# Getting Started

# If nothing else, a Board should ask itself 4 questions

***Do we have the necessary expertise** at Board level to provide informed oversight of the company's material sustainability opportunities and risks?*
*(And if not, how should we address this gap - training, external input or recruitment?)*

***Have material** (sustainability-related) **risks and opportunities been identified** by the business?*
*(And was the process used to determine these robust and evidence-based?)*

***What is the company's plan** to address these issues and opportunities - how is progress being managed, measured and incentivised?*
*(And which Executive leaders are accountable for delivery?)*

***Who on the Board holds accountability** for oversight, and how is it embedded in our governance structures—such as committee responsibilities, reviews and ongoing Board agendas?*

# How to have a 30 minute Board conversation to start to build the foundations for sustainable long-term value

| Time | Topic *(Lead)* | Key Question and Focus | Discussion Items |
|---|---|---|---|
| 5 mins | **Strategic Rationale** *(CEO/Chair)* | *"Are we all aligned around the reasons why we believe this is important to discuss today?"* | → Provide a brief overview of specific business relevance to competitiveness, stakeholder trust and risk e.g<br>◆ External: investor/regulatory expectations, market peers performance on sustainability<br>◆ Internal: sustainability alignment with innovation, talent, risk, brand |
| 7 mins | **Mission - The Why** *(CEO / Strategy Officer / External advisor)* | *"Does our mission naturally enable us to create long-term, social or stakeholder-driven value - or could it?"* | → Share current/refined mission with link to environmental or social outcomes - highlight gaps or tensions.<br>→ 'Impact' company: Discuss how 'impact' is measured. And what else is key to get right given that mission<br>→ Other company: Discuss what kind of business we want to be, what might we stand for |
| 7 mins | **Issues** *(Strategy / Sustainability Officer / External Advisor)* | *"Which major sustainability issues, risks or opportunities could affect our license to operate, cost of capital, or future competitiveness, and what should we do about them?"* | → If clear: present / discuss key issues, how they were identified, and what progress/ success looks like.<br>→ If not clear: discuss who should / how to create and narrow the list. |
| 7 mins | **Process** *(CEO / General Council)* | *"Do we have the right mechanisms and resources to ensure accountability and progress for priority issues?"* | → Discuss when these areas should be reviewed and discussed at the Board<br>→ Discuss who takes Board accountability, and who in the company is taking responsibility for different aspects? |
| 4 mins | **Next Steps** *CEO/Chair* | *"What other input / actions do we need to align on mission, approve priority issues, and endorse process. When is our next check in on this"* | → Discuss next steps<br>→ Schedule a time for follow up |

# Appendix

# There are many other resources available to help; generally and for specific issues or viewpoints

**Board Guidance On ESG / Sustainability:**

1. Corporate Governance Centre / INSEAD: *Designing Sustainability Governance*
2. Accountancy Europe / ECODA (EU Voice of Directors): *ESG Governance: Questions Boards Should Ask*
3. Chapter Zero - The Directors Climate Forum: *Board Toolkit*
4. World Economic Forum / PWC: *Effective Climate Governance on Corporate Boards*
5. US National Association of Corporate Directors (NACD): *The Climate Governance Toolkit*
6. KPMG: *The Directors Toolkit (Specific section on ESG, Health and Safety, Data Security etc.)*
7. Covington and Burling LLP: *Framework for Boards on Sustainability and Sustainability Toolkit*
8. Climate Governance Initiative: *Board Pocket Guide to Nature and Climate Action*

**Climate Focussed Resources:**

1. Venture ESG: *The E of ESG*
2. Venture Climate Alliance: Alignment Framework
3. SME Climate Hub: *SME Climate Committment* (and resources)
4. The Climate Group: *EV 100 Initiative*

**VC Specific Guidance With Reference To ESG:**

1. Extantia: *Including ESG On Boards (blog post with template suggestion)*
2. Balderton: *On Board with Balderton* (general Board guide with specific reference to ESG)

## A huge thanks to all the company representatives who took part in the project

**And a big thank-you to the other individual contributors to the work.**