

Environment, Social, Governance (ESG) education for WA start-ups

An initiative of Meshpoints

2023

Supported by:



Partners:



Overview of the Project

Summary

The ESG education 'sub-constellation' was an initiative of Meshpoints (Innovative Society). The partners included For Blue, Curtin University, Bloom, Venture and Impact Seed. This initiative ran throughout 2023.

The intention for the initiative was to ensure that all WA startups (through their Incubator/Accelerator programs) are operating at global standards for economic, social and governance measures. This enables them to be competitive not just nationally; but globally.

This is an initiative that has not been undertaken previously in other jurisdictions that we can tell - and so the potential is for WA to take an international leadership role in this area.

The value for the Incubators and Accelerators is that they do not need to deliver this content themselves (unless our assumptions are challenged through our first phase). We will provide the support necessary for them to provide this important education for their startups.

The idea of creating a consistent, reliable, accessible and place-specific language - a 'compass' for ESG and Impact in WA is not something that has been done before.

We prioritised working on the business case for both start-ups to consider ESG, and for incubators/accelerators to consider delivering ESG education to their cohorts. The broader business case is ready for testing with other stakeholders, though doing so is beyond this scope of this phase of the project.

Outcomes for the project

Long-term: All activities create an impact - positive, negative or neutral. Entrepreneurs are creating businesses that will have an impact on the environment, on their staff, on the people they serve, and on people that live in communities they operate in.

Medium-term: In creating a consistent, reliable, accessible and place-specific language - a 'compass' for ESG and Impact in WA:

1. Start-ups understand the importance of ESGI & are meeting global standards, ensuring they can be competitive and are not creating harm to people or planet,
2. Embedding an understanding of ESGI in entrepreneurs means when they start new enterprises, or engage collaboratively, as they do, they will be bringing a common understanding of ESGI,
3. Embedding ESGI in our Incubators/Accelerators enables an understanding of social, cultural and environmental issues in WA's innovative thinkers - leading to innovations that make a difference for WA's communities and people experiencing disadvantage.

Activities

Our projected key activities intended to deliver on these outcomes, and our actual key activities, are provided below:

Projected activity	Actual activity
Capture understanding/needs/interests in ESG content from current, previous and prospective cohorts	We completed and administered a survey which provided an understanding from which we developed the project. The survey results are provided at Section 1.
Develop some resources for the 2023 ESG Forum and some easy resources that can be implemented with our partner incubators quickly for some rapid feedback and learning. m a survey/diagnostic tool	We developed content and resources for the Forum, held in November 2023. We were also able to test our content for the Forum in October 2023 with a specific cohort from We Are Emersyn.
Development of a business case with targeted stakeholders to be approached to support ongoing ESG content delivery.	We did not complete this business case as we concluded that more work was likely required before doing so. Instead, we worked on the business case for both start-ups to consider ESG, and for incubators/accelerators to consider delivering ESG education to their cohorts.

1. Survey Analysis

The idea of creating a consistent, reliable, accessible and place-specific language - a 'compass' for ESG and Impact in WA is not something that has been done before. In order to test whether this was something that start-ups would find useful, we administered a survey through our partners, to ask some questions related to appetite and knowledge about ESG.

The survey results indicate that overall, there is a high level of interest in ESG, and ventures find it relevant to their business. In total, the survey had 26 responses. Though this is low compared with the number of entrepreneurs that have participated in WA incubators and accelerators as a whole, we only distributed the survey through those engaged with this initiative. When comparing to the average enrolment of the incubators and accelerators within this initiative (with one exception), this is a fairly representative sample size.

Taking into account our current world; from social justice movements to climate change and regulatory awareness, I would strongly agree that ESG should be considered early in any start-up journeys or fundamentally embedded into the accelerator curriculum.

Business Maturity

Most respondents were at a concept (46%) or start up (42%) stage of maturity as a business. It therefore follows that many were at the seed (42%) or Pre-Seed (38%) investment stage. Most ventures that enter accelerator programs are naturally in the early stage and many of these will not progress to become scale-ups. This provides some context for the high number of concept and start up respondents in our survey sample.

What level of maturity would you say you are at as a business?

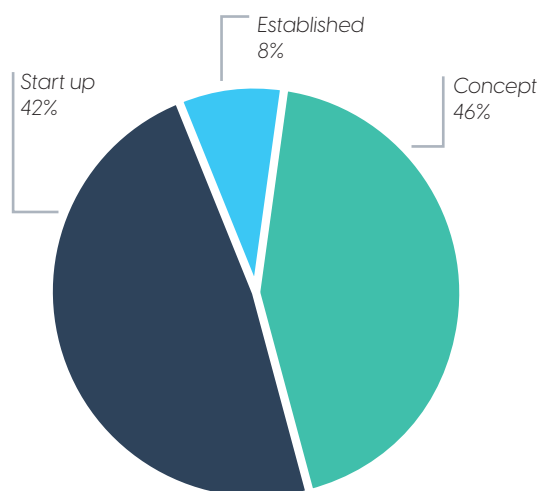


Figure 1: Maturity as a business

Interest in ESG ideas

The average interest in the idea of Environment Social Governance (ESG) was 74%, with a median of 81%. Over half of respondents (57%) indicated they have a very high interest in ESG, and 77% had a fairly high or high interest. This signals a strong demand for learning about ESG in accelerators and ventures. Only 15% ranked their interest for ESG as low, giving it a score less than 40%.

When asked "How would you describe the relevance of the idea of ESG to your business?", approximately 65% of respondents indicated that ESG is highly relevant to their business, and 77% indicate it is relevant to very relevant. Only two responses identified it as 'irrelevant' (i.e. had a score under 40).

I believe at a minimum, a business should always seek to minimise negative externalities unique to their company and we should try to agree on a standard framework/ multiple frameworks that companies could opt into - with the profit incentive being to market to their users. This would prevent greenwashing and give companies an incentive to join if their stakeholders agree with the framework.

How would you describe your interest in the idea of Environment Social Governance (ESG)?

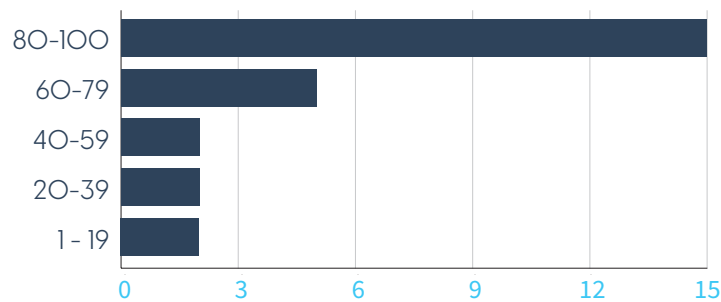


Figure 2: Interest in ESG

How would you describe the relevance of the idea of ESG to your business?

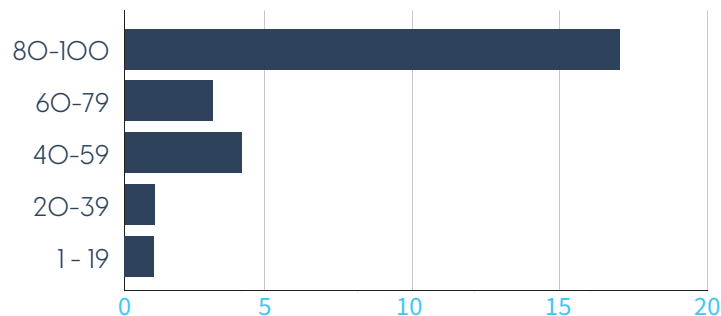


Figure 3: Relevance of ESG to venture

Five of 24 comments (21%) were not for the adoption of ESG, saying that they hadn't heard of it, and/or they thought it was irrelevant to their business, or a fad. The remaining 79% of comments were favourable towards ESG. Many respondents had already considered the adoption of ESG principles and standards in their business and wanted to know more.

“
Definitely something to aspire to, but seems to be a secondary consideration to actually getting our startup off the ground. If we can't do that we'll never have any impact.
 ”

Understanding of E, S, G

'Governance' appears to be less understood amongst respondents, and though respondents did want to know more, the majority of respondents felt they were unable to benefit from implementing better 'governance' into their business because of their stage of business (i.e. relatively immature).

The 'Social' aspect of ESG seemed to be most significant to respondents. Many respondents gave comments indicating that Social aspects should be a consideration for all start-ups and businesses, and not just those that were seeking ESG values as a core underpinning of their venture.

The 'Environment' aspect of ESG seemed to be fairly well understood amongst respondents.

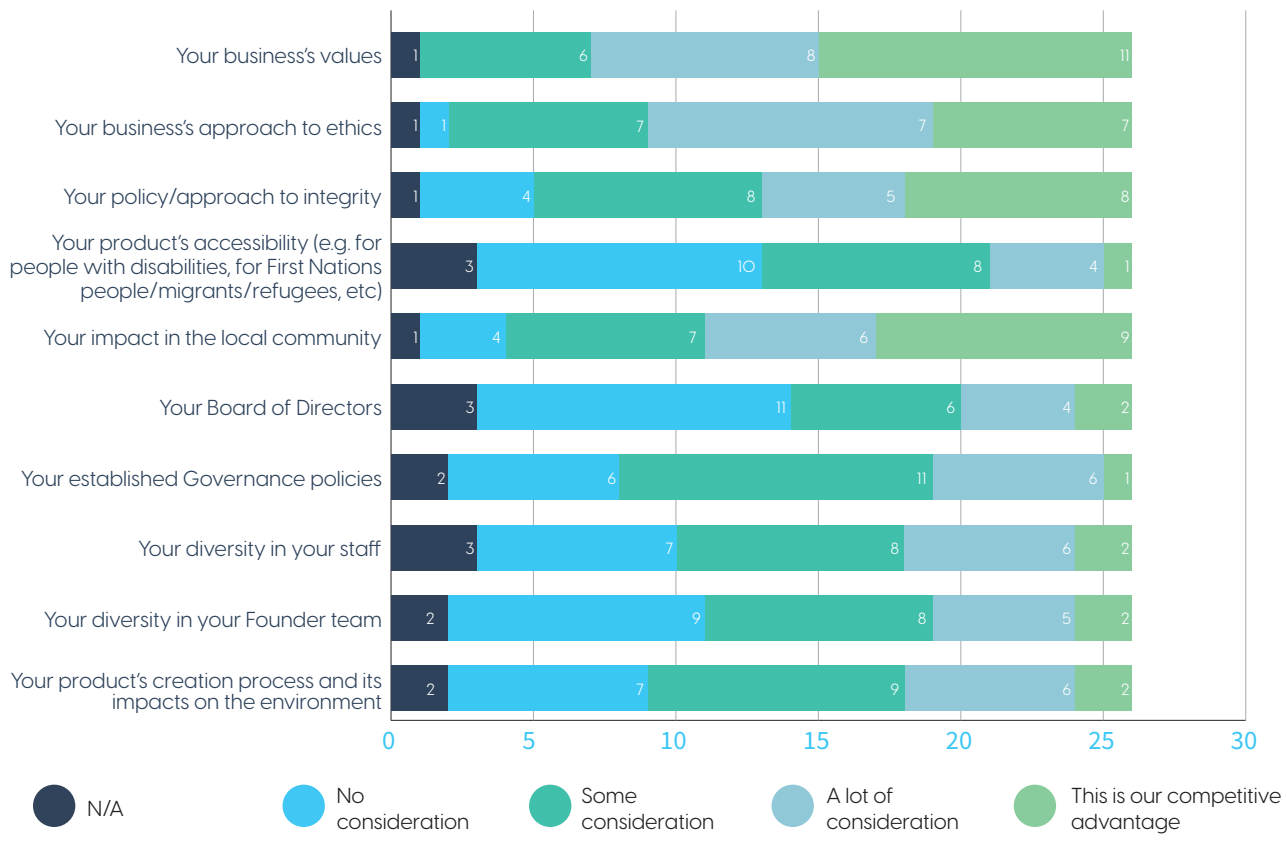
Customer Need

Respondents were asked their opinions about the extent to which customers choose their business or products because of their approach (i.e their businesses values, ethics, approach to integrity, etc).

The results show that respondents tended to identify their business's **values, approach to ethics, approach to integrity**, and **impact in the local community** as being highly considered by their customers. These were identified as highly or somewhat considered by about 58% to 79% of ventures.

The **product's accessibility** and **board of directors** was the considered relatively less important to their customers, with about 38% saying their customers have no consideration of these aspects.

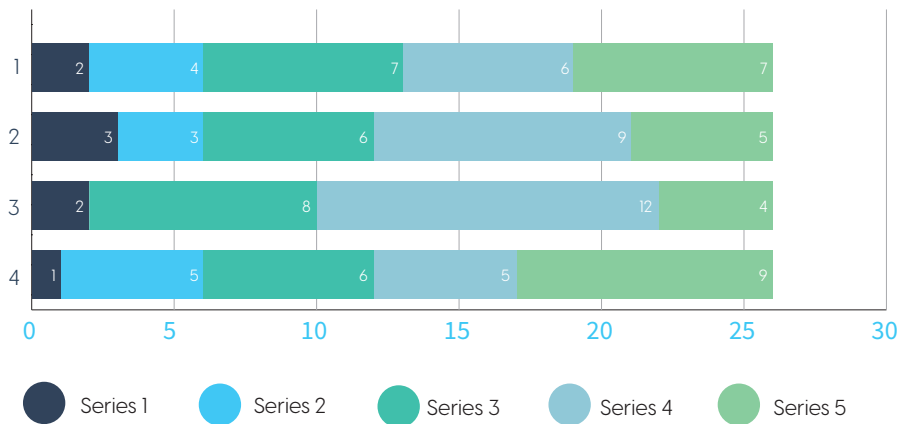
Do you feel that your customers choose your business or your product(s) because of your approach to any of the following?



Current 'ESG' activities

Respondents were asked about any actions they were undertaking as a start-up that might be considered to be 'proactive' ESG (including pursuing community investment strategies, actively pursuing diversity in their teams, etc).

Are any of the following actively pursued by your start-up's executive team?



Of the proposed actions, the majority of ventures are exploring all of them in some manner. Though the trend is similar across all actions, **actively reducing environmental impacts of the business** is the most cited critically important activity, indicated by 9 ventures. Interestingly, **actively pursuing diversity in the team** is also being considered to some extent by all ventures.

On average 31% of respondents stated that these actions are important to them, and 25% report these activities are critical to their business. An average of 11% of respondents indicated these activities were "not at all" relevant; whilst an average of 26% indicated they were relevant only "to a limited extent".

ESG is core as an alignment of our product purpose and helps to make everyday business decision to our company values.

Conclusion

The survey results provide a narrative that suggests there is a high level of interest in ESG that WA's early-stage start-ups would find relevant to their business. Therefore, this report suggests a strong needs for tailored ESG education and resources to be made available to early-stage ventures in supporting their continued growth.

It's an increasingly important and relevant concept that should be added to the course.

2. Business Case: ESG for WA start-ups

Why WA Start-ups Should Embrace ESG

The integration of Environmental, Social, Governance (ESG) strategies are increasingly expected by consumer, investors, and societies for all business, from start-ups to corporates.¹ ESG frameworks provide guidance on operating a business to achieve its purpose and strategy, while also assessing exposure to specific risks. Start-up ventures are positioned to leverage ESG principles not only to foster positive social and environmental impact but also to drive innovation, attract investors, and ensure long-term success.

Demand

Consumers and investors are increasingly seeking products and services that align with their values, placing a premium on ethical and sustainable business practices. 66% of consumers are willing to pay more for ESG-aligned products or services.² ESG strategies enhance stakeholder engagement by fostering trust and transparency with customers, employees, investors, and the community. Positive social impact and ethical practices contribute to a strong brand reputation, which in turn attracts top talent and loyal customers. A study by Cone Communications found that 87% of consumers would purchase a product because a company advocated for an issue they cared about.

Furthermore, institutional investors are factoring ESG performance into their decision-making processes, driving capital towards companies with strong ESG credentials. ESG-related assets managed by asset managers globally are increasing by 13% each year.³ Businesses investing in ESG practices receive up to 19% higher valuation multiples from investors.⁴ By embracing ESG and strategies, and thinking about their social and environmental impact, WA start-ups can tap into this growing market demand and position themselves as responsible and forward-thinking enterprises.

Adaptability of Start-Ups

ESGI (ESG + impact) strategies foster innovation by encouraging companies to identify new ways to address social and environmental challenges. Start-ups are known for their agility and adaptability, making them well-suited to develop innovative solutions that not only address current societal and environmental issues but also create long-term competitive advantages over larger companies who have less adaptability to convert systems to ESG principles.⁵

Performance

Companies with high sustainability outperform their counterparts in terms of both financial and market performance over the long term.⁶ Start-ups should be aware of the material risks and opportunities in their given industry, which is essentially what a careful ESG strategy provides.⁷ Investors are increasingly recognising the correlation between strong ESG performance and reduced risk; companies with better ESG performance are associated with lower volatility and stronger credit ratings.⁸

¹ McCullough Robertson Lawyers. (2023). [The ESG proposition for start-ups](#).

² Nielsen. (2015). [The sustainability imperative](#).

³ Stanton, R. (2022). [ESG-focused institutional investment seen soaring 84% to US\\$33.9 trillion in 2026, making up 21.5% of assets under management: PwC report](#). PwC.

⁴ Simpson, B & Brumme, C. (2022). [Startups Need an ESG Strategy](#). Harvard Business Review.

⁵ McCullough Robertson Lawyers. (2023). [The ESG proposition for start-ups](#).

⁶ Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). [The Impact of Corporate Sustainability on Organizational Processes and Performance](#). *Management Science*, 60(11), 2835–2857.

⁷ Simpson, B & Brumme, C. (2022). [Startups Need an ESG Strategy](#). Harvard Business Review.

⁸ Mendiratta, R., Varsani, H., Giese, G. (2021). How ESG Affected Corporate Credit Risk and Performance. *The Journal of Impact and ESG Investing*, 2(2), 1-16.

Left Behind

Expenditures related to ESG can be perceived as costs rather than investments. Neglecting the incorporation of ESG practices early on can lead to early-stage companies overlooking the potential for long-term benefits of incorporating ESG.⁹ Enterprises benefit from ESG integration that helps to marry their purpose with measurable strategic impact.¹⁰ Start-ups that prioritise ESG considerations are likely to attract a wider range of investors, including impact investors, venture capitalists, and socially responsible funds, which can contribute to their growth and stability. Material risks identified through ESG will often overlap with typical start up priorities that investors will be looking into as a part of due diligence, for example natural resource footprint (E), paying staff a living wage (S) and board diversity or data security (G).¹¹ Additionally, Government regulations and policies are evolving to incentivise sustainable practices. WA start-ups can position themselves to comply with future regulations, avoiding potential compliance costs and reputational damage through proactively integrating ESG. Start-ups should begin by defining their mission and aligning it with ESG considerations. For instance, they can assess potential risks to proactively avoid and effectively manage.¹² Developing an ESG action plan during a start-up's initial stages to tackle pertinent ESG risks and opportunities provides a more sustainable framework for management decisions and employee conduct as the company evolves.¹³

⁹ McCullough Robertson Lawyers. (2023). [The ESG proposition for start-ups.](#)

¹⁰ Simpson, B & Brumme, C. (2022). [Startups Need an ESG Strategy. Harvard Business Review.](#)

¹¹ Simpson, B & Brumme, C. (2022). [Startups Need an ESG Strategy. Harvard Business Review.](#)

¹² Simpson, B & Brumme, C. (2022). [Startups Need an ESG Strategy. Harvard Business Review.](#)

¹³ McCullough Robertson Lawyers. (2023). [The ESG proposition for start-ups.](#)

3. Business Case: ESGI for WA incubators and accelerators

The Case for Embedding ESGI Strategies in Western Australia’s Incubators and Accelerators

Incubators and accelerators have an important role to play in preparing start-ups for their future in a world where Environmental, Social, Governance, and Impact (ESGI) strategies are a part of core business for startups and corporates. Incorporating ESGI principles into incubator programs can provide start-up ventures with a comprehensive understanding of responsible business practices.

WA’s innovation ecosystem should be on the forefront of addressing social and environmental challenges. By integrating these ESGI-focused lessons, incubators can equip start-up ventures with the knowledge and tools necessary to operate responsibly, innovate sustainably, and thrive in a business landscape that values both profit and positive societal impact. This element of programming could be structured as interactive workshops, case discussions, group exercises, and/or guest speaker sessions. It may be stand-alone content or it may be incorporated within existing content of incubators and accelerators.

The integration of ESGI strategies equips entrepreneurs with the tools to innovate with a sustainable outlook. Sustainability and ESG is increasingly a part of the core business in start ups and corporates. Companies are paying attention to whole supply chains and are making commitments at every level to look into carbon emissions, ESG goals and other targets. By incorporating ESGI strategies, incubators and accelerators can position their graduates to access impact-driven investment opportunities. Consumers, employees, and investors place a premium on ethical and sustainable practices. Incubators that infuse ESGI strategies into their programs enable start-ups to meet these expectations, fostering positive stakeholder relationships and bolstering long-term viability.

We don’t need standalone courses about sustainability – this doesn’t make any sense anymore. Every single course should have it – it’s about how you adapt the curriculum to the current shift that’s going on in the world

- Laurence Lehmann-Ortega,
Professor of strategy and business policy at HEC Paris¹

Incubators and accelerators need to cater for and foster the upcoming needs of the entrepreneurs they support¹⁴ Innovation stems from start-ups, they are the future of business, innovation and leadership. Business schools are gradually incorporating sustainability research and education. Simultaneously, start-ups are grappling with challenges related to measurement, reporting, defining actions, crafting strategies, and achieving net-zero goals.

Incubators that embed these principles in their teachings prepare entrepreneurs to transform regulatory challenges into competitive advantages, positioning them for success in a dynamic business landscape. Case studies tackling different aspects of sustainability such as energy or the use of raw materials is key for entrepreneurs to understand how sustainability integration works in the real world of business.¹⁵

¹⁴ Sunil, A. (2023). *Sustainability is moving up the agenda for business schools – but how can it actually be impactful for startups?* Sifted.

¹⁵ Simpson, B & Brumme, C. (2022). *Startups Need an ESG Strategy.* Harvard Business Review.

4. Conclusions and Lessons Learnt

We have made a set of conclusions about this work from our initiative, and outlined some of the lessons we have learned.

1. There is a real need, and desire for, ESG education amongst WA start-ups.
2. However, incubators and accelerators are already trying to deliver so much content to their participants that it becomes very challenging to consider augmenting or adding to that content. This was the key challenge which came up in our conversations early on, and which continued to be a constant through our work together.
3. Related to this point, some start-ups had heard about the ESG Forum through the facilitators and general marketing rather than hearing about it directly from incubators and accelerators they are involved with. This presents a question as to whether this content should go through the incubators and accelerators or can stand alone, outside of incubators and accelerators, given how much other content and work they are already doing.
4. There is extraordinary value in creating space for businesses to share their journeys/stories/ experience. Even only this, with no content delivery, adds value. This is also reflected in the feedback and engagement with the panel discussion where we had a great cross section of interesting businesses demonstrating their application and thinking about ESG.
5. The conversations amongst start-ups talking about issues and challenges they were facing and how they were grappling with them, alongside some framing and structure in the facilitation of that discussion, was the most valuable part of our work together.
6. There was an unexpected impact in that the content which we went through could be passed onto the clients of some of the attendees – i.e. marketing firm, companies which start-ups are procuring from. In a way, there was a ‘Train the Trainer’ type impact.
7. Every start-up left with actionable next steps to move forwards and thought differently about their business operations.
8. We facilitated two forums: one with a specific cohort and content tailored to their needs. The other was an open invitation to a free event. The engagement from participants was very high in both forums, however the turnout at the second forum was only 25% of those who committed. The reasons for this are likely multifaceted, but it is worth noting that one, large in-person event might not be the most effective mechanism for delivery.
9. There are a limited number of experienced experts in this area, in Western Australia. There are very few who are motivated to work with startups, due the significant demand from SMEs and corporates for their services. This may limit the availability of talent to support the ventures on their further journey, or increase the price / cost to procure such services beyond what startups, incubators or even investors may be willing to pay.
10. Broadly, for various reasons, businesses in WA compared to those in otherwise similar states or nations, are in sectors and situations such that they less progressed on their ESG journey generally. Or, they are very progressed but in specific aspects e.g. carbon emissions reduction or First Nations engagement. If WA startups are targeting both WA and international markets, they may get a distinctly different and ‘split’ sense of the drivers, demands and priority for addressing ESG.
11. Any future efforts may benefit from being sector-specific and be direct invitations from well-connected sources in that sector. This enables the content to be more specific, the source more credible, and the range of possible next steps for ventures more focused.
12. Startups not addressing ESG issues poses specific risks to accelerator, investor and funder portfolios e.g. portfolio devalued due to most ventures not meeting new reporting regulations which investors were broadly aware of but haven’t audited nor managed in their portfolio. Based on this work, WA institutions are not aware of nor managing that risk. Increasing their awareness and specifically auditing their portfolios may increase their motivation for addressing ESG in startups in their feed-in pre-accelerator and incubation programs.