



SCULPT
Partners

ESG (Environmental, Social & Governance) Stewardship for Next Generation Unicorns

High-level ESG implementation guide for early-stage ventures



About this document

Incorporating policies and practices for Environmental, Social and Governance (ESG) issues is often seen as something more relevant for public-listed or late-stage privately held companies. We at Sculpt Partners challenge that notion.

Early-stage companies have a unique opportunity to embrace sustainability in a more organic and holistic manner. By doing so, they can found their **ESG strategy on organisation purpose, build more authentic connections with their communities and customers**, and **create a distinctive employee value proposition**. This is in contrast to the approach of public-listed corporations where ESG adoption has largely been driven due to compliance, stakeholder activism or regulatory pressures.

This document articulates a compelling case for why next generation unicorns should integrate ESG issues during the early stages of their lifecycle. It also contains some helpful tools including a multi-year implementation roadmap and a few relevant case studies. Besides, it includes a “strawman” 30/60/90 day plan to help founders hit the ground running on their ESG journey.



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1. WHY SHOULD HIGH-GROWTH COMPANIES EMBRACE ESG ADOPTION FROM DAY 0?

A solid ESG foundation is vital for high-growth companies to unlock shareholder value, manage stakeholder perception, and build a values-driven organisation

Motivation for ESG integration – the company view¹



Unlock valuation premium

Above market transaction valuation multiple (Median premium: 15%), accruing through reduced cost of capital, revenue growth, cost efficiencies and optimal asset utilisation



Access growth financing

More than 35 trillion dollars (including 3 trillion dollars of private market assets) of ESG-themed investments comprising Late-Stage Venture Capital, Private Equity, Sovereign Funds, Impact Investors and others



Mitigate operational risk

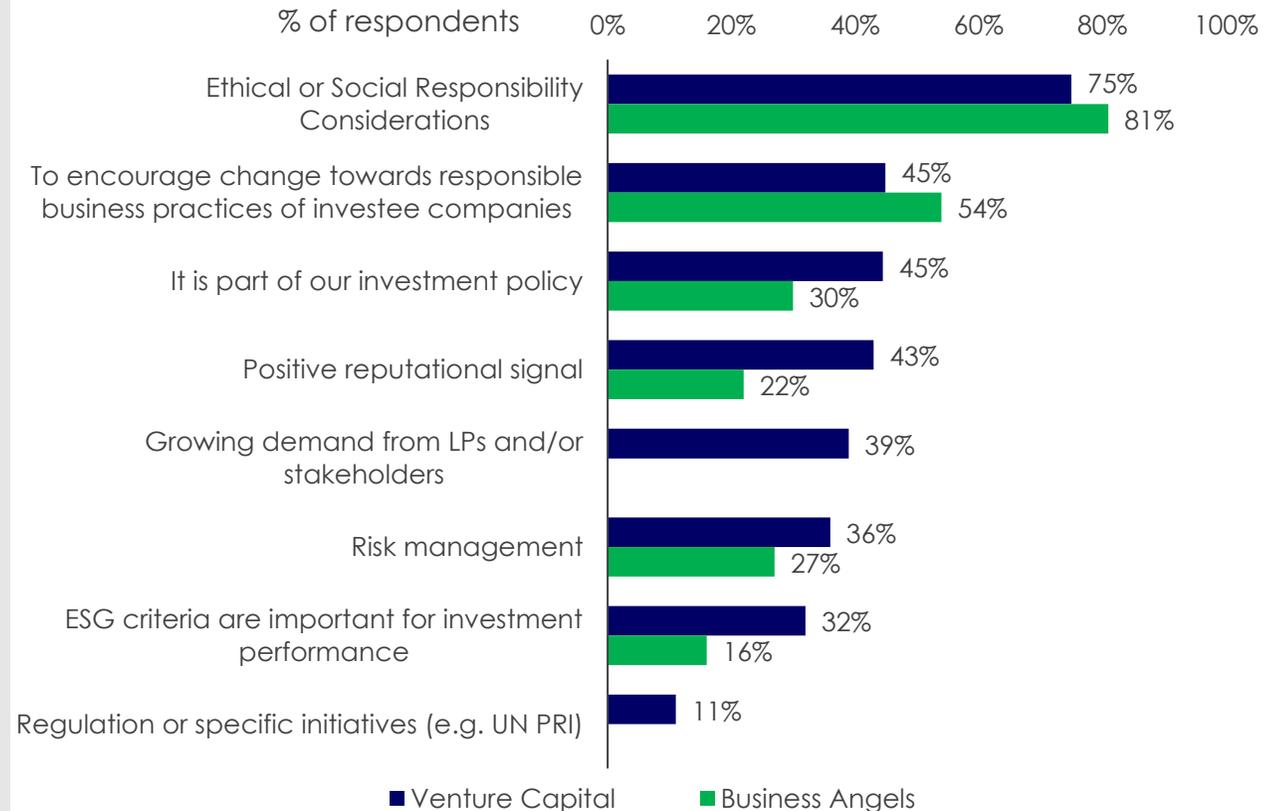
Reduced impact of negative events (e.g., strikes, accidents, negative media publicity, lawsuits) on business continuity and growth



Attract talent for growth

Lower attrition, stronger employer brand, two-thirds of millennials will NOT work for companies with poor environmental and social practices

Motivation for ESG engagement – the investor view



¹ Please refer pp. 5-9 for further details on each driver

Source: European Investment Fund Research, 2020 covering 538 VCs and 93 Business Angels in Europe

1. WHY SHOULD HIGH-GROWTH COMPANIES EMBRACE ESG ADOPTION FROM DAY 0?

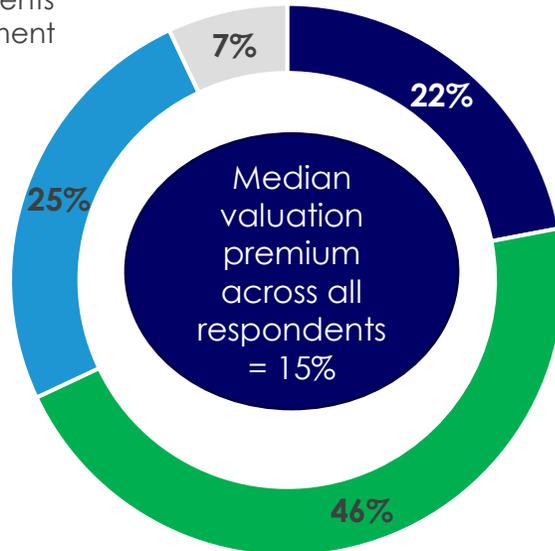
Both buyers and sellers in the private markets have acknowledged a transaction valuation premium on account of ESG considerations

ESG valuation premium in private markets

ESG valuation premium – the buyer perspective

How much valuation premium have you paid or are willing to pay for a business with an overall positive record on ESG issues?

N = 558 respondents (incl. 119 investment professionals)



- Up to 10% valuation premium
- Between 10-20% valuation premium
- Between 20-50% valuation premium
- More than 50% premium

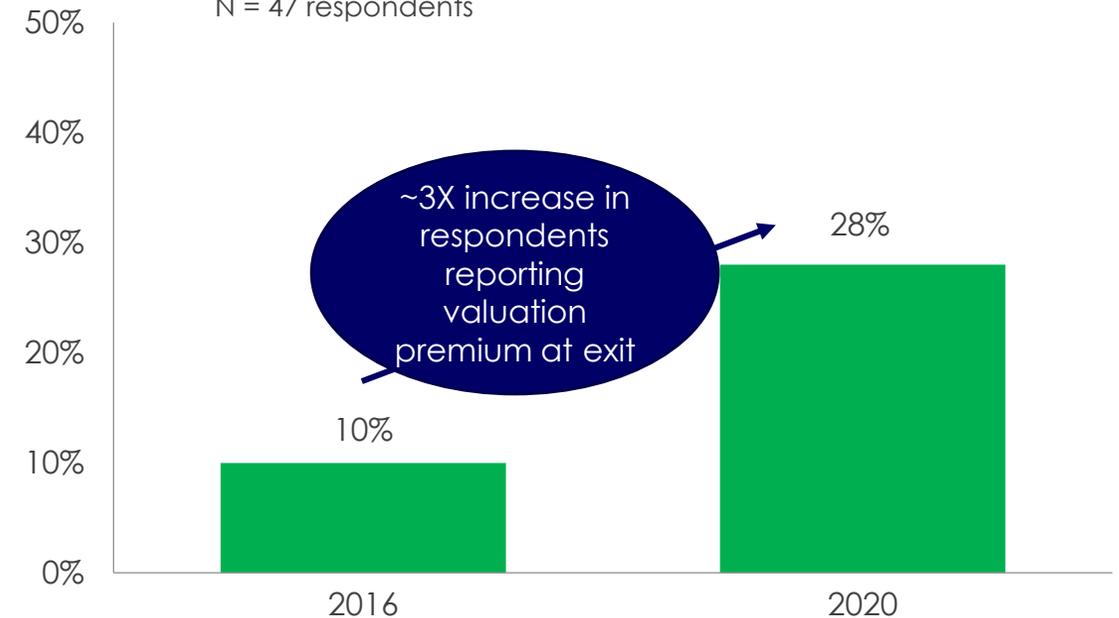
Source: McKinsey & Company, The ESG Premium: New Perspectives on valuation and performance, 2020



ESG valuation premium – the seller perspective

% of Private Equity (PE) firms that report valuation premium at exit due to ESG factors

N = 47 respondents

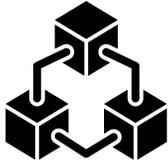


Source: ERM's Global ESG Survey, 2020 covering buy-out, growth and infrastructure funds

Private companies with sound ESG credentials have also been able to access green financing to fund growth and lower cost of capital

ESG and access to growth financing

Notable examples of private technology companies accessing green financing



OneWattSolar's US\$ 25 Million green bond issuance

- OneWatt Solar – leading African digital electricity firm using block-chain technologies, Artificial Intelligence (AI), and Internet of Things (IoT) to provide energy access to residential customers in Africa
- Successfully closed the first series of its Naira (N)10 billion green bond issuance program during July 2021
- Program comprised a N2 billion seven-year Green Bond Issue and a N1 billion seven-year Green Sukuk Issue
- First corporate green bond in Africa for off-grid renewable energy project and 13th green sukuk in the world
- Issue proceeds to be used for roll-out of two flagship products –
 - ❖ CHIOMA, Internet of Things-enabled Digital Assets & Hardware Technology, and
 - ❖ AMINA, the Advanced Artificial Intelligence Software Technology

Source: Premium Times, Nigeria



Jeanalogia's term loan with pricing linked to water savings Key Performance Indicators (KPI)

- Jeanalogia – a clean technology provider for denim manufacturing to eliminate the use of water and avoid toxic waste
- Financed euro-denominated term loan in 2019 linked to a sustainability KPI related to its water-saving processes
- Loan backed by firm's private equity partner, Carlyle Group
- Water-savings KPI decided by the management team each year, communicated to lenders and tested at the end of the financial year
- If the firm meets its target for the annual water savings by the installed portfolio, the margin ratchets tighter, while if the target is missed by 15% or more, the pricing ratchets upwards
- Deal priced in line with the market, but ESG margin ratchet laid overtop; Credit Agricole CIB and ING

Source: S&P Global

1. WHY SHOULD HIGH-GROWTH COMPANIES EMBRACE ESG ADOPTION FROM DAY 0?

Unicorns and venture investors are increasingly judged by key institutions and the public on their ESG practices

Breakingviews - Deliveroo's main sustainability doubt is financial

LONDON (Reuters Breakingviews) - The letters "ESG" do not appear in the prospectus for Deliveroo's initial public offering. The 224-page document is free of the statements of environmental, social and governance principles that clutter many large companies' annual reports. The UK food delivery group also doesn't trouble prospective investors with a statement of corporate purpose. Instead, founder Will Shu writes that his inspiration was simply "to get great food delivered from amazing London restaurants".

This straightforward approach has not prevented Deliveroo from falling foul of the vogue for responsible investing. Aviva Investors and Aberdeen Standard Investments this week declared they would not be investing in the offering, which is set to value the eight-year-old company at between 7.6 billion pounds and 8.8 billion pounds. The asset managers pointed to Deliveroo's drivers, whose self-employed status denies them the right to a minimum wage, sick pay or holidays.

This stance may not be based wholly on principle. At the end of last year Aviva had a small stake in Uber Technologies, according to Refinitiv, even though the ride-hailing firm recently lost a UK Supreme Court case over its treatment of drivers. However, Deliveroo's reliance on casual "gig workers" is more than a social concern. It's also a crucial part of its business model.

Potential shareholders must also acknowledge a governance red flag flying over Shu's super-voting shares, which hand voting control of the company to the 41-year-old chief executive despite an economic stake of just 6%. Above all, though, investors are being asked to pay up for a rapidly expanding but loss-making business. At the mid-point of the price range, Deliveroo's post-IPO enterprise value will be more than 6 times last year's revenue of 1.2 billion pounds. For fund managers still weighing its appeal, the biggest sustainability question is over Deliveroo's financial viability.

Source: Peter Thal Larsen, Reuters, Breakingviews, March 2021

World's top ten venture capital firms all failing over human rights due diligence - new report



Human rights are hardly figuring in the calculations of the world's biggest funders of new companies © Sebastien Thibault/egoodson.com

Eight of top ten firms showed no evidence they even checked whether their investments could be linked to human rights abuses

Only one company from more than 50 is close to recognised UN standards

VC firms fund tech companies providing spyware equipment to Chinese government for use in Xinjiang

'Venture capitalists are turning a blind eye to whether their investments are contributing to human rights violations' - Michael Kleinman

All but one of the world's largest venture capital firms have failed to put in place robust human rights due diligence policies, Amnesty International revealed today in a landmark new report.

Lack of diversity

A recent US survey found that women comprise only 23% of venture capital investment professionals, while 65% of firms did not have a single female investment partner. This lack of representation has a direct impact on start-up investment - in 2018, all-female founding teams received just 2% of US-based venture funding.

Source: Risky Business: how leading venture capital firms ignore human rights when investing in technology, Amnesty International Report, 2021

ESG and operational risk

PRI launches venture capital collaboration to strengthen ESG take-up

Key findings of the survey

We detail below some findings from the survey that indicate the state of the industry:

- **DEI is a focus area, but ESG overall is not well integrated with investment teams:** Common current ESG incorporation activities include basic actions such as using exclusion lists to negatively screen out investments during due diligence and gathering a small number of ESG datapoints from investee companies. It is also clear that diversity is a substantial focus area. However, ESG is still primarily conducted in a silo and rarely contributes to systematic and thorough analysis and/or investment decision making.

- **High adoption of pre-investment screening:** Current leading practices include ESG portfolio company DDQ's used by the investment team (including risk and opportunities as part of 'ESG screening'), ESG term sheet clauses, ESG portfolio support through platform teams, ESG KPIs tracked over time (and reported on to LPs), and VC internal ESG scrutiny (e.g. DEI of investment team). However, the tools used are not always well-tailored to VC. For example, many pre-investment screens include business activities that are unlikely to be encountered in VC and do not include many activities that are likely to be found. (e.g. responsible product design, data management).

- **Asset Owners (LPs) are not a driving force behind ESG adoption:** most respondents were keen to notice that it was them personally or their fund that embraced ESG as a set of values and was the most crucial driver. However, only a minority felt that LPs or their portfolio companies or founders were pushing them. Notably, most respondents also believe that considering ESG factors improves their investments' risk/return profile.

Climate is not given enough attention. For example, many VC investors in our survey reported tracking their own scope 1 and 2 emissions, but very few VC investors in the mainstream market measure Scope 3 emissions, for example, portfolio company emissions. This needs to change, particularly for later-stage VC investors as their portfolio companies scale.

Social issues are often boiled down to diversity, equity, and inclusion (DEI). 74% of the VC investors are tracking DEI across their portfolio companies, but only 25% scrutinise the supply chain. For example, when it comes to working conditions, more focus on other social issues is needed, particularly human rights, according to a recent report by Amnesty International that slammed the VC industry for doing very little on that front.

Governance means 'board' issues for most VCs. Tax and anti-bribery issues are only considered by <35% of investors in our sample and ownership structures such as dual-class shares (which have already caused issues for IPOs of, e.g. Deliveroo) are under-scrutinised.

Source: PRI and VentureESG Survey, September 2021

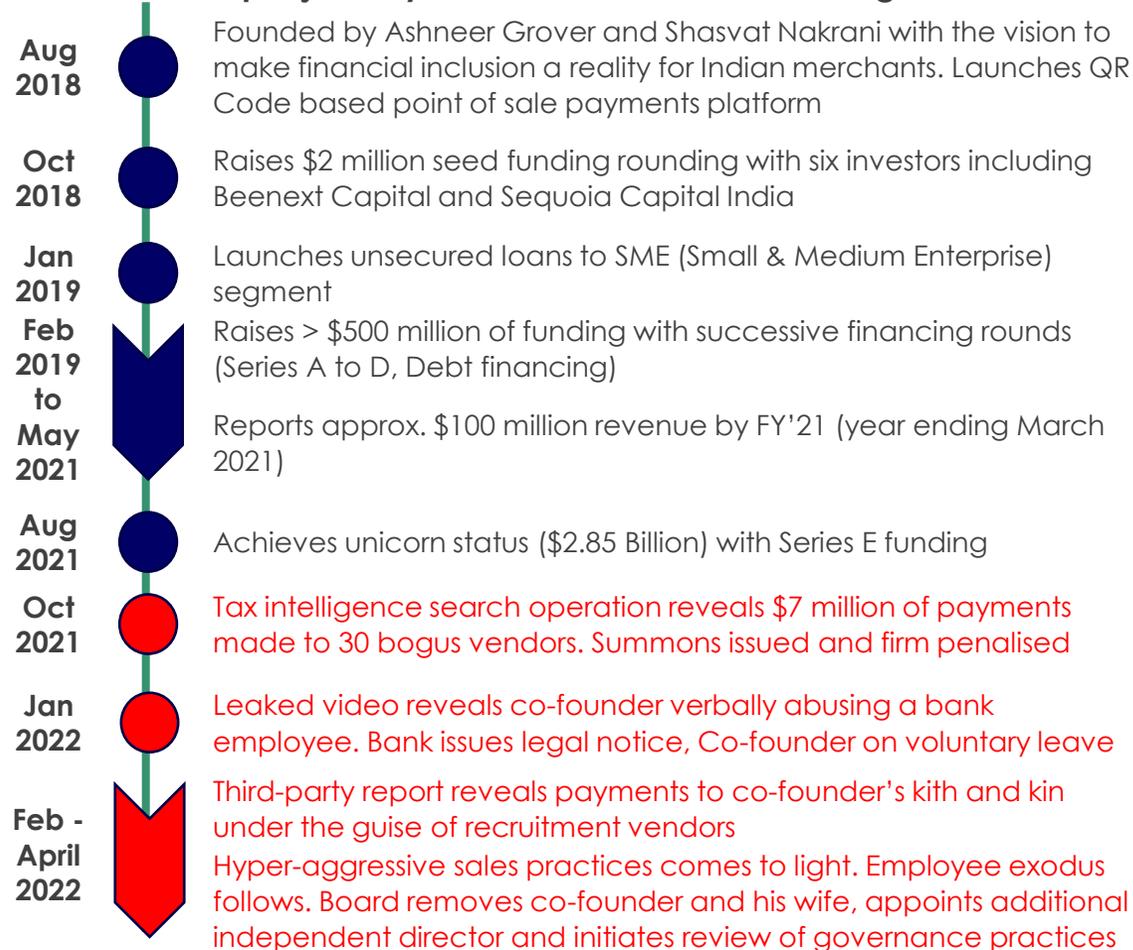
Sound ESG practices can mitigate reputational risks from potential adverse events. Conversely, poor ESG practices can exacerbate these risks

The contrasting tales of two Indian unicorns

Zomato – steady growth underpinned by good stakeholder branding



BharatPe – rapid journey to unicorn and the fall from grace



ESG and operational risk

A commitment to sustainability and social responsibility has become essential to attract and retain key millennial talent

ESG and talent attraction

GENERATION



The millennial's view of their employer

- 75%** indicate that they consider a company's social and environmental commitments when deciding where to work
- 67%** report that they will not accept a job if the potential employer does not have a strong corporate responsibility program
- 75%** are willing to take a pay-cut to work for a company with a strong corporate responsibility program

Source: Survey conducted by LiveCareer and TIRO communications 2018

Using CSR as your employee value proposition – the case study of Alorica

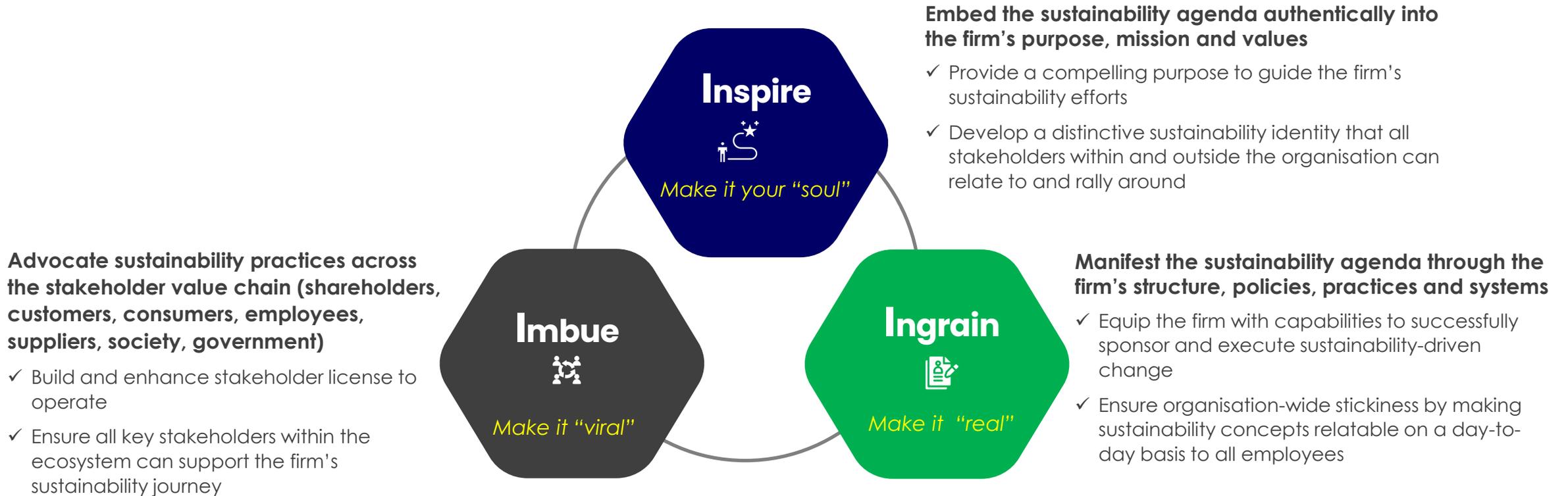
- Alorica – leading customer experience technology company employing over 100,000 staff in 14 countries, a significant portion of which comprises millennials and Gen Z
- CSR strategy critical to attract the best talent in these demographics and retain them for the longest possible time
- Charity partnership with global non-profit, Making Lives Better with Alorica (MLBA)
- Since 2015, employees have raised over \$5 million through the local chapters and have given out more than 9,000 grants.
- Seen by human resources as the strongest recruiting tool
- Apart from CSR, the firm adopts strategies like full-time work from home and classroom-to-career progression to attract the best possible talent

Source: HR Technologist, 2020

2. HOW CAN NEXT GENERATION UNICORNS EFFECTIVELY INTEGRATE ESG INTO THEIR BUSINESS?

To unlock stakeholder value, early-stage firms need to integrate sustainability into their purpose, practices, policies and value chain

Three distinctive hallmarks of best-in-class sustainable organisations



Source: Sculpt Partners research. Please refer Annexure A, pp. 23-25 for additional details

2. HOW CAN NEXT GENERATION UNICORNS EFFECTIVELY INTEGRATE ESG INTO THEIR BUSINESS?

— This requires balanced synthesis of “hard-wiring” and “soft-wiring” tools

KEY DIMENSIONS OF ESG INTEGRATION

Strategy & operations

Net Zero emissions, Net water positivity, Green products, supplies & buildings, Circular operating model, Energy efficient operations,

Policies & practices

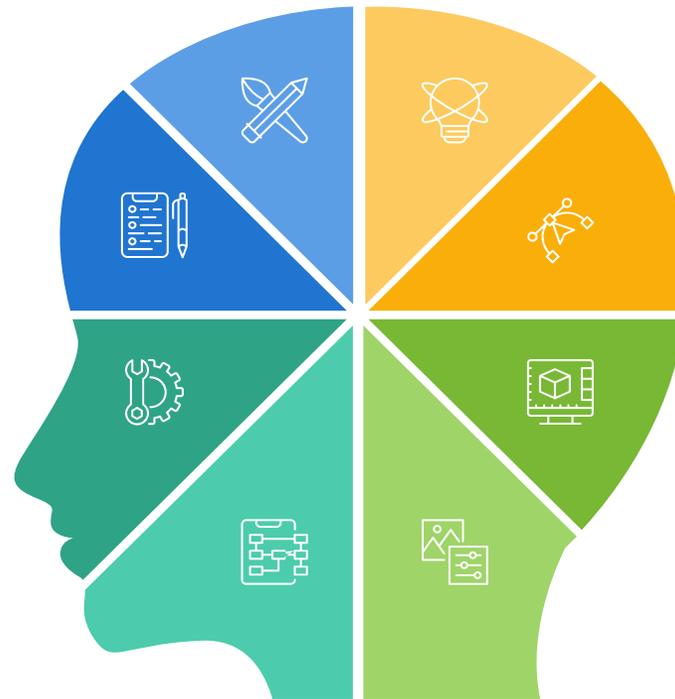
Diversity, Equity & Inclusion (DEI), Code of ethics, Anti bribery and corruption, Occupation Health & Safety (OHS), Data protection & privacy,

Structure & systems

Board composition & responsibilities, Sustainability organisation mandate, Risk management, Capital allocation, Performance & rewards,

Reporting & disclosure

Reporting principles, Reporting standards, Stakeholder Materiality, Disclosure topics, Key Performance Indicators (KPIs),



Purpose

Awareness and articulation of net positive impact on all stakeholders, Commitments to deliver (e.g., UN Sustainable Development Goals),

Culture

Leadership selection & development, Valuing empathy/dignity/giving, New hire orientation, Employee training & externships, Communication,

Branding

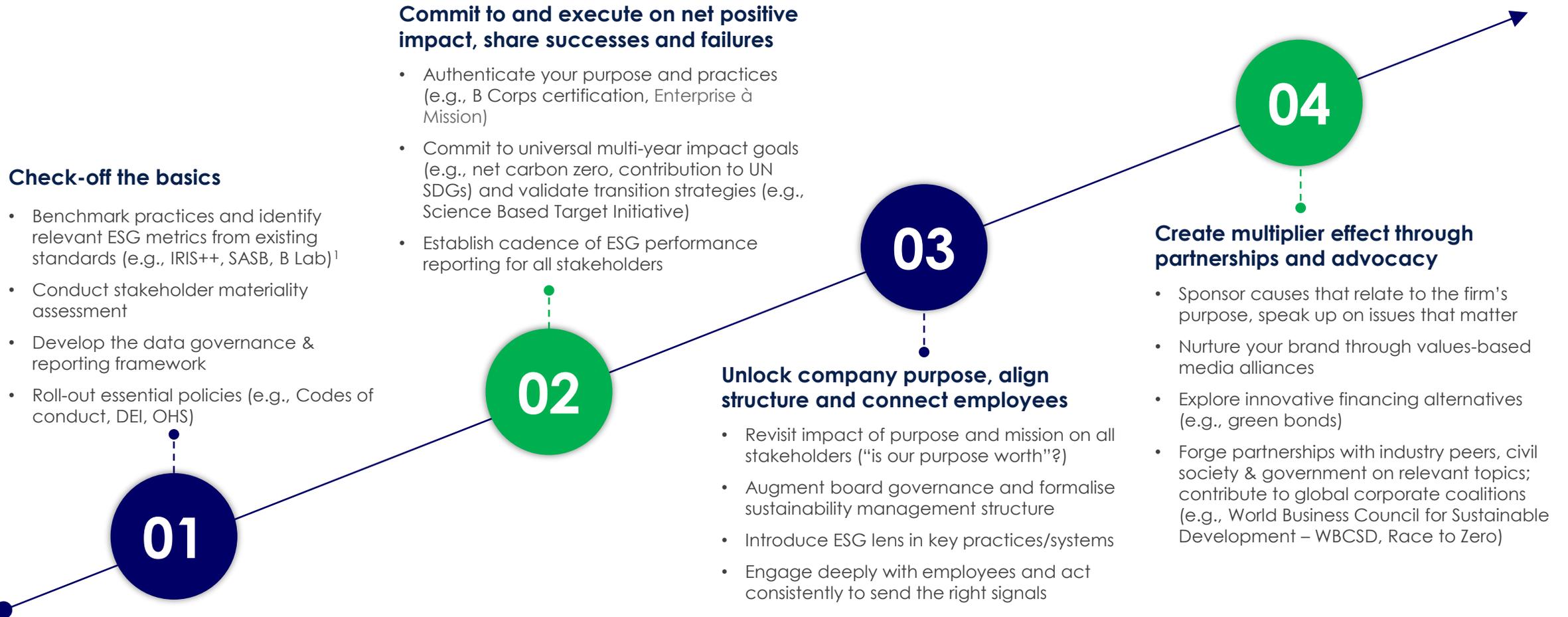
Values-aligned media partnerships, Press releases, Social media monitoring and leverage, Campaigns on social impact & responsible consumerism,

Advocacy

Community development programs, Non-Government Organisation (NGO) partnerships, Government engagement, Industry tie-ups, Supplier capacity building.....

2. HOW CAN NEXT GENERATION UNICORNS EFFECTIVELY INTEGRATE ESG INTO THEIR BUSINESS?

— These ESG integration tools need to be assembled as part of a multi-year transformation journey



¹ Please refer Annexure B, page 27 for a sample list of ESG dimensions based on SASB (Sustainability Accounting Standards Board) standard

#1. Global Top 100 Market Cap Fintech Player: ESG journey underpinned by purpose and culture, and reinforced over time through governance and innovation

Embed purpose-led social-innovation in products, services, programs and employee initiatives

- New products (e.g., working capital for small under-served businesses)
- Enhanced salary & benefits for bottom 35% of staff based on net disposable income concept; restricted stock coverage for all employees
- Coalition of companies and non-profits for fair pay and practices; largest donation platform in the world for causes that customers care



2015 & beyond
Spin-off from parent company & reinvention

Strengthen governance, performance measurement and systems

- Independent, diverse and empowered board with values-aligned directors
- Accountability to risk & compliance all the way till entry-level staff
- ESG type metrics linked to management performance and remuneration



Mid 2000s to early 2010s
Rapid growth & acquisition by a silicon valley peer

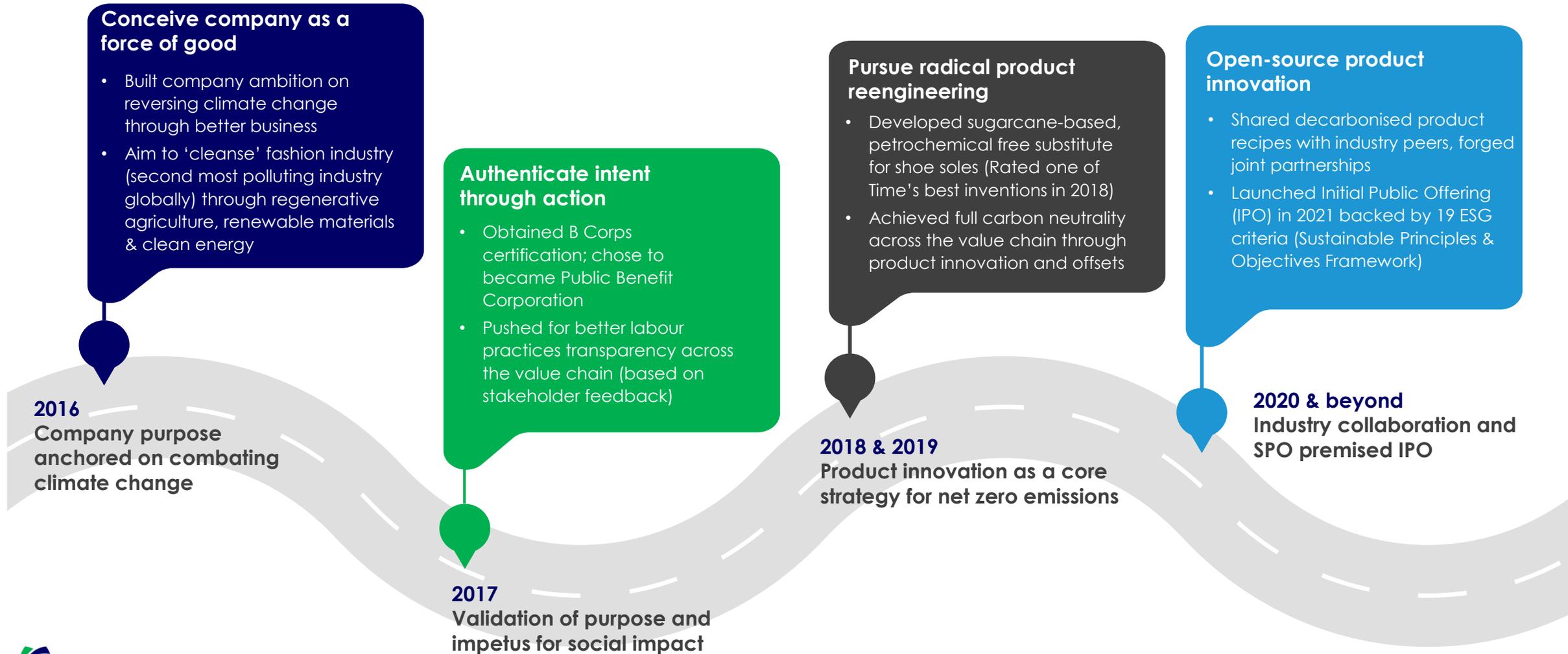
Pay mindful attention to culture and values

- Own the problem and fix it (no functional silos)
- Make it simple (no handbooks, no power points, only an ethics guide)
- Recruit based on inspiration, not compensation
- Embrace frailty, forgiveness and learning

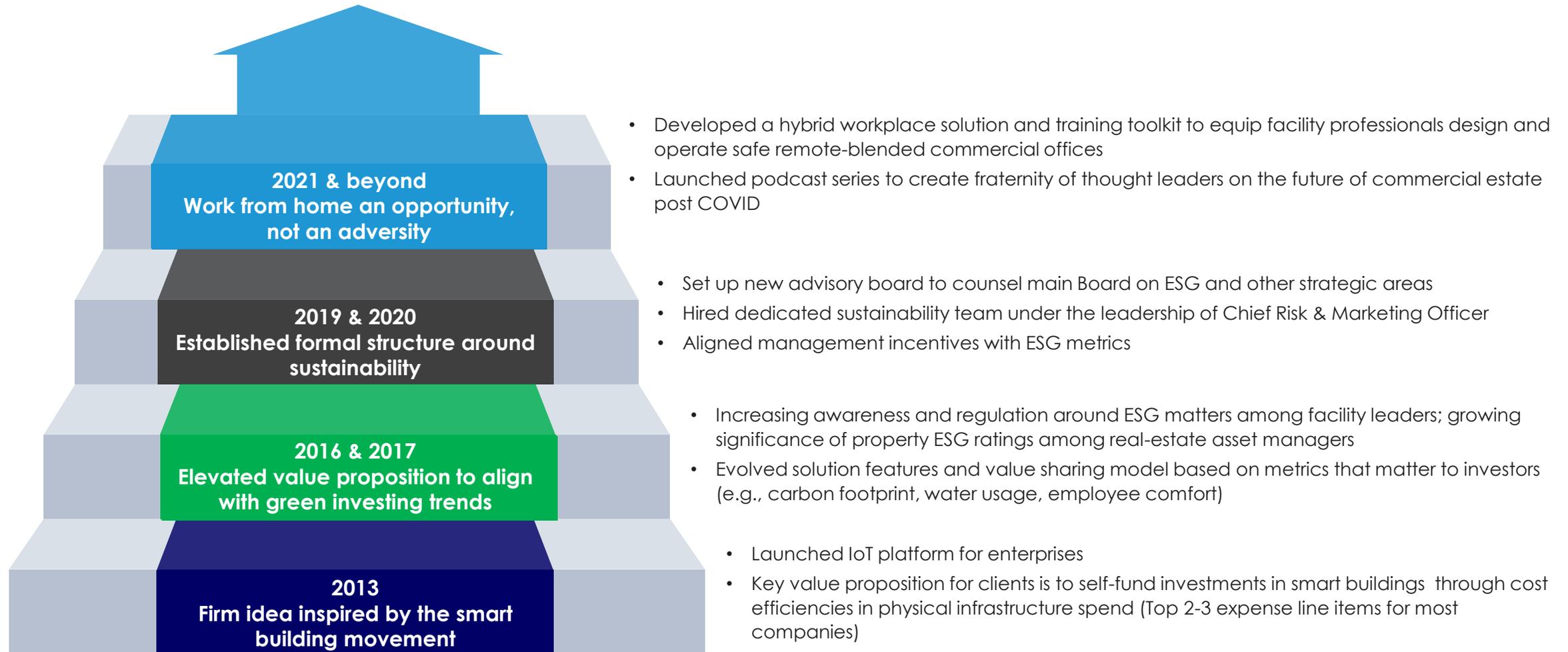


1999 – 2000s (The early days)
“Burning” \$5-10 million a month

#2. Global Sustainable Apparel Unicorn: ESG evolution founded on commitment to environment, accelerated by product innovation and industry collaboration



#3. IoT-based real-estate solutions provider: ESG is an important lever behind product design and ability to stay relevant through a rapidly changing landscape



A few questions for company founders to reflect on

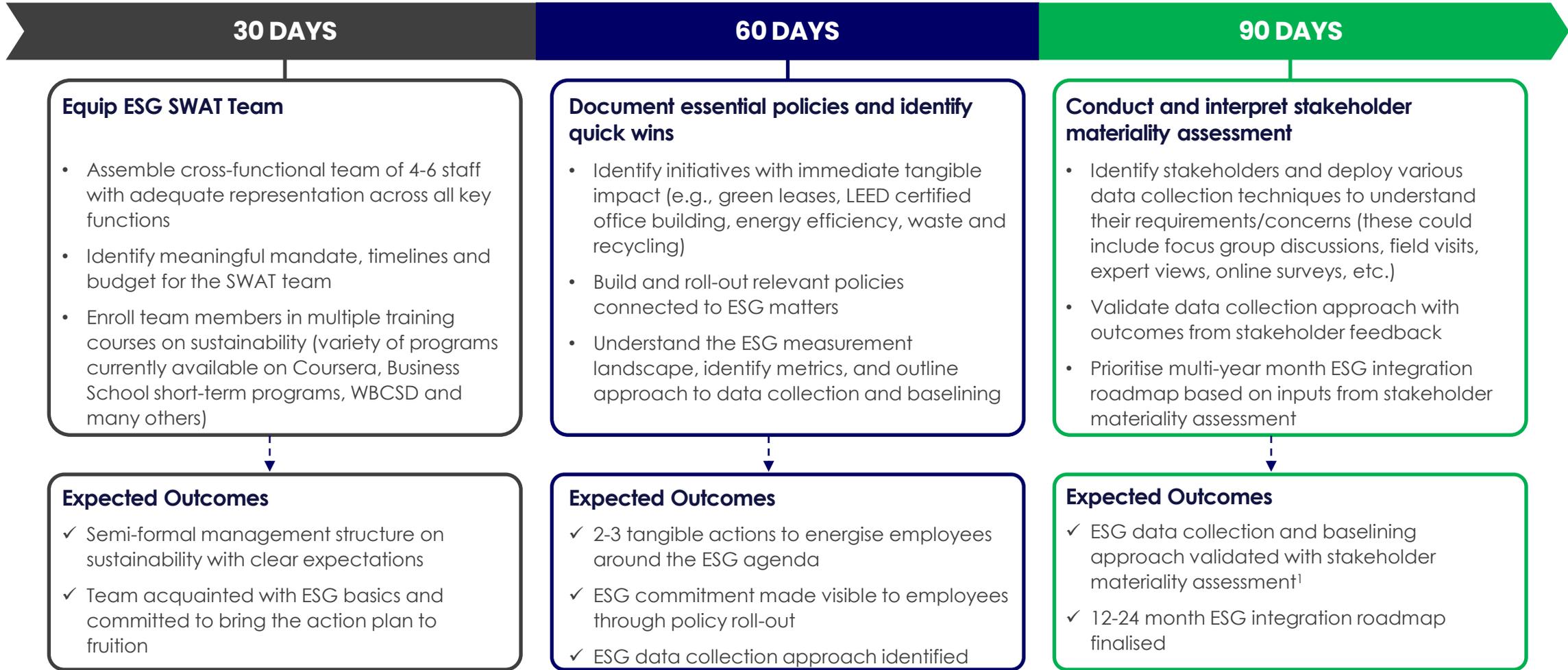


- What is your personal purpose and how is your company helping you accomplish it?
- How “green” or “brown” is the energy you consume in your corporate building or regional offices?
- How much is your business adding to the world's greenhouse house emissions? Or helping avoid it?
- How much single-use plastic does your firm consume? Do you recycle plastic at all?
- Have you explored energy retrofits or green leases with your building management company?
- Have you met families of your customers or suppliers? How is your business impacting them personally?
- How does the remuneration of your entry level employees or contract staff compare to minimum wages?
- Do you know how your suppliers and customers compensate their full-time and part-time employees? Do they have fair labour practices?
- What is the current gender diversity ratio in your company? Do you have a target in mind?
- Are there any social causes that you back or feel strongly about?
- How did you invest time during the recent pandemic to serve the impacted communities?
- Do you have a Board member or an advisor that is familiar with ESG issues?
- What deterrents do you have to pre-empt your employees from engaging in unfair practices within or outside the company?
- Do you have an anti-bribery policy? Whistle Blower policy? Code of conduct? Sexual harassment policy?

How did you respond to these questions? How important do you think it is to address the “No” responses? That will influence your ESG plan and timing

Deploying a 30-60-90 day implementation plan can help generate organisation momentum and set the building blocks for the longer-term ESG journey

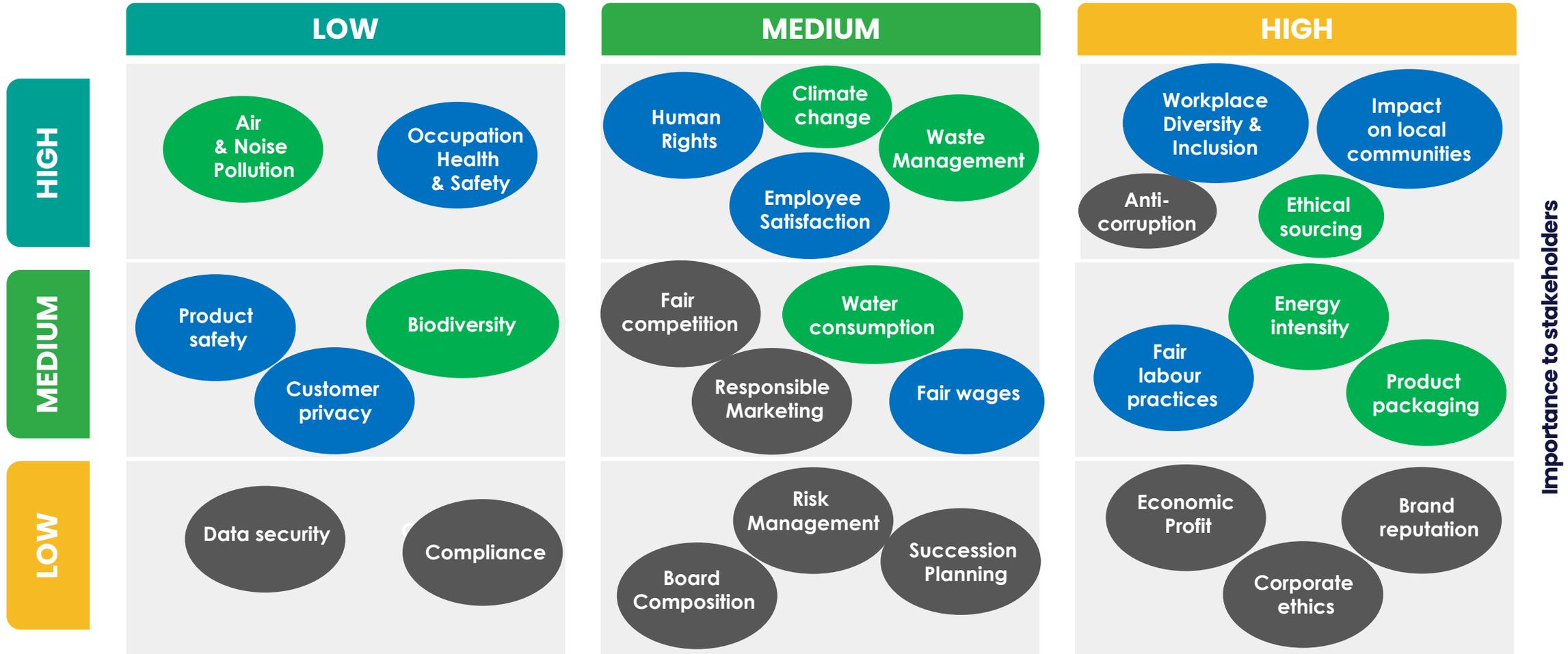
SAMPLE



¹ Please refer page 18 for a sample materiality assessment matrix

What does the key output of a stakeholder materiality assessment exercise look like?

SAMPLE ESG MATERIALITY ASSESSMENT MATRIX



Importance to stakeholders

Importance to the business

— Our 360 degree solution suite enables our clients to deliver enduring, net positive stakeholder impact



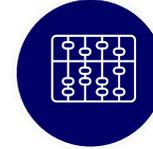
Strategy and Organisation Change

- Ground enterprise sustainability strategy and goals in line with organisation purpose, material stakeholder expectations, and globally accepted Impact standards
- Baseline carbon emissions footprint and develop science-based transition strategies towards net-zero target
- Augment capital budgeting policies to incorporate financial, natural, human and social capital dimensions
- Embed sustainability performance indicators in management assessment and remuneration
- Integrate ESG lens into the enterprise risk management framework with emphasis on scenario analyses and crisis preparedness
- Facilitate employee foundational training on relevant sustainability topics



Reporting and Disclosure

- Develop tailored sustainability reporting framework in line with globally accepted standards, stakeholder requirements and peer practices
- Ascertain data collection mechanisms, internal controls and accountabilities for sustainability related indicators
- Facilitate third-party data assurance
- Support annual disclosure of sustainability information backed by materiality assessments, industry benchmarks, and other relevant narratives



Program Management

- Align and prioritise environmental and social programs (e.g. circular initiatives, bio-diversity protection, community wellness) in line with the enterprise sustainability agenda
- Establish desired impact outcomes and evidence-based measurement mechanisms to monitor program impact
- Provide program implementation support through staff augmentation, stakeholder engagement and selective on-ground assistance

— Our solution suite (contd.)



Capital

- Co-invest in start-ups underpinned by a strong sustainability purpose
- Develop impact financing strategies for early-stage ventures (Seed/Series A/Series B) and sustainability projects of public-listed corporations (including green and social bonds)
- Support transaction structuring and capital raising from relevant investor base (comprising Venture Capital, Impact Investors, Family Offices, Private Equity and others)
- Identify curated pipeline of investment opportunities for SRI investors and support pre-investment due-diligence
- Assist with post-investment evaluation and reporting of impact outcomes to sponsors



Governance

- Evaluate Board processes, structure and skills to oversee the firm sustainability agenda
- Develop and facilitate customised director awareness programs on sustainability governance
- Provide peer-to-peer platform for sharing of ideas and best practices on sustainability themes
- Augment the Board of start-ups and early-stage companies through representation from seasoned mentors



Advocacy and Partnerships

- Provide insight on material ESG issues based on proxy advisor guidelines, institutional investor voting history, and other stakeholder concerns
- Support dialogue on relevant ESG matters with shareholders, proxy advisors, rating agencies and other stakeholders (including regulators, activists, non-profits, industry associations, supplier and customer groups)
- Identify complementary stakeholder partners for joint sustainability initiatives (e.g., campaigns, capacity-building programs and public-private partnerships)

Key Management



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and Managing
Director

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Kumar is a seasoned management consulting leader with 22+ years of experience in the professional services industry during which time he has lived in India, Singapore, Australia and UK. Prior to founding Sculpt, Kumar was a consulting partner at Aon, where he led the Governance & Executive Compensation practice across the Asia Pacific Middle East region. During his professional tenure, Kumar has advised public-listed Company Boards and Institutional Investors across a number of topics including board effectiveness, executive remuneration, sales force effectiveness, shared services and offshoring strategy, capital budgeting and acquisitions.

He is a regular publisher of articles and opinions on related subject matter topics in leading periodicals like Singapore Business Times, Fortune etc.

Kumar is deeply passionate about sustainability and serves as a pro-bono advisor for notable non profit organisations in the health and education space.

Mr. Subramanian is an alumnus of the London School of Economics and Political Science (LSE) where he graduated with a Masters Degree in Accounting and Finance. He also holds an undergraduate degree in engineering from the Birla Institute of Technology and Science (BITS). During his professional tenure, he secured accreditations from the University of Oxford (on Climate Emergency Programme and Corporate Sustainability Programme), and the Kellogg Graduate School of Management (on Value Based Management). He is also a certified credential holder from the Sustainability Accounting Standards Board (SASB).





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Annexure A

HALL-MARKS OF BEST-IN-CLASS SUSTAINABLE ORGANISATIONS



Authentically incorporate the sustainability agenda into the firm's purpose, values and culture

01 Embed sustainability into the firm's reason of existence – what environmental or social problems are we solving?

02 Cascade sustainability purpose into the firm's mission, goals ("the explicit") and values ("the tacit")

03 Capture the firm's dependence and impact on all stakeholders while defining mission and goals



Manifest the sustainability agenda through firm-wide structure, policies and processes



Structure

- Develop governance structure to oversee sustainability and the composition of the Board
- Define the organisation structure to lead the sustainability agenda, key stakeholders and accountability



Policies

- Compliance
- Employee and Supplier codes of conduct
- Workforce diversity and inclusion
- Employee and Customer health and safety
- Performance management and development
- Rewards and recognition



Processes and Systems

- Strategic Planning and annual budgeting
- Integrated Reporting, filing and disclosure
- Product design, development and pricing
- Product life-cycle assessment and management
- Capital budgeting and resource allocation
- Enterprise risk management
- Crisis management and recovery

Engage and advocate sustainability practices across the stakeholder value chain



Customers/Consumers

- Customer education and engagement on sustainable consumption and disposal
- Choice editing and choice promotion
- Industry partnerships and joint forums



Society

- Community development projects and programs
- Employee community engagement programs
- Community engagement on sustainable consumption and eco-system preservation



Employees

- Employee communication on organisation sustainability
- Individual employee engagement programs and tools on sustainable consumption



Government

- “Green” legislation and incentives
- Public-Private partnerships for infrastructure, research and training
- Joint campaigns to influence citizen opinion
- Industry collaboration and partnerships to address regional/global challenges



Suppliers

- Supplier engagement and partnerships
- Joint goal-setting, training and capacity building



Shareholders

- Roadshows, briefings, analyst calls with investors, proxy advisors and rating agencies
- Joint initiatives to enhance brand equity and reputation



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Annexure B

**SAMPLE MATERIAL ESG DIMENSIONS
FOR HIGH-GROWTH COMPANIES**



Potential List of Material Topics

Non-Exhaustive list adapted from SASB's (Sustainability Accounting Standards Board) Universe of Sustainability Issues

Environmental	Social	Governance
<ul style="list-style-type: none"> • GHG (Greenhouse Gas) Emissions • Physical Impacts of Climate Change • Air Quality • Energy Management • Water & Wastewater management • Waste & Hazardous Materials Management • Ecological Impacts • Material sourcing & Efficiency 	<ul style="list-style-type: none"> • Human Rights & Community Relations • Access & Affordability • Product Quality & Safety • Customer Welfare • Customer Privacy • Employee Engagement, Diversity & Inclusion • Labour Practices • Community Development & Welfare 	<ul style="list-style-type: none"> • Product Design & Lifecycle Management • Data Security • Selling Practices and Product Labelling • Business Ethics • Critical Incident Management • Systemic Risk Management • Business Model Resilience • Board structure, composition & responsibilities • Other Governance factors (Codes of Conduct, Policies and Internal Controls)

Source: SASB Standards guide the disclosure of financially material sustainability information by companies to their investors. Available for 77 industries, the Standards identify the subset of environmental, social, and governance (ESG) issues most relevant to financial performance in each industry (www.sasb.org)

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