Event Summary

Corporate-scaleup ESG Collaboration

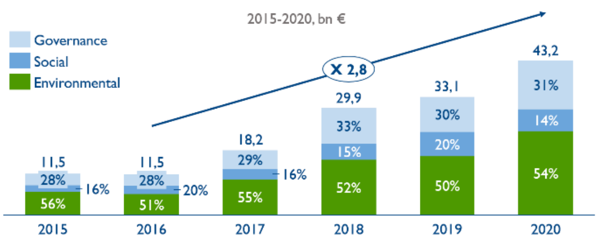
To create value in today's ESG era, corporates and scaleups should join forces

Environmental, social and governance (ESG) criteria have successfully changed from being a mere buzzword a couple of years ago to being crucial for corporates. With the ambition and necessity to become more sustainable, corporates put much more emphasis on the non-financial impact of their activities and try to leverage collaborations with innovative scaleups. To discuss corporate-scaleup collaborations in an ESG environment, one session of the four-part Scale Up Now webinar series co-organized by Arthur D. Little and Match-Maker Ventures was dedicated to this trending topic. A diverse panel with representatives from the corporate side (Total Carbon Neutrality Ventures and Acciona) as well as from the scaleup community (Greenly, Planetly and Share) shed light on the value of collaboration between corporates and scaleups. The panel covered a variety of topics ranging from the importance of ESG in business, to key challenges and success factors in corporate-scaleup collaborations. This event summary recaps the main takeaways and highlights the discussion's overarching tenor: corporate-scaleup collaboration is essential for mutual value creation in the new era of ESG.

Environmental, social, and governance criteria – the future of sustainability in business

The ESG criteria for responsible investments, established in 2006, provide a set of standards to evaluate the non-financial impact of corporates' business operations in three areas. Environmental criteria evaluate the impact of corporate actions on the environment, social criteria assess corporate management of stakeholder relations, and governance criteria deal with corporate internal control structures and leadership. The importance of ESG in business particularly increases in today's rapidly changing environment. ESG topics are no longer considered corporate philanthropy. They have become indispensable elements to remain successful.

Investment into startups with respective ESG goals

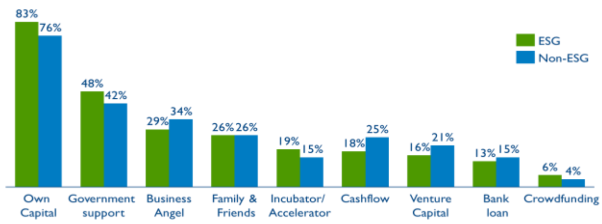


Source: Arthur D. Little, European Startups

Investors have also started to realize the gravity of ESG considerations and expanded their funding of ESG startups at an unprecedented pace. Over the last five years, investments in European startups that put ESG criteria at the core of their business nearly tripled to approximately 43 billion Euro in 2020.

Despite the recent increase in funding, ESG startups have to rely more frequently on own capital compared to non-ESG peers. This lack of external funds results in a greater willingness of ESG-oriented scaleups to partner with resource-heavy corporates at early stages and overcome their financing challenges.

Funding of ESG vs. Non-ESG startups



Source: Arthur D. Little, Green Startup Monitor 2021

Corporates are also incentivized to refer to scaleups for integrating ESG criteria into their way of doing business as corporates that fail to address stakeholders' ESG concerns will most likely experience competitive disadvantages. Due to this increased attention to ESG topics by various stakeholder groups, it is essential to understand the role of corporates and scaleups better.

Corporates should feel particularly responsible and put effort into improving their ESG performance due to their high level of resource usage. Many corporates need a vast amount of natural resources to sustain their normal business operations. Subsequently, even small changes towards more ESG-friendly behavior may have a great effect. However, the key ESG challenge for many corporates is to overcome their own legacy thinking and implement new and innovative ESG solutions.

Scaleups with ESG as part of their DNA tailor their business model to ESG criteria. They offer innovative solutions that allow their customers to address ESG concerns and create higher ESG visibility. While their solutions have the potential to improve ESG performance, ESG scaleups often lack the necessary resources to create far-reaching impact. Thus, they frequently view collaboration as a valuable opportunity to access capital and establish proof of concept at the same time.

Having considered both sides, a collaboration between corporates and scaleups seems to be mutually beneficial. Corporates can overcome their legacy, adopt innovative solutions and be at the forefront of ESG developments, and on the other hand, scaleups can receive access to resources that allow them to create impact at a large scale. Yet, barriers to collaboration exist on the corporate as well as on the scaleup side.

“For us, it's day-to-day business to work with corporates, and for us it's very important to have good collaborations.”

– Antonia Hammer,
Share

ESG-specific challenges for joint value creation

Besides traditional challenges, certain barriers exist on the corporate as well as on the scaleup side that cause many promising collaborations to fail. Such factors have also been addressed by the panelists.

Corporates – often insufficient ESG awareness, no clear ESG goals and lack of willingness to cooperate prevent success

Many corporates do not yet understand the inherent value of taking action in line with ESG criteria due to a lack of awareness of this topic at the leadership level. Without top management support for company-wide ESG initiatives, meaningful conversations about collaborations with scaleups are likely to fail.

Once corporates are conscious about their ESG performance and are interested in launching ESG initiatives, it is paramount to set a clear long-term ESG vision that translates into short-term ESG objectives. With objectives on their agenda, corporates can more easily adjust their behavior to be in line with their new vision and improve their credibility when addressing the importance of ESG vis-à-vis their employees, investors and customers.

As in the interview for the Arthur D. Little flagship publication PRISM, Timotheus Höttges, CEO of Deutsche Telekom, underlined the internal alignment and goal setting: “(…) this is a process, that rather works top down. (…) Investing in sustainability, in addition to the important infrastructure investments requires top management commitment. This is why we have enforced our climate targets just recently to contribute even more and earlier to climate neutrality across DT until 2025 for our own footprint and latest 2040 for the whole value chain. At Deutsche Telekom, the #greenmagenta program is run by the CSR department in close alignment with the business units and guided by top management support.

With our program #greenmagenta we foster collaboration across DT’s business units guided by clear targets.“

– Tim Höttges,
CEO Deutsche Telekom

In case corporates are unable to take the necessary actions themselves, collaborations with innovative scaleups can prove vital. Scaleups provide outside innovation and cutting-edge tools to their customers to improve ESG performance and achieve corporates’ long-term vision. Therefore, it is also crucial for a corporate-scaleup collaboration to agree on a common goal for collaboration and show the willingness to work together on an equal footing.

Furthermore, corporates have to allocate enough budget to be able to pay for the solution of their scaleup partner. Continuous discussions about the budget do not only cost valuable time but also destroy trust and can damage potentially fruitful results.

Scaleups – Complex sales process with high resource demands restricts collaboration attractiveness

For scaleups, the key challenge to partner with corporates is the complexity of the sales process. They have to identify the right contact person and decision-maker, go through a collaboration approval process and negotiate budgets. Such contract negotiations may turn out to be lengthy and resource-intensive, discouraging innovative scaleups from initiating collaborations with corporates.

“It tends to be a pitfall of startups to bet their whole development on big corporates because you need 15 people to make a decision […]”

– Alexis Normand,
Greenly

Scaleups are most successful if their solution has a measurable impact on the corporate’s core business interests. One challenge for scaleups is that they often cannot show the added value of their solution because corporates are complex and may lack the ambition to alter their business processes. Like any collaboration, a corporate-scaleup collaboration faces initial barriers. However, the inherent value of such a collaboration exceeds these obstacles. The experts mentioned three essential aspects for collaborations to unleash their full potential.

Three success factors that enable a strong corporate-scaleup collaboration

(1) A clear match between corporate ESG issues and the scaleup solution

The vision and objectives of the corporate have to be in line with the value proposition of the scaleup. If the scaleup offers an innovative way to address a pressing issue, corporates are able to leverage the ready-to-use solution of the scaleup and reap benefits immediately. The potential of outside innovation to overcome internal challenges creates significant value.

“Scaleups are more relevant in our approach because, on the one hand, we are able to very quickly plug and play their solutions and test them in a real environment….and from that they are getting visibility in a business contract.”

– Telmo Pérez Luaces,
Acciona

While the corporates benefit from quick problem-solving, the scaleup receives real-world proof of concept, industry knowledge and the chance to learn from corporates’ extensive experience. Based on valuable corporate feedback, scaleups can refine their solutions to create even greater impact for their customers. If the solution delivers the desired impact, the corporate might become a long-term client and provide a constant source of funding for the scaleup. Thus, a collaboration might be beneficial for scaleups with regards to business development and revenue streams.

Alexis Normand, founder and CEO of Greenly, a French scaleup that offers software solutions to measure and communicate environmental footprints, shared his success story about a collaboration with a leading French bank. The bank used Greenly’s software to develop a financial product that shows consumers the carbon footprint of their purchase immediately after the payment. Thanks to this collaboration, the bank has an increased awareness about their customers’ spending activities, which in turn might alter both the bank’s business decisions and the customers’ purchasing decisions, encouraging the adoption of more sustainable behaviors in line with ESG criteria.

(2) A rigorous screening process facilitates the collaboration and ensures value creation

Corporates have to implement and ensure a structured approach to collaboration. At the beginning, a rigorous screening process and clear evaluation criteria are helpful to identify the solution that best fits their needs. Corporates should engage in open and transparent communication with scaleups, share their vision, get an understanding of the scaleups’ capabilities, and align their goals to ensure an ideal fit and a good starting point for collaboration.

“[Something that] is very important is having dedicated structures so that we're able to make sure that we harness the power of that collaboration in a way that is as painless as possible for the scaleups.”

– Ademidun (Demi) Edosomwan,
Total Carbon Neutrality Ventures

After having identified attractive scaleups, corporates should actively address and mitigate aspects that may turn into pain points during the collaboration phase. For instance, a clear distribution of responsibilities or dedicated structures, such as open innovation or accelerator programs, help scaleups to better understand and fulfill the needs of corporates. Once the collaboration has been formed, a thorough onboarding process and a carefully planned scaling process further guarantee that the scaleup creates impact.

(3) Data-driven measurement and reporting quantify the value of corporate ESG initiatives started through corporate-scaleup collaboration

It is vital to measure and communicate impact through data. Currently, only a few corporates quantify the effects of their ESG activities with standardized KPI’s. However, these concrete data points are essential to be able to quantify ESG improvements and report positive results.

The recent adoption of the EU taxonomy, the trend around stakeholder activism and the launch of carbon pricing schemes underline the trend towards ESG-oriented legislation. Similarly, the Task Force on Climate-Related Financial Disclosures (TCFD) develops recommendations to improve the reporting of climate-related financial information. It only seems to be a matter of time until regulators require the disclosure of non-financial information about ESG performance.

“In the future, they [corporates] will have an obligation to report what they're doing, they have an obligation to have an outward looking statement in the annual report and they have an obligation to tell the truth.”

– Maximilian Scherr,
Arthur D. Little

Voluntary reporting today would not only position corporates as pioneers in ESG-impact measurement but also allow them to anticipate future regulation. Furthermore, corporates that decide to delay disclosure of ESG information might face higher costs once reporting becomes mandatory.

Given that various scaleups already focus on offering efficient and methodologically sound data-driven impact measurement tools, a corporate-scaleup collaboration may enable corporates to proactively report about their initiatives, stay on top of regulatory requirements and even anticipate future regulations. For example, Planetly, a German scaleup, sells a software solution for holistic carbon footprint management. Their interactive dashboard allows corporates to check their carbon footprint information in real-time, identifies the most impactful areas of improvement, and suggests concrete actions to reduce carbon emissions.

"You can only manage and act on something you measure and understand."

– Benedikt Franke, Planetly

Conclusion

The growing importance of environmental, social and governance criteria to consumers, investors, regulators and other stakeholders shows that ESG criteria are here to stay. Consequently, corporates have to adjust to an ESG-driven future and should leverage the potential of innovative scaleups.

Successful collaborations combine the best of both worlds: the resource richness and industry experience of corporates with the ESG knowledge and innovation of scaleups. Collaboration will be the competitive advantage in an ESG-dominated marketplace.

To build effective collaborations that create impact, corporates and scaleups must recognize three success factors:

1. A clear match between corporate ESG issues and the scaleup solution leverages resources effectively and creates a win-win situation
2. A rigorous screening process facilitates the collaboration and ensures value creation
3. Data-driven measurement and reporting quantify the value of corporate ESG initiatives started through corporate-scaleup collaboration

If used effectively, corporate-scaleup collaborations address the urgent need for action on ESG issues and finally put ESG at the core of corporates' business activities. True to the African proverb "*If you want to go fast, go alone; if you want to go far, go together*" successful corporate-scaleup collaborations are the future for ESG.

This event summary is part of a series of articles on our Scale Up Now Webinar Series 2021. The other articles focus on customer experience, bottom line impact and top line growth. You can view the other articles in the series here: https://www.match-maker.ventures/category/webinars/

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