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Over 90% of startups benefit from ESG integration - MPower and BCG joint study finds

“ESG x Startup Report” launched jointly by MPower and BCG highlights the current state of ESG efforts among startups

MPower Partners Fund (hereinafter “MPower”), Japan’s first ESG-focused global venture capital fund, and the Boston Consulting Group (hereinafter “BCG”) release a joint report (hereinafter “report”), [“Current State of ESG Efforts Among Japanese Startups and Learnings from Japanese/International Case Studies.”](#)

As interest in ESG grows worldwide, it is becoming increasingly integrated by large Japanese companies. In contrast, Japanese startups are struggling to determine how best to approach ESG topics given their limited resources.

In order to help startups implement ESG successfully, this report is comprised of two main sections. The first is a quantitative assessment of the current state of ESG efforts among Japanese startups based on a survey of 50 startups. The section examines actual initiatives implemented across ESG areas and obstacles which startups encounter, in addition to the actual impact of ESG initiatives on business performance, among other topics. Second, drawing from expert interviews with 10 leading Japanese and overseas startups, the report synthesizes the significance of ESG initiatives and explores 7 Principles for activating ESG efforts.

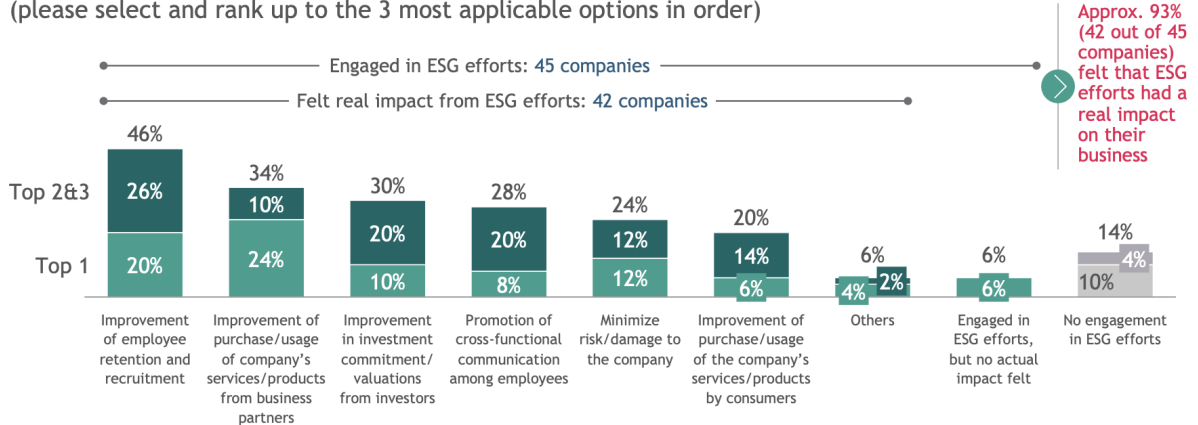
Startups see a positive impact from ESG efforts on “employee retention and recruitment,” while “lack of resources and knowledge” is a key hurdle

The survey, which received responses from 50 Japanese startups across all stages from pre-Series A through companies that recently went public, found that startups experience a real impact of ESG efforts on their business, particularly around employee engagement. On the other hand, startups cite the lack of ESG resources and knowledge to be the largest bottlenecks, as well as difficulty in achieving internal consensus on the importance of ESG.

- **Of respondents, 90% have engaged in ESG efforts. Of those companies, 93% felt a real impact on their business performance and operations (Exhibit 1)**
- **In particular, a positive impact is seen on “promotion of employee retention and recruitment,” which 46% cited as a top 3 factor**
- **The primary bottlenecks working against undertaking ESG are “lack of resources” and “lack of knowledge on ESG”:** 42% of respondents mentioned that they “cannot afford to allocate resources to ESG” and 16% cited a “lack of knowledge on ESG” as key hurdles (Exhibit 2)

Exhibit 1: Out of the startups that have engaged in ESG efforts, 93% felt a real impact on their business performance and operations

Please select the aspects of how engaging in ESG efforts contributed to real impact on your company's business performance and operations
(please select and rank up to the 3 most applicable options in order)

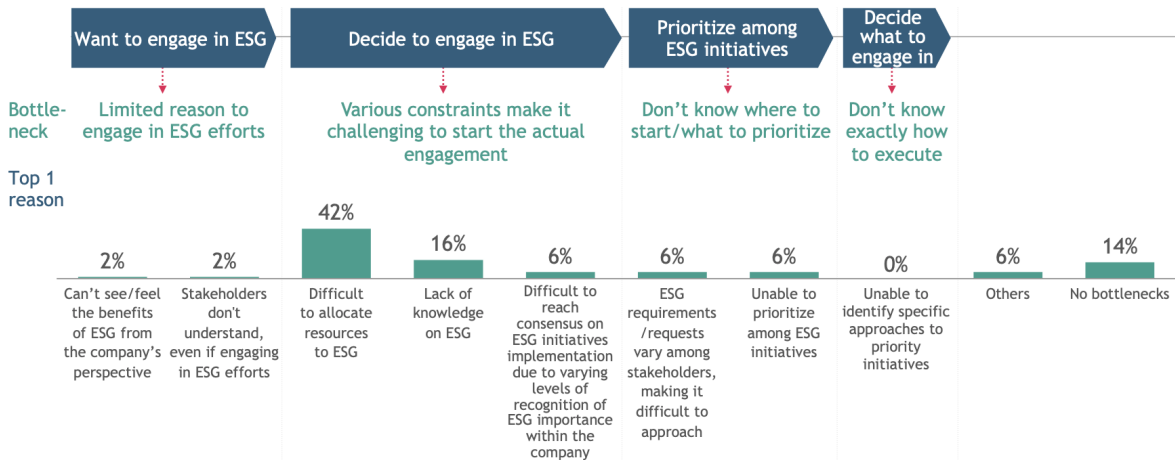


Note: n = 50
Source: MPower/BCG "Survey on ESG Initiatives (2022)"

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Exhibit 2: Key bottlenecks working against ESG efforts undertaken include lack of resources and lack of knowledge on ESG

What are the primary bottlenecks impeding your engagement in ESG efforts?
(please select and rank up to the 3 most applicable options in order)



Note: n = 50
Source: MPower/BCG "Survey on ESG Initiatives (2022)"

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By specific Environmental, Social, and Governance areas, the findings are as below.

- Environmental
 - **“Efforts to measure and reduce GHG emissions” are currently limited:** 74% of respondents have not yet measured their GHG emissions; 64% have no initiatives in place to reduce emissions
- Social
 - **Proportion of women in managerial roles tends to be very low compared with the total share of women employees:** 78% of respondent companies have 20% or higher women employee representation, but only 26% have 20% or more women in

- management roles. Meanwhile, 42% of companies have not engaged in DEI (diversity, equity, and inclusion) initiatives
- **Over 85% of respondents have “established a remote work policy”**
 - Governance
 - **Limited representation of internal and external “women & foreign nationals on Board of Directors”:** (internal/external directors included) 50% of respondents have no women directors and 88% have no foreign national directors on their boards
 - **Most later stage companies have a whistleblowing process and half of them actually “utilized the whistleblowing process”:** 97% of later-stage startups have “a whistleblowing mechanism/process” and 53% have “whistleblowing mechanisms that have actually been used”
 - **Majority of startups have data incident tracking systems in place:** 64% of startups have a data privacy incident tracking system in place, of which 53% actually measured incidents
 - **Greater tendency for later stage startups to engage in data security and privacy efforts compared with early-stage ones:** 97% of later stage startups have worked “to maintain compliance with privacy regulations” and “manage the security of information terminals used by employees”

ESG contributes to “securing investment,” “sales improvement,” and “ensuring sustainable growth”

The report draws on expert interviews with 10 leading Japanese and overseas startups to summarize the significance of ESG initiatives and key principles for activating ESG efforts.

Three key contributions of ESG to business performance and operations

- **Securing financing**, as investors increasingly include ESG as a part of their decision-making
- **Sales improvement** in the short- to medium-term, in response to requirements of large companies and consumer preferences
- **Ensuring sustainable growth** in the medium- to longer-term, by creating an organization and strategies for continued business growth

Seven principles for activating ESG efforts

1. Customize and integrate ESG as part of the overall business strategy, ensuring it is adapted to fit the needs of the organization
2. Link key organizational values with employee evaluations/hiring requirements to ensure those values are deeply ingrained in all employees
3. Change and evolve the governance structure in response to a company’s stage and market changes
4. To recruit and retain talented personnel, create a diverse work environment where employees from all backgrounds can thrive
5. Without compromising on speed, develop a mechanism to respond to risks that occur/increase as a company expands
6. Identify the company’s key challenges by developing a quantitative understanding of its situation and conducting benchmarking analyses against other companies
7. Underpinned by management commitment, execute actions that can be undertaken in the short term even without vast ESG resources and/or knowledge

Case studies and action plans by each Principle are available in the report.

“Startup ESG Playbook” provides a practical how-to on implementing ESG

Drawing on case studies and the team’s experiences, MPower has compiled a “*Startup ESG Playbook*,” covering the key points for startups to understand and implement ESG from basic ESG knowledge to practical processes. Access it [here](#) or read the highlights on the [MPower blog](#).

Access the full report here: <https://bit.ly/3dQZ4O2>

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■ About MPower Partners Fund

MPower Partners Fund is Japan’s first ESG-integrated global venture capital fund that aims to support entrepreneurs providing solutions to societal challenges through the power of technology, and to promote sustainable growth by incorporating ESG (Environment, Social, Governance) into their core business strategies. MPower’s team members draw on their extensive experience in the financial industry and regarding ESG factors to support the Japanese startup ecosystem in becoming more global and diverse and to enable innovation.

Website: <https://www.mpower-partners.com>

■ About Boston Consulting Group

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

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