

How EU ESG Regulations Impact Startup Value Creation and Risk Management



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Despite the simplification and downscaling of sustainability in the context of the 2025 Omnibus discussions, a recent UN Global Compact-Accenture CEO study¹ reveals a compelling shift: 88% of CEOs now recognize a stronger business case for sustainability. The message is clear — sustainability is no longer a peripheral issue but a central driver of resilience, innovation, and long-term value creation (Morgan Stanley, 2025;² World Economic Forum, 2025;³ Deloitte, 2025⁴).

This growing recognition is already translating into tangible expectations across the business landscape. Banks, investors, and large corporations which rely on non-listed SMEs and startups as suppliers are intensifying their demand for sustainability-related data. Startups are increasingly expected to report on ESG

issues, a trend largely propelled by evolving regulatory frameworks (EFRAG, 2024;⁵ KPMG, 2025a;⁶ EBA, 2025⁷).

For instance, under the EU Capital Requirements Directive VI [Directive (EU) 2024/1619]⁸ and its Danish implementation, L193B (Act no. 712 of 20/06/2025)⁹, financial institutions are required to integrate ESG factors into their strategic planning, risk management, and lending practices. As a result, banks must incorporate sustainability risks into their credit assessments. Moreover, the newly adopted Eco-design Regulation for Sustainable Products (ESPR) [Regulation (EU) 2024/1781]¹⁰ aims to significantly enhance the sustainability of products placed on the EU market. This regulation mandates that manufacturers comply with stringent sustainability criteria.

Implementing an ESG strategy early in a startup is not only a signal of ESG readiness but also a value enabler. It enhances market accessibility and positions startups to meet the rising expectations of customers and business partners for responsible products and

¹ UN Global Compact and Accenture (2025) Turning the Key. Unlocking the next Era of Sustainability Leadership. [online] Available here

² Morgan Stanley (2025) Companies See Sustainability as a Way to Create Value. [online] Available here

³ World Economic Forum (2025) Unlocking green growth: Sustainability as a key driver of corporate innovation. [online] Available here

⁴ Deloitte (2025) 2025 C-suite Sustainability Report. [online] Available here

⁵ EFRAG (2024) Voluntary Reporting Standards for SMEs. [online] Available here

⁶ KPMG (2025a) ESG risks in 2025: Responding to regulatory and supervisory pressure. [online] Available here

⁷ European Banking Authority (EBA) (2025) Final Report. Guidelines on the management of environmental, social and governance (ESG) risks. [online] Available here

⁸ Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country

branches, and environmental, social and governance risks PE/79/2023/REV/1 (OJ L, 2024/1619, 19.6.2024,

ELI: <http://data.europa.eu/eli/dir/2024/1619/oj>)

⁹ Act no. 712 of 20/06/2025 (2025) Act amending the Financial Business Act, the Alternative Investment Fund Managers Act, etc., the Investment Associations Act, etc., the Money Laundering Act and various other acts (in Danish: LOV nr 712 af 20/06/2025 (2025) Lov om ændring af lov om finansiel virksomhed, lov om forvaltere af alternative investeringsfonde m.v., lov om investeringsforeninger m.v., hvidvaskloven og f orskellige andre love)

¹⁰ Regulation (EU) 2024/1781 of the European Parliament and of the Council of 13 June 2024 establishing a framework for the setting of ecodesign requirements for sustainable products, amending Directive (EU) 2020/1828 and Regulation (EU) 2023/1542 and repealing Directive 2009/125/EC (OJ L, 2024/1781, 28.6.2024,

ELI: <http://data.europa.eu/eli/reg/2024/1781/oj>)

services. As sustainability regulations become the norm, perceptions of ESG have shifted from a financial burden to a value enabler. For startups, integrating ESG early into their business strategy has increasingly become essential. Doing so accelerates access to external financing,

enhances market accessibility, and meets key stakeholders' expectations.

To further illustrate how ESG serves as a value enabler under the EU regulations, we will explore how it is anchored in two core business objectives: value creation and risk management.

Value creation

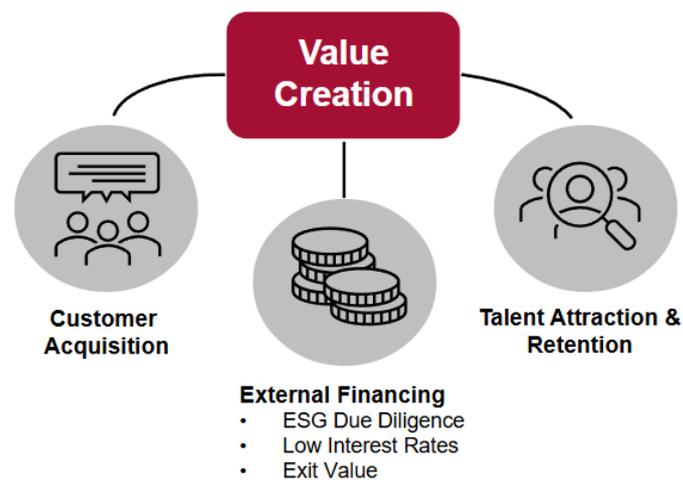
Value creation in startups is often driven by three core dimensions:

1. Securing external financing
2. Acquiring customers
3. Attracting and retaining talent

— all increasingly influenced by ESG regulations (Exhibit 1).

EXHIBIT 1

Three core dimensions for startups' value creation: external financing, customer acquisition, and talent attraction & retention.



1. External Financing

Securing funding to enable growth is always on top of the agenda for startups. Today, the emphasis on ESG has become prevalent in the financial landscape, particularly among investors and banks.

The focus on ESG has intensified in recent years due to mounting legal pressure with investment institutions increasingly assessing the underlying sustainability risks of businesses. This may involve evaluating climate-related risks, energy consumption, workplace conditions, social impact and diversity, and responsible business practices across the value chain (Novo Holdings, 2024a;¹¹ Novo Holdings, 2024b;¹² EIFO, n.d.¹³).

Furthermore, investors are increasingly treating ESG as a key factor for an exit, particularly in relation to Initial Public Offering (IPO) and merger and acquisition (M&A) scenarios. In the pre-IPO phase, ESG performance is seen as a potential risk factor that can influence both valuation and timing. EY reports that venture capitalists and private equity investors actively assess sustainability

risks, as these may reduce company value at exit (EY, 2022).¹⁴ A global survey by BCG and Gibson Dunn (BCG, 2024¹⁵) also reveals that ESG due diligence has become indispensable in M&A and dealmakers now view ESG as essential for both risk mitigation and value preservation and enhancement.

Banks, specifically, have adopted structured and methodical approaches to ESG, often assigning individual ESG scores to classify their clients (KPMG, 2023;¹⁶ MSCI, 2024¹⁷). Through sustainability-linked financing, banks such as Danske Bank and Jyske Bank offer interest rates are directly tied to a company's ability to meet predefined sustainability targets. If these targets are met, the company benefits from lower interest rates; if not, the rate increases (Danske Bank, n.d.¹⁸; Jyske Bank, n.d.¹⁹). For instance, COWI pays less for its credit facilities when it successfully reduces greenhouse gas emissions from business travel and achieves its gender diversity at senior leadership level. Conversely, failure to meet these targets results in a higher premium (COWI, n.d.).²⁰

¹¹ Novo Holdings (2024a) Responsible Investment Report. [online] Available here

¹² Novo Holdings (2024b) Responsible Investment Policy. [online] Available here

¹³ Danmarks Eksport & Investeringsfond (EIFO) (n.d.) EIFO's approach to ESG. [online] Available here

¹⁴ EY (2022) Why successful investors focus on sustainability pre- and post- IPO. [online] Available here

¹⁵ BCG (2024) The Payoffs and Pitfalls of ESG Due Diligence. [online] Available here

¹⁶ KPMG (2023) ESG Risk Survey for Banks. [online] Available here

¹⁷ MSCI (2024) ESG Ratings. Assess companies on their financially relevant sustainability risks and opportunities. [online] Available at here

¹⁸ Danske Bank (n.d.) Sustainability-linked guarantees. [online] Available here

¹⁹ Jyske Bank (n.d.) ESG Financing and grants. [online] Available here

²⁰ COWI (n.d.) Loan agreements linked to COWI's ESG performance. [online] Available here

2. Customer Acquisition

The evolving landscape of sustainability regulations increasingly compels customers – especially public authorities – to request ESG data when selecting suppliers. For instance, the Green Public Procurement Rule requires public buyers to prioritize products of concern that meet the highest standards of sustainability and circularity ([Regulation (EU) 2024/1781]²¹; European Commission, n.d.²²). Furthermore, large companies that are required to disclose ESG data

across their supply chains are increasingly demanding corresponding information from their suppliers to meet regulatory reporting obligations. This regulatory pressure is cascading through the value chain, compelling smaller firms and startups to monitor and report their own ESG performance to remain eligible as business partners. As ESG regulations continue to evolve, compliance is becoming a prerequisite for participation in many supply networks (Thomson Reuters, 2024).²³

3. Talent Attraction and Retention

ESG regulations also now affect talent attraction and retention due to the increasing transparency of a company's social, environmental, and governance practices. Firms are, and will increasingly be, required – under legal frameworks such as the Corporate Sustainability Reporting Directive (CSRD) – to disclose information on gender diversity, pay gap, work-life balance, and health and safety [Regulation (EU) 2023/2772].²⁴ When choosing an employer, these disclosures provide talent prospects with credible insights into the company's values, workplace culture, and

long-term commitment to responsible business conduct.

Companies with weak social practices have been shown to face higher attrition rates compared to those with strong engagement strategies (Work Institute, 2025).²⁵ According to PwC's 2024 Global Workforce ESG Study (PwC, 2024)²⁶, 68.6% of employees choose their employer based on ESG policies and practices, while 65.5% decide to stay for the same reasons. Mark Gibson, Global Head of Technology, Media & Telecommunications KPMG, further emphasizes that in tech, employees have

²¹ Regulation (EU) 2024/1781 of the European Parliament and of the Council of 13 June 2024 establishing a framework for the setting of ecodesign requirements for sustainable products, amending Directive (EU) 2020/1828 and Regulation (EU) 2023/1542 and repealing Directive 2009/125/EC (OJ L, 2024/1781, 28.6.2024, ELI: <http://data.europa.eu/eli/reg/2024/1781/oj>)

²² European Commission (n.d.) Green Public Procurement. [online] Available here

²³ Thomson Reuters (2024)

New study reveals how ESG is a growing factor in

global trade & supply chain resilience. [online] Available here

²⁴ Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards OJ L, 2023/2772, 22.12.2023, ELI: http://data.europa.eu/eli/reg_del/2023/2772/oj

²⁵ Work Institute (2025) Retention Report. [online] Available here

²⁶ PwC (2024) Global Workforce ESG Preferences Study 2024. [online] Available here

high expectations for each of the three areas of ESG (KPMG, 2025b).²⁷ At the same time, a report from McKinsey & Company (2025)²⁸ projects that, in the EU alone, the tech talent gap could be 1.4 million to 3.9 million people by 2027.

Thus, with ESG disclosure obligations, strong ESG practices are no longer just “nice-to-have”; they are now a critical tool to attract and retain top talent, differentiate from competitors, and mitigate the tech talent shortage risks.

Risk Management

This regulatory landscape within the EU is evolving rapidly, bringing with it increasingly complex compliance requirements. While the most prominent sustainability directive, the CSRD, does not apply to non-listed SMEs and is currently undergoing delays and significant simplifications, other regulations – such as the EU Artificial Intelligence (AI) Act, the Regulation on Deforestation-free Products (EUDR), the EU Forced Labour Regulation (EUFLR) and the ESPR (Table 1) – still pertain to SMEs and microenterprises. The EU AI Act promotes trustworthy, human-centred AI in the EU, protecting health, fundamental rights, democracy, and the environment. The EUDR targets specific commodities to ensure they are deforestation-free and legally produced,

while the ESPR applies to almost all physical products placed on the EU market, promoting sustainability, durability, and circularity throughout their life cycle. Meanwhile, the Forced Labour Regulation seeks to prevent products made with forced labour from being placed on, sold in, or exported from the EU market.

With this in mind, proactive engagement with regulatory developments supports internal risk management and helps startups avoid costly retrofits or reputational setbacks as enforcement tightens (Deloitte, 2023;²⁹ BCG, 2022³⁰). Furthermore, compliance readiness facilitates smoother entry into key EU markets, where regulatory alignment is a prerequisite for expansion (OECD, 2022).³¹

²⁷ KPMG (2025b) KPMG global tech report: Technology insights. [online] Available here

²⁸ McKinsey & Company (2025) Tech talent gap: Addressing an ongoing challenge. [online] Available here

²⁹ Deloitte (2023) Managing the risk of ESG misconduct. [online] Available here

³⁰ BCG (2022) ESG Compliance in an Era of Tighter Regulations. [online] Available here

³¹ OECD (2022) Promoting Start-Ups and Scale-Ups in Denmark’s Sector Strongholds and Emerging Industries. [online] Available here

TABLE 1

The four EU ESG regulations that are highly relevant for microenterprises and SMEs – the EU AI Act, the EU Deforestation Regulation, the EU Forced Labour Regulation, and the Ecodesign for Sustainable Products Regulation

	EU Artificial Intelligence (AI Act)	EU Deforestation Regulation (EUDR)	EU Forced Labour Regulation (EUFLR)	Ecodesign for Sustainable Products Regulation (ESPR)
Objective	Ensure that AI systems are developed, marketed, and used in a safe way that protect fundamental rights and the environment while supporting innovation and strengthening the internal market	Prevent the trade of products within the EU linked to deforestation and forest degradation	Ban products made with forced labour in the EU market, regardless of origin	Creates a framework for sustainable product design by boosting durability, reparability, recyclability, and transparency
Scope	AI providers, deployers, importers, distributors, product manufacturers, who place AI on the EU market or whose AI outputs are used in the EU, including those established in third countries	7 commodities (and their derivatives): wood, coffee, cocoa, cattle, palm oil, soy, rubber	All products covered , no matter their sector and origin	All physical goods covered except food, medicinal products, living plants, animals and micro-organisms etc.
Date of entry into application	GPAI rules apply from August 2025 , followed by transparency obligations in August 2026 , and the high-risk AI requirements will be phased in, with some obligations taking effect in August 2026 and the remaining ones in August 2027	30 June 2027 (micro and small enterprises) 30 December 2026 (medium and large enterprises)	14 December 2027 (all size enterprises)	Gradual roll-out Note: Starting on 18 February 2027 , Digital Product Passports (DPPs) will become mandatory for certain types of batteries [Regulation (EU) 2023/1542]

Conclusion

The EU's evolving ESG regulatory framework is reshaping the way startups approach growth, governance, and risk. By proactively aligning value creation with regulatory expectations, startups can turn ESG compliance into a source of

competitive advantage. Early adoption of structured ESG practices not only mitigate future risks but also enable startups to secure favorable financing, access new customers and attract and retain talents.

Outlook: Startup-fit DMA

With the growing ESG regulatory landscape, startups face increasing pressure of compliance while creating value and mitigating risks. To achieve both, a value-driven and compliant ESG strategy is essential. However, developing such a robust and credible strategy requires a clear understanding of which ESG issues truly matter, both to the business and its stakeholders. This is where the Double Materiality Assessment (DMA) becomes crucial. It provides an analytical foundation to identify key impacts, risks, and opportunities (IROs), ensuring that ESG priorities are both compliant and strategically relevant.

Nevertheless, the DMA framework, as stipulated by the CSRD, is inherently

resource-intensive, demanding extensive data collection, cross-functional stakeholder engagement, and financial investment — resources that are often beyond the reach of startups. In addition, it may not capture the full IROs for startups from other ESG regulations.

To overcome these challenges, a “Startup-Fit DMA” is needed – a lighter, more targeted version that maintains analytical rigor while tailoring scope and effort to the realities of resource-constrained startups. This approach enables startups to focus on the most material ESG topics aligned with both EU regulations and long-term value creation.