

KAP-X

BUSINESS FOCUS STARTUPS

Why Startups in Thailand Should Care about ESG Principles

Most startups in Thailand find it difficult to move beyond their initial growth phase and to enter a more stable period where they can begin to think long-term. Because this early period is so challenging, many new business owners assume that the best way forward is to maximize profit above all else.

At first glance, the logic is compelling: Many startups do not survive to become well-established companies, and priorities such as environmental and social responsibility would seem to be luxuries reserved for businesses that are already financially very secure.

As we will see, however, this framing gets the situation precisely backwards. It is reputation that helps establish companies in their markets, and reputation that also brings in outside investors. Early profitability could perhaps be a sensible priority for businesses that intend to grow without external backing – but even there, a strong case can be made that other factors are more important.

For the vast majority of startups in Thailand, a focus on ESG (Environmental, Social, and Governance) goals represents the best and most effective path toward long-term growth. There are several factors which support this strategy; let us examine each one in turn.

Customers

From the perspective of the wider community, every startup is an unknown quantity. People need a compelling reason to stop buying from companies they already know and to begin buying from the new kid on the block.

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Market research and business outcomes consistently show that customers will purchase from brands whose beliefs and values reflect their own. By actively pursuing ESG goals, startups in Thailand can help build trust with new customers and also improve their reputations more generally.

It is important to remember that, in our information-rich age, word gets around quickly. Startups that actively support their communities will win friends and generate good will, which soon turns into customer loyalty. Their own employees will also be more likely to subscribe to the company's mission, and therefore work harder to keep customers happy.

Investors

Professional investors are likewise drawn to startups that embrace ESG goals. To a certain extent, their reasons are self-evident; investors are well aware of the aforementioned ESG influence on customer and employee loyalty and of the business advantage it brings.

Other factors strengthen this preference, however. One is that ESG goals serve as an indirect indicator of the motivations and integrity of the startup and its founder(s). From an investor's point of view, an early commitment to responsible business practices represents a positive signal – helping to establish the startup as one with which they won't regret working.

That same signal reflects well on the investors themselves. A global venture fund and seed accelerator called 500 Startups learned this lesson when it polled its own founder community. The result: "An overwhelming majority (90%) of all founders surveyed stated that if an investor required a company to implement ESG, it would make the investor desirable."

Moreover, ESG commitments often bring direct regulatory benefits to businesses. In Thailand, for example, fees are currently waived for companies issuing bonds which are tied to their own ESG practices. Thanks in part to such incentives, the country is expecting to see THB 100 billion worth of corporate bond issuances this year alone – 20% more than in 2020.

These advantages help explain why ESG investment has been growing steadily since the 2008 financial crisis. In 2020 alone, the

About Us

Startup Practice

Kudun and Partners, Kingsford Securities PCL and 2EXT have teamed up in a dynamic collaboration providing a one-stop service focal point for startups and investors to connect and help achieve their goals through coaching, mentoring, consulting, business matching and taking risk with them.

With our expertise in the financial, legal, and startup business, we aim to offer startups an accessible yet professional consultancy service, which will benefit startups and the growth of the startup ecosystem in Thailand.

number of institutional investors and private equity firms that have signed up to the UN's Principles of Responsible investment grew by 28%. Altogether, they now manage an impressive US\$103 trillion in assets, according to the Investment Association.

Performance

The benefits of embracing ESG goals can routinely be tracked across actual business and investment outcomes. S&P Market Intelligence examined 26 ESG exchange-traded funds over a 12-month period ending this past March. Of that group, 19 performed better than the S&P 500, showing gains of between 27.3% and 55%.

Startup companies themselves see the same picture up close. Within the 500 Startups founder community, "69% responded that they think ESG will increase sales, and an overwhelming majority (91%) responded that ESG will help their company attract and retain talent." From their perspective, the pandemic has only increased the importance of ESG: "90% responded that they think implementing ESG policies and practices is important due to COVID-19."

Within Thailand, a similar consensus has already begun to emerge. Dr. Pakorn Peetathawatchai, Director and Manager of the Stock Exchange of Thailand, summed up the lesson succinctly: "ESG is not a 'nice to have' issue, but a 'must have' issue, and will be a selling point in the Thai capital market in the future," he said.

A better way forward

By signaling a well-run operation whose values coincide with strong trends in both the market and the wider culture, a focus on ESG goals can help startups in Thailand attract attention for all the right reasons.

In fact, when prioritizing ESG goals, startups may have an easier time than more mature companies. For startups, systems and processes are still being developed, and the internal culture is far more flexible. Larger and older companies often need to spend more time and effort updating their practices to suit the ESG model.

For companies of all sizes, the resources required for ESG optimization will be small compared to the long-term benefits of such a move. Startups in particular will find more success building a

loyal customer base, and bringing in valuable external investment, by following ESG and other progressive business standards.

Yet the transition itself is by no means straightforward. Each startup should seek expert advice when applying ESG business improvements to its own particular business model, and when seeking out investors to support its future growth.

Kudun & Partners understands the legal obstacles faced by startups, as well as the practical complexities of implementing ESG-themed policies within a young organization. Our Advisory Center for Startups can guide your business towards its goals, including how properly to incorporate ESG principles and attract new investors. Contact us today if you would like to learn more.

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