ESG in Healthcare

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ESG Reporting in Healthcare: Driving a Connection to Health Outcomes

For the healthcare industry, the past 14 months have served as an obvious reminder that our work lives and home lives are intertwined. The industry, which comprises 20 percent of the US economy, was the front line in our fight against COVID-19. At the same time, the pandemic placed a magnifying lens on health disparities within our society.

As noted in the CDC's COVID-19 Racial and Ethnic Health Disparities report, "Long-standing and systemic social and racial inequities have put people of color at greater risk of not only contracting the virus, but of hospitalization and death. Black and Hispanic Americans have accounted for a higher share of reported deaths than their share of population."

As the market and now regulators begin to coalesce on the demand for sustainable strategies, business models, operations and investments across Environmental, Social and Governance (ESG) and sustainability criteria, the healthcare sector has a pivotal opportunity to unlock value. This can be done by balancing financing strategies and processes with social and environmental metrics in ways that meaningfully improve health outcomes and performance.

Top health systems want to know how similarly-sized organizations are tracking this information, and what actions are being taken, but it's essential to understand ESG and sustainability as a journey that's unique to the industry and each individual organization and its stakeholders. Above all, it's a journey that's important to start now.

Measuring E, S and G: Understanding connectivity to health outcomes and performance

For a mission-driven industry like healthcare, with many institutions organized as not-for-profit entities, the "Social" aspect of ESG has always been of critical importance. Today, leaders at these organizations, Boards, and investors/bond holders as well as other financial stakeholders need to continue connecting the dots between social determinants of health and operations to understand how these metrics affect health outcomes.

While much of the regulatory focus related to for-profit institutions has previously been on climate risk and environmental accounting, it increasingly includes access to healthcare, race equity, environmental justice, food equity, and affordable housing, paramount markers that drive decisions around investment strategies for not-for-profit healthcare organizations.

In fact, recently, U.S. Department of Health and Human Services Secretary Xavier Becerra's statement on the intertwined relationship between health inequity and racial disparities pointed to budgetary needs related to the diversity of the healthcare workforce and "an increase of $150 million over FY 2021 enacted levels, to support efforts to improve health equity."

As healthcare systems and institutions examine this relationship and assess the diversity of their own workforces, they should continue to review factors including, but not limited to, patient access, quality of care, and distribution of services – all of which healthcare organizations may already be tracking.

Importantly, in addition to the financial reporting requirements mandated for healthcare systems operating as not-for-profit entities, health systems have also focused on social issues through charity care policies, which are reported in documents outside of financial statements.

ESG demands organizations to look holistically, so broadening an organization's lens to understand the impact of all activities is essential.

What we're seeing:

- **Increased asks from stakeholders** including regulators and investors/ bond holders to prioritize and disclose ESG criteria, focusing on the social metrics.
  - As S&P Global notes in its Healthcare Report Card, "Social factors are prevalent considerations in our analysis of health care companies because they often play a crucial role for the communities they serve and derive a portion of their revenue from the government."
  - Social considerations are the most wide-ranging of all ESG categories. Moody's recommends reporting under broad risk categories, such as demographics, labor and income, education, housing, health and safety, and access to basic services[1]. Each of these can be broken down into more specific risk subcategories; for example, "health and safety" comprises healthcare, food security, environmental quality and personal safety and well-being.
- **Organizations increasing ESG reporting** through a variety of reporting strategies, including integrated reports.
- **Pressure to develop and execute a meaningful decarbonization strategy** to both mitigate financial risks and meet stakeholders' environmental aspirations.

As the US regulatory landscape considers what rigorous, formal measurements of ESG would look like, healthcare organizations can get started today by prioritizing these areas:

1) **Understand your stakeholders to define which sustainability measures will be reported.** SASB, the Sustainability Accounting Standards Board – identifies industry-specific standards to help organizations – including healthcare delivery, distributors, managed care and medical equipment and suppliers – understand key topics and disclosure information. You can use the standards to start identifying which measures are likely to be most critical to your organization.

2) **Drive accountability through reporting.** ESG is most sustainable within any organization when it is integrated into the core of the business; for healthcare, the mission-driven nature of the industry means this should feel innate. ESG engagement spans an organization, it is not siloed. Transparency

1 "Moody's - ESG Factors Material in 50% of Public-Sector Rating Actions in 2019 and Q1 2021," Research Announcement, Moody's Investors Service, November 18, 2020, https://www.moodys.com/research/Moodys-ESG-factors-material-in-50-of-public-sector-rating--PBC_1254003.

and disclosure of ESG initiatives and metrics are critical in establishing a baseline against which progress and impact can be measured.

3) **Establish formalized governance with the Board and Audit Committee.** This will help provide oversight, direction, and a culture of rigorous assessment. In a recent KPMG Board Leadership Center Views from the Boardroom whitepaper, the top two domestic policy issues companies are most likely monitoring in the months ahead are the Regulatory environment (53%) and Tax policy (52%). Clear oversight and governance of ESG policies will be critical.

4) **Evaluate your supply chain for resilience and ESG** to ensure you are deploying socially responsible supplier partnerships and can accurately assess risks that could impact your ESG outcomes. According to the KPMG CEO Outlook, 11 percent of CEOs say supply chain risk is their biggest threat to business growth. Under an ESG framework, this concern may be of even more significance. The pandemic has taught us that our lives and businesses are interconnected, and an organization's approach to ESG should align.

What's next:

Healthcare organizations – both payors and providers – need to make sure that more is being done to drive momentum in this area. People are at the core of both health systems and providers, and stakeholders – whether employees, patients, investors/bond holders, regulators or otherwise – are looking to see how you will turn ESG aspirations into reality.

Take time to have conversations and create systems so stakeholders truly understand what is being tracked, monitored and reported. These issues should be contemplated as part of enterprise management and as business strategies – with the precise internal processes and reporting to reflect that. You might even consider assuring ESG data, embarking on a formal review process in line with stakeholders including regulators and investors/bond holders' asks.

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