



# ESG for healthcare organizations:

What's right for the world is good for business

Healthcare providers and insurers have historically embraced the social pillar of environmental, social and governance (ESG) efforts, but could reap additional rewards from also focusing on the environmental and governance pillars.

PwC's Health Research Institute (HRI) analyzed the ESG efforts of 45 health systems and insurers, finding for-profit insurers further ahead in the adoption of ESG strategies than other health plans and providers (see Figure 1).

For-profit and not-for-profit healthcare organizations have different motivators, audiences and reporting requirements when it comes to ESG, but both serve communities that are increasingly aware of what socially responsible organizations

look like. For-profit companies have investors asking questions about their suppliers, their climate impact and their response to certain crises such as the opioid epidemic, while not-for-profit organizations have a mission and donors with questions about board composition and transparency, recruiting practices and supply chain sustainability (see Figure 2). From a value perspective, some healthcare organizations have achieved savings from environmental and energy changes, while others see all three ESG pillars as key to attracting and retaining talent.

Some providers and insurers have expanded beyond tablestakes goals of improving access to care to ambitious programs such as building affordable housing. Kaiser Permanente has several collaborative relationships underway to use data to help address the root cause of homelessness in individual communities, while Excellus BlueCross BlueShield provides remote training to expand behavioral care to rural areas battling the opioid epidemic.<sup>1</sup> CommonSpirit Health calculated how the shift to virtual visits prompted by the pandemic affected carbon emissions, finding that from March 16, 2020, through April 2, 2021, virtual care through the organization reduced greenhouse gas emissions by over 15,000 metric tons and saved patients an estimated \$3.5 million in gas expenses as they reduced travel for visits.<sup>2</sup> When it comes to the governance pillar, other organizations have focused on transparently reporting the makeup of their board and the diversity of their suppliers.

HRI’s analysis suggests that providers and health plans have ample opportunities to differentiate themselves by improving their reporting and storytelling around ESG, and to build trust with the communities they serve as well as with investors, donors and other stakeholders. “All you have to do is turn on the news and know that all of this is very important. It is part of corporate responsibility. It’s one thing to talk about corporate responsibility and another thing to do it,” said Crissy Carlisle, chief investor relations officer for Encompass Health, in an interview with HRI. Encompass Health, a national network of inpatient rehabilitation hospitals and home health and hospice agencies, issued its first sustainability report in late 2019 showcasing its ESG efforts.<sup>3</sup> As more investors ask about ESG, Carlisle said, companies should be prepared to respond to those requests in a timely and organized fashion.

**Figure 1: ESG steps taken by insurers and providers**

HRI’s review of the ESG reporting (e.g., corporate social responsibility reports, company websites) of 45 insurers and providers offers insight into steps they are taking to advance their ESG programs:



Source: PwC’s Health Research Institute’s review of 45 payer and provider ESG reporting (e.g., Corporate Social Responsibility reports, company websites, community health needs assessments, press releases)

Government bodies, regulators, investors and American consumers have increased expectations for responsible business practices.<sup>4</sup> The Biden administration is setting specific goals for a net-zero emissions economy by 2050, signaling pressure for organizations to measure, disclose and improve on ESG strategies reflecting their societal impact.<sup>5</sup> Institutional and ESG investors are asking more questions about companies' ESG profiles with external groups assigning weighting to different pillars by sector.<sup>6</sup> Some overseas regulators have already incorporated elements of ESG into mandatory reporting, while the chairman of the US Securities and

Exchange Commission recently told Congress that the SEC is looking to propose rules around ESG disclosures for public companies.<sup>7</sup>

Among US consumers, 62% surveyed by HRI in late 2020 said they would view an organization more positively if it was taking action to address social determinants of health, which make up many social pillar initiatives.<sup>8</sup> And younger people were more swayed by these actions, with 70% of respondents 18 to 34 years saying they would have a positive impression, compared to 54% for those 65 and older.

**Figure 2: Not-for-profit and for-profit have similar focus for ESG**

HRI analyzed the ESG reporting (e.g., Corporate Social Responsibility Reports, Community Health Needs Assessments, company websites) of 26 not-for-profit and 19 for-profit payers and providers. The word clouds represent the prevalence of each type of ESG initiative mentioned in the organizations' ESG storytelling.

**ESG focus for not-for-profit providers and payers**



**ESG focus for for-profit providers and payers**



Source: PwC's Health Research Institute's analysis of company websites, CSR/Annual Reports

More than half of health leaders responding to PwC’s March 2021 US Pulse survey said they expected to increase diversity and inclusion training (58%) and reporting (52%) in the next 12 months.<sup>9</sup> Forty percent said their organizations likely would increase the diversity of their board members. The executives were less committed to changes around environmental reporting; 8% of respondents said they planned to disclose a strategy for a transition to a net-zero business model. Across all industries surveyed by PwC, 19% of executives said the same.

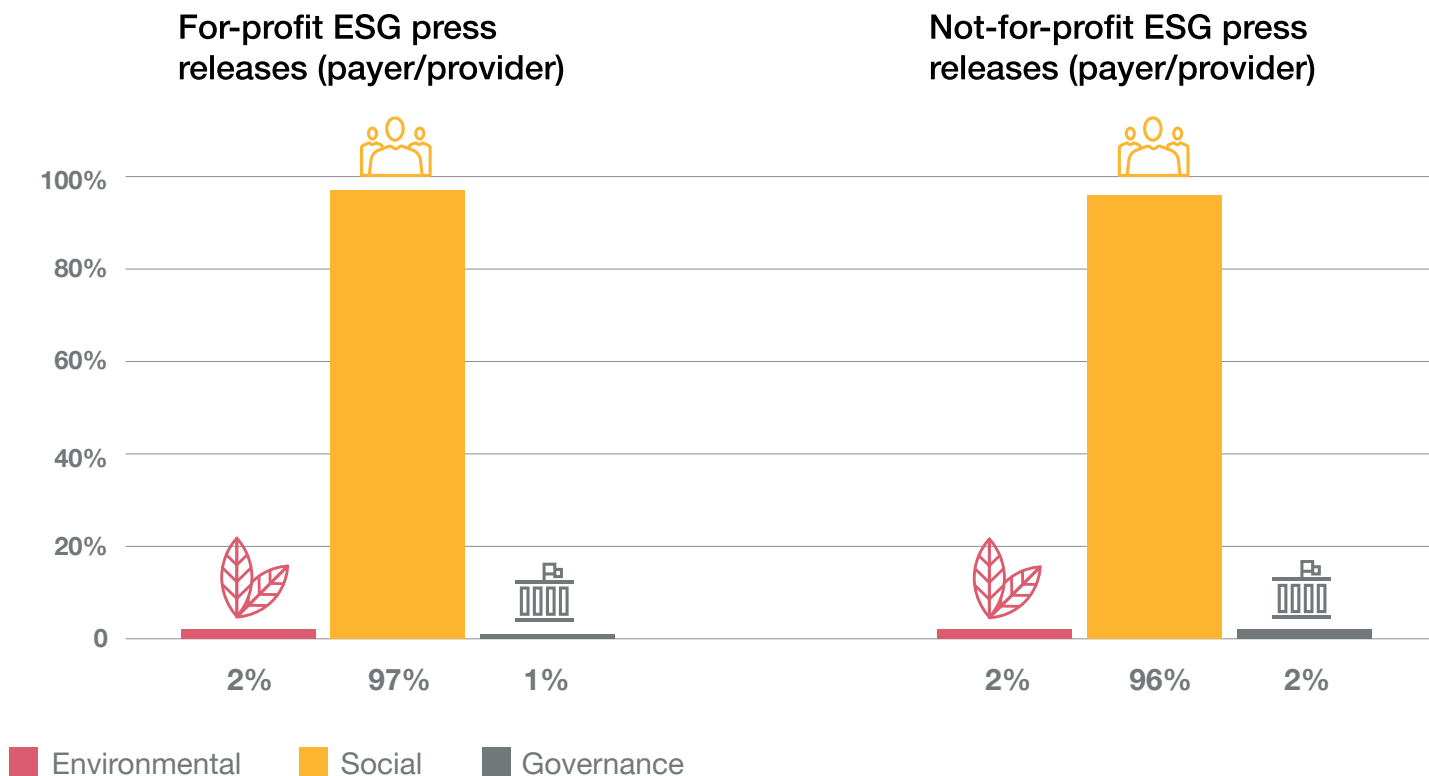
The public reporting and press releases of providers and insurers give a sense of the ESG story they seek to share publicly. HRI analyzed the press releases of 26 nonprofit healthcare organizations and 19 for-profit ones, and found 212 mentions of social pillar goals, compared with five in environmental and three in governance (see Figure 3).

HRI’s analysis of healthcare organizations’ public communications also shows opportunities to quantify their ESG efforts. The majority of ESG press releases for each organization touted qualitative efforts, such as commitments to social justice issues or diversity. A smaller number of companies had press releases tied to data-driven reporting metrics that investors and the public increasingly seek. These metrics include improved outcomes such as increases in “healthy days,” affordable homes and maternal health metrics. These also could include data showing reduced emissions of greenhouse gases due to ESG efforts undertaken by the organization.

So what steps are healthcare organizations taking when it comes to ESG? HRI found numerous examples of initiatives being taken — some represent first steps organizations may take, while others provide examples of organizations leading the way.

**Figure 3: Healthcare companies focus their PR storytelling on the social pillar**

HRI analyzed the press releases of 19 for-profit and 26 not-for-profit payer/providers and found the overwhelming majority of publicity focuses on their ESG social efforts.



Source: PwC’s Health Research Institute’s analysis of 45 payer/provider/academic medical center websites’ press releases.

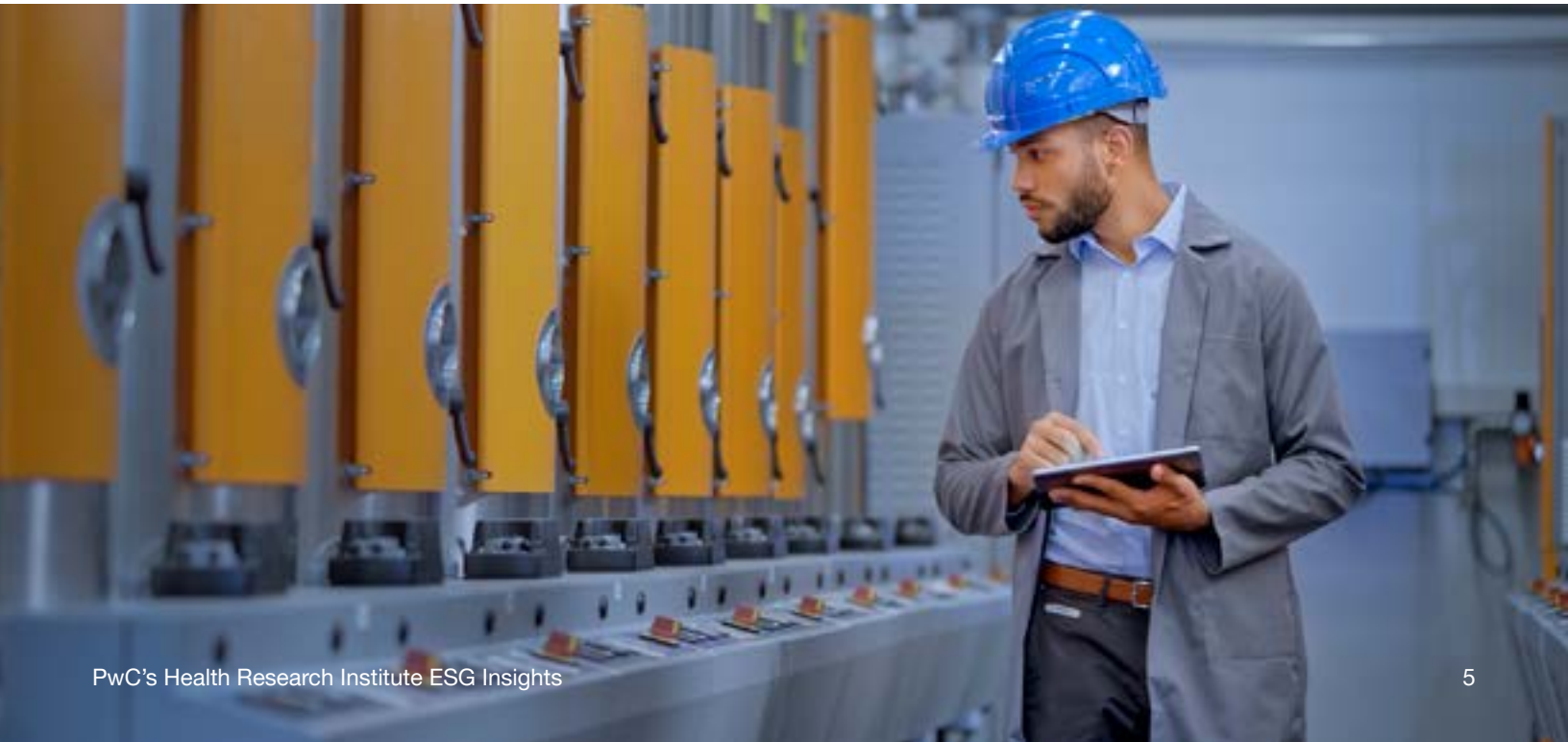
## Environmental: Small steps can deliver value

While LEED and green building initiatives have been pursued by payers, hospitals and academic medical centers for some time, some organizations have woven environmental changes throughout their operations, from using compostable cafeteria packaging to rethinking how to lower the environmental impact of supplies used in the delivery of care. Other examples include:

- Providence Portland Medical Center reported switching to sevoflurane from desflurane as an anesthetic agent and estimated that the change reduced greenhouse gas emissions by 1,100 metric tons of carbon dioxide equivalent, which is about equal to driving 1.2 million miles in a large sport utility vehicle.<sup>10</sup> The Ohio State University Wexner Medical Center set a similar goal to reduce use of desflurane across the health system, achieving nearly \$185,000 in cost savings in the process.<sup>11</sup>
- Cardinal Health's Sustainable Technologies business provides single-use medical device collections, reprocessing and recycling services.<sup>12</sup> It cleans, tests and disinfects used devices for resale to hospitals, including electrocardiogram wires, pressure infuser bags and pulse oximeter sensors.<sup>13</sup> In FY 2019, Cardinal reported the program extended the life of 16 million devices and diverted more than 324,000 pounds of single-use devices from landfills.<sup>14</sup>
- Community Health Systems, a for-profit provider, diverted 5.9 million containers of sharps from landfills through a medical recycling program.<sup>15</sup>

- Healthcare organizations also may unlock value by reducing their carbon footprint, as NYC Health + Hospitals reported having done in April 2021, earning more than \$1.4 million from Con Edison for having cut its electricity use during extreme temperature summer days. The company will reinvest the savings in decarbonization and sustainability projects.<sup>16</sup>
- OptumRx has introduced medication packaging in its pharmacy care services that is fully sustainable, replacing foam and polystyrene with 100% renewable cotton that is biodegradable, compostable, reusable and recyclable. In 2019, the new packaging was used to deliver more than five million prescriptions, which the company figured produced an annual savings of three million pounds of carbon dioxide, 27 million gallons of water and four million kilowatt-hours of energy.<sup>17</sup>

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## Social: Taking action

With many healthcare organizations serving as a community anchor for employment and initiatives to improve health, some have focused on calculating the results of their programs to more directly tie their efforts to societal impact. HRI's analysis found that many healthcare organizations have internal initiatives underway related to improving board diversity and transparency, enhancing diversity and inclusion programs for their workforce, upskilling staff and bolstering workplace safety initiatives. But some have taken further steps to make change in the social pillar. In some cases, health organizations are actively involved in legislative change to help them better deliver on ESG efforts. Data collection and collaborations with third parties may be key to continue earning trust as organizations build out their social initiatives. Examples of social pillar initiatives include:

- UnitedHealth Group set up a collaboration involving an OptumRx home delivery facility and the state of Kansas, helping pass legislation to allow unused medications that might have otherwise gone to waste at adult care homes or mail service pharmacies to be donated to federally qualified health centers, clinics serving indigenous people and community mental health centers in the state. The bottom line: more than \$30 million in prescription medicine donated since 2008 that otherwise would have gone to waste.<sup>18</sup> Ascension Health created the Dispensary of Hope, through which drug manufacturers and distributors donate pharmaceutical samples that are then distributed to uninsured patients in underserved communities.<sup>19</sup>
- UPMC's supplier diversity initiative recruits diverse businesses for procurement opportunities, increasing its investment in diversity spending from \$101 million in FY 2014 to \$246 million in FY 2020.<sup>20</sup>
- CVS Health invested \$8.7 million in a new affordable housing community in Orlando that will combine housing assistance with additional support services to address the needs of the homeless community.<sup>21</sup>
- With a suspected 8,500 opioid overdoses in Arizona in one year, Blue Cross Blue Shield of Arizona Inc. (BCBSAZ) invested \$10 million over three years in the Mobilize AZ program, which aims to reduce the misuse of opioids and other substances.<sup>22</sup> Through the program, BCBSAZ calculated that it served 28,152 individuals in 2019, helped 618 providers become certified for medication assisted treatment for opioid use disorder, and created 18,500 additional treatment spots.<sup>23</sup>
- With ransomware attacks totaling \$20.8 billion in downtime for the healthcare industry in 2020, some organizations are investing heavily in improved data security and privacy efforts and communicating those initiatives to their customer base to improve trust in their handling of sensitive health data.<sup>24</sup>

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## Governance and reporting: Tone at the top

To report their ESG efforts, healthcare organizations used a variety of methods, such as corporate sustainability reports and their community health needs assessments. But the governance pillar showed the most room for growth as not many organizations reported activity in this area, which covers board structure and pay equity as well as policies to help prevent possible fraud and ethics breaches. Exposure to fraud or ethics violations could lead to costly fines, lawsuits or reputational damage for healthcare organizations, so having solid governance strategies in place can help preserve the brand and mitigate risk.

As with the other pillars, having the right data is important to the success of healthcare organizations' ESG efforts, and that

may require cleaning up data sources, investing in new or replacement systems, integrating data from various sources, working with third parties, upskilling the workforce and securing the privacy of consumer data.

With some elements of ESG reporting still new, organizations may be trying to figure out some of the basics, as multiple frameworks are available to report on economic, environmental and social impacts, including the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD).<sup>25</sup> Of the 45 healthcare organizations HRI analyzed, five were using one of the standard reporting frameworks. GRI was the most used among the companies, which were mostly large, for-profit insurers.



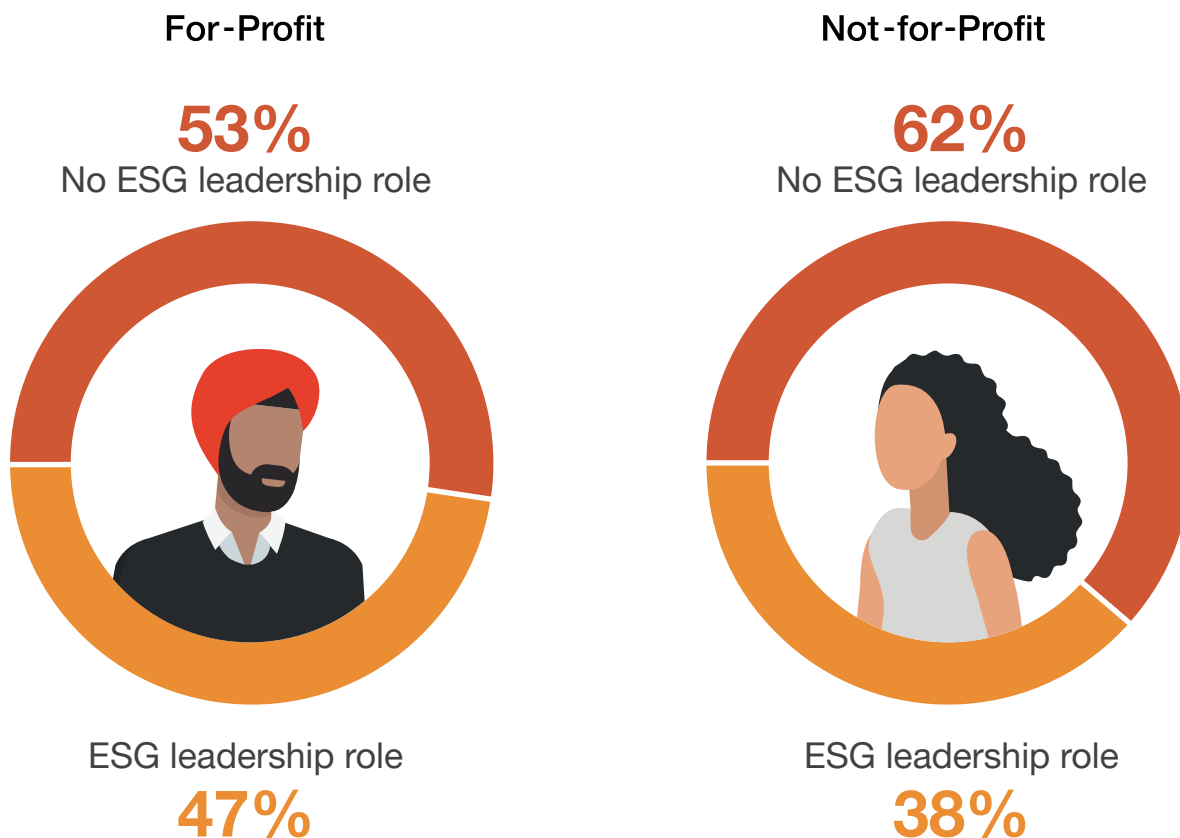
In comparison to other health sectors, most of the pharmaceutical and life sciences companies HRI analyzed did use one of the major frameworks, with 27 of 32 companies reporting ESG efforts this way.

When it comes to the ESG focus of leadership, a majority of healthcare organizations analyzed by HRI did not have officers who were specifically charged with ESG initiatives, such as a chief diversity officer, chief responsibility officer or chief sustainability officer (see Figure 4). While many companies are continuing to add these positions, the influence of each ESG leader may vary depending on where they sit within the organization. Some companies have also committed to ESG at a board level.

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#### Figure 4: Healthcare takes steps to embed ESG in leadership

HRI analyzed the organizational structure of 45 healthcare organizations in the not-for-profit and for-profit sectors to determine the percentage with chief diversity officers, chief responsibility officers, chief sustainability officers or equivalents.



Source: PwC's Health Research Institute analysis of company websites, leadership team



## IMPLICATIONS

### Embed ESG in your strategy and purpose

Many healthcare organizations have the opportunity to move beyond platitudes to build meaningful ESG efforts throughout their business — from their supply chains to environmental footprints, from recruiting efforts to executive leadership composition. As any ESG strategy should, these steps mostly align with the organizations' overall mission to improve community health. Broader public awareness about sustainability and corporate responsibility means organizations can differentiate themselves by acting early to build ESG strategies that can enhance reputations with customers, employees, investors and analysts. ESG is a critical driver to capture opportunity and keep ahead of vulnerability.

### Measure for transparency and accountability

Some health organizations may be able to take giant leaps in their ESG reporting by better measuring and quantifying what they are already doing in these arenas, to be sure they are sharing the value they are already creating for society. It may require new processes to capture data, or working with third parties, but healthcare leaders can use proven tactics and smarter technologies to identify, measure and hold their business accountable to ESG principles. Some have already started expanding data collection efforts to better report on societal racial inequities in outcomes and the steps they are taking to address them. Healthcare organizations can take a proactive approach to telling their story — to employees, customers, shareholders, suppliers and other stakeholders — using these trusted metrics and disclosures.

### Create a practical plan for action

Creating value and impact through ESG means viewing it as more than an obligatory requirement and developing a tangible and practical plan that you can act on. It requires people and technology working together so organizations can see more, go deeper and act faster to make ESG-driven changes to their operations, value chain and organization. Providers and payers can consider how to operate the business more efficiently throughout, from electricity use to travel, and take first steps in new areas, to more effectively advance their ESG goals in each pillar.



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