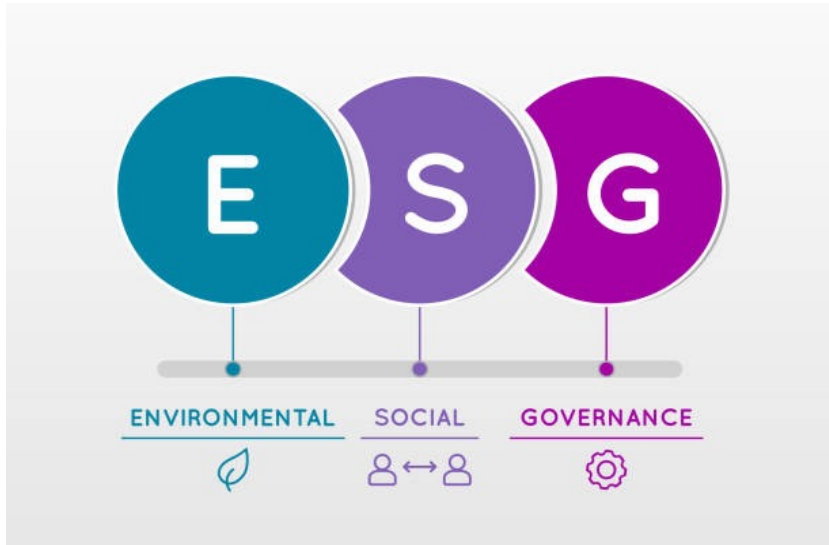


ESG in the Healthcare Industry



Steven J. Thompson
Senior Global Consultant

What is ESG?



Environmental, Social and Governance, is a framework commonly used by many organizations to showcase to shareholders, governments, donors and customers their commitment to sustainability and social responsibility. It is a way to manage the external opportunities and risks that arise outside of the market, while incorporating ethics into the running of a company.

What is ESG? – High level categories

Environmental

- Greenhouse gas emissions
- Water consumption
- Recycling
- Materials including plastic use

Social

- Safety
- Community impact and integration
- Diversity and inclusion
- Investment policies

Governance

- Supply chain management
- Board diversity
- Policies
- Long-term strategy



What is ESG?: E- Environmental next level

- Description of environmental / climate change policy
- Description of greenhouse gas emissions
- Energy consumption: non-renewable versus renewable energy
- Water consumption
- Waste generated including hazardous waste, waste to landfill metrics and recycling
- Describe exposure to toxic or hazardous substances
- Describe any policies for the sustainable sourcing of materials
- Describe exposure to single use plastics and any plastics recycling initiatives
- Disclosure of any environmental certifications

What is ESG?: S-Social next level

Employees

- Policies to protect employees from hazardous waste
- Disclosure on occupational health and safety metrics
- Information about employee turnover, well-being and satisfaction
- Disclosure on diversity and inclusion statistics and targets
- Gender pay gap information
- Details about employee training programmes
- Describe policies and processes in place to monitor labor standards across the supply chain

What is ESG?: S-Social next level

Customers, Patients and Community

- Details on how customer / patient satisfaction is monitored
- Disclosure of performance on key customer metrics (e.g., complaints, Net Promoter Score (NPS))
- Details on how safety is monitored
- Details on how relationships with local communities are managed

Privacy & Data Security

- Policy and process for safeguarding data security and customer privacy
- Policy and process for dealing with cyber threats

What is ESG?: G-Governance next level

- Describe how you manage compliance with applicable regulations,
- Describe current board composition and criteria when constructing the board
- Describe any targets and timeline for increasing diversity of the board
- Disclosure on all board committees (e.g., Audit, Remuneration, Investment)
- Disclosure of the metrics to which management remuneration is linked
- Describe anti-corruption and anti-bribery policies and procedures,
- Disclosure of the size of the financial control function
- Disclose information on your auditor
- Disclosure of credit facility and any ESG linked financing

ESG in Healthcare : Understanding the Origin



- ESG traces its origins back to the 1800s, when churches were encouraging their members not to invest in “sin” stocks such as tobacco, alcohol and weapons.
- Over time, ESG has influenced civil rights movements, wars and the dismantling of apartheid.
- Term and acronym were first used in the early 2000’s where it was used to describe a lens through which an organization would exercise its fiduciary duty.
- Today, many organizations, mostly publicly-traded and for-profit, attach the ESG label to their efforts around waste reduction, energy conservation, diversity and inclusion, and charitable giving, among many others.

ESG in Healthcare : Understanding the Origin



ESG has been further defined by international agreements

PARIS AGREEMENT - adopted in 2015, an international treaty on climate change that covers mitigation, adaptation, and finance.

SUSTAINABLE DEVELOPMENT GOALS (UNSDGs) - created in 2015 by the United Nations. A collection of 17 interlinked global goals to be achieved by 2030. They were designed to serve as a roadmap toward a sustainable future.

UN GLOBAL COMPACT - the world's largest corporate sustainability initiative (launched in 2000), is a non-binding pact that encourages businesses to adopt sustainable and socially responsible policies and report on their implementation. The Compact states 10 principles in the areas of human rights, labor, the environment, and anti-corruption.

ESG – Why is it Important to the Healthcare Industry?



- Stakeholder, investor demand
- Organizational Responsibility
- Governments and Regulators
- Healthcare workforce Demand

ESG – Beginning the Journey



Step 1: Establish baseline performance.

- Before planning can begin, organizations must take stock of their existing ESG activities. This includes understanding environmental, social, and corporate governance (ESG) pressures. By engaging stakeholders and executing data analysis — including benchmarking peer activities — the team can better understand where the organization stands and where opportunities for improvement exist.

Step 2: Use the data to develop your organization's strategy and approach.

- With good data in hand, organizations can prioritize key ESG initiatives and develop a road map for future endeavors.

ESG – Beginning the Journey



Step 3: Undertake execution planning.

- This step involves identifying the specific initiatives and action plans for achieving the organization's unique goals. Key considerations typically include the types of technology and efficiency solutions needed, as well as steps toward securing organizational buy-in and necessary funding.

Step 4: Develop a plan for implementation.

- After the steps above have been completed, it's time to launch the initiative. Developing a targeted communications campaign can keep the momentum going and help stakeholders stay engaged as the organization begins to deliver on its sustainability activities.

Step 5: Establish a robust reporting mechanism.

ESG: Important Program Attributes



- **Establish formalized governance**
 - Board and Audit Committee. This will help provide oversight, direction, and a culture of rigorous assessment.
 - Clear oversight and governance of ESG policies will be critical.
- **Evaluate the organization's supply chain for resilience and ESG**
 - Ensure you are deploying socially responsible supplier partnerships and can accurately assess risks that could impact your ESG outcomes.
 - The pandemic has taught us that our lives and businesses are interconnected, and an organization's approach to ESG should align.

ESG: Important Program Attributes



- **Understand your stakeholders to define which sustainability measures will be reported.**
 - identify industry-specific standards for your organization
 - understand key topics and disclosure information.
 - identify which measures are likely to be most critical to your organization.
- **Drive accountability through reporting.**
 - ESG is most sustainable within any organization when it is integrated into the core of the business.
 - ESG engagement spans an organization, it is not siloed.
 - Transparency and disclosure of ESG initiatives and metrics are critical in establishing a baseline against which progress, and impact can be measured.

Operationalizing ESG in health care organizations



- Identify where ESG fits among and around existing efforts, organizations often realize they have ESG activities without the ESG label (i.e .programs for providing free care, community health needs assessment and offer community outreach programs).
- Identifying areas that may require more than what they are doing currently, especially in areas like waste reduction, energy conservation and diversity of governing boards.
- Ask the question, “where does it fit?” What department(s) within the organization are best suited to own responsibility for ESG programs?

Operationalizing ESG in health care organizations



- ESG is meant to be a broad-based, organization-wide commitment, rooted in the organization's mission.
- Board leadership and support is imperative, but implementation and coordination of various parts of the ESG commitment can be challenging.
- ESG programs are best operated by a coordinated team of representatives from various parts of the organization, including human resources, supply chain, facilities, finance, communications, community outreach and DEI.

5 Things Healthcare Leaders Need to Know About ESG



- BORROWING WILL COST MORE WITHOUT EVIDENCE OF ESG ACTION.
- EFFECTIVE COMMUNITY HEALTH EQUITY STRATEGIES REQUIRE A STRONG CLIMATE RISK MITIGATION STRATEGY.
- DECARBONIZATION IS ON THE REGULATORY RADAR.
- ESG STRATEGIES ALSO MUST INCORPORATE SUPPLY CHAIN AND WORKFORCE RESILIENCY AND SHOULD BE PART OF A RISK MANAGEMENT ASSESSMENT AND STRATEGY.
- PROVEN BEST PRACTICES AND CLIMATE RISK MITIGATION STRATEGIES FOR HEALTHCARE ALREADY EXIST.

ESG Organizational Messaging

- Serving People – Serving our members, physician partners, employees, communities and the public interest
- Serving the Environment – Recognizing and improving our environmental footprint
- Serving Responsibly – Conducting business compliantly while managing risk and ensuring independent and diverse oversight



-Alignment Healthcare 2021 ESG Report

ESG: Organizational Approach

- Baptist Health South Florida has focused on sustainability. Their green initiatives include:
- Green building practices
- Recycling more than 20 tons of waste per month
- Paperless purchases
- Sustainability educational and training events
- Community outreach to market the importance of sustainability activities



**Baptist Health
South Florida**



Tenet Health

ESG Highlights

Improving our impact on the environment

Recruited **sustainability expert**, established key **focus areas**, initiated environmental **materiality assessment**

Implemented **hospital energy management** program through LED lighting conversions

~327K reusable containers helped avoid the production of **~1.6M lbs** of greenhouse gases

~365K lbs of pharmaceutical waste was kept out of landfills

Making quality healthcare accessible in our communities

Enhanced access to high-acuity, specialty care

Strict protocols to help ensure **uninterrupted care** during COVID-19

160

lower-cost outpatient sites added to platform since Dec. 2020

Operating our company effectively

Corporate governance policies informed by shareholder voice

55% Board diversity based on gender and/or ethnicity

73% of directors appointed since Oct. 2017

Formed **ESG Committee** of the Tenet Board

Fostering a purpose-driven, diverse and inclusive culture

Formed **Diversity Council**, launched inclusivity training, focused on hiring and recruiting

91K employees participating in inclusive culture training

57% of new hires were ethnically diverse

Workforce Demographics:



Recipient of **UNCF's MASKED Award**, one of the organization's highest honors

~454K

COVID-19 vaccine doses administered since Dec. 2020

~\$7B

in uncompensated care delivered to our communities in 2021

100s

of non-profits supported across the country



1.1M servings of cereal collected as part of annual Healthy Over Hungry® Cereal Drive

ESG in the Healthcare Industry – External environment

- **Increased asks from stakeholders** including regulators and investors/ bond holders to prioritize and disclose ESG criteria, focusing on the social metrics.
- **Social factors are prevalent considerations** in the 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.
- **Organizations increasing ESG reporting** through a variety of reporting strategies, including integrated reports.
- **Pressure to develop and execute a meaningful ESG strategy** to both mitigate financial risks and meet stakeholders' aspirations.

ESG in Healthcare: What's next?



- Mandated reporting on the horizon
- The pressure to adopt ESG, at least by non-profit organizations, is currently light and purely voluntary. However, that might change. Some legislation in the U.S. has been introduced to require ESG reporting for publicly-traded companies.
- Scrutiny from some lawmakers are calling into question the justification for tax exempt status for health care organizations. Form 990 reporting requirements already exist for charity care and community health needs assessments, among other things. Required ESG-like reporting may not be far away for non-profits.
- ESG is a positive force in the healthcare business climate and aligns well with what health care organizations already do.
- Organizations simply need to assess how to capture that alignment in their own way and within their own communities.

ESG: What's Next?

- Healthcare organizations – both payors and providers – need to make sure that more is being done to create 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

THANK YOU

