

# ESG Check-Up: A New Era for Healthcare?

*Brunswick ESG*

*Brunswick Healthcare & Life Sciences*

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How companies articulate their ESG agenda matters more than ever. For the healthcare sector, which is experiencing a period of rapid change in its ESG fortunes, the issue is increasingly important.

The stakes are high, with more than [\\$2.7 trillion](#) of assets managed in ESG funds around the world at the end of last year, according to financial services company Morningstar.

The challenge for the healthcare industry is to broaden its ESG communications strategy in the wake of the COVID-19 pandemic – a traumatic event that has both focused attention on the importance of healthcare in society and raised the profile of sustainability as a business imperative.

As with other sectors, the ESG narrative of pharma companies in their capital markets days, sustainability reports or at AGMs is coming under growing scrutiny.

One thing is clear: ESG performance is rising up the agenda for investors, analysts, healthcare systems, employees, patients and the media. At the same, there is widespread financial market consensus about the positive impact of good sustainability metrics on the cost of capital, share price performance and the management of risk.

Furthermore, the issue is of growing direct relevance to healthcare. In addition to institutional investors and other stakeholders paying ever closer attention to a company's ESG credentials, there are also more ESG funds launching with a specific focus on healthcare. The substantial amount of ESG-focused capital available to be invested may be particularly beneficial for early-stage biotechs.

Increasingly, healthcare companies will need to focus on how they can tell a more holistic story of their ESG efforts – beyond the question of access, which receives a lot of attention compared with its actual weighting in ESG rating systems.

Healthcare companies have traditionally focused heavily on access, reflecting their core mission to develop and deliver products that improve health and save lives, whether they are medicines, vaccines, diagnostics, devices or other care systems. They have arguably been slower to embed environmental and governance issues within their corporate strategies.

This does not mean that the historic focus on access to healthcare is declining in importance. The high-profile role of healthcare companies in global health equity – whether through pricing, patents or supply arrangements – will always give the 'S' in ESG an outsize relevance to makers of drugs, vaccines and medical equipment.

Indeed, this has come into sharp focus as the COVID-19 pandemic has exposed chronic inequalities in healthcare – both between countries and within them – while the speedy response of industry in developing vaccines and therapeutic interventions has highlighted the value that companies can bring to society.

However, there is more to ESG than access and it is important that attention to the access question does not crowd out other issues. Factors relevant to healthcare are numerous and companies have a wide range of opportunities to communicate the different ways they are mitigating risk and improving sustainability within their businesses.

While the way in which different agencies assess ESG ratings varies, the following are some of the core areas to highlight:

## Environmental

- **Reducing CO2 emissions** and setting clear goals for reaching carbon neutrality are vital for a sector with a large manufacturing base.
- **Adopting smart manufacturing** can improve efficiency and reduce energy consumption.

- **Cutting water wastage** is important for this water-intensive industry and can mitigate the risk of toxic run-offs containing traces of active pharmaceutical ingredients, including antibiotics.
- **Moving to electric vehicle fleets** and decarbonizing business travel are important within a diversified global industry.

## Social

- **Product safety** is critical for both pharmaceuticals and medical devices, with the risk of damaging recalls a significant drag on ratings for the industry.
- **Improving clinical trial diversity** is a fast-evolving issue for research-based healthcare companies, with significant reputational implications for those that fail to get the balance right.
- **Diversity and inclusion in staff hiring and training** is of growing importance, particularly in the context of tight labour markets and increased attention on recruitment and retention.
- **Addressing gaps in access** among underserved communities in both developed and developing countries will remain a politically charged issue in a post-pandemic world.

## Governance

- **Ensuring ethical behaviour** in the highly regulated world of healthcare products is vital.
- **Setting a framework for ESG metrics** requires clarity at the board level, given the variety of standards and agencies offering rating services.

The net result is that this is a particularly dynamic – and fruitful – time in which to assess the ESG performance of healthcare businesses.

The winners from a more sustainable model of healthcare will be both investors and patients.

### To continue the conversation:

Contact Brunswick's Global ESG Practice at [ESG@brunswickgroup.com](mailto:ESG@brunswickgroup.com) or the Healthcare & Life Sciences team at [UKhealthcare@brunswickgroup.com](mailto:UKhealthcare@brunswickgroup.com).

*Brunswick works on ESG critical issues with many of the world's leading companies and key stakeholders. Our unique offering leverages deep knowledge and specialist expertise within the healthcare sector to provide customized support for businesses in communicating their plans and performance. This includes helping clients in building their ESG narrative to support AGMs and Capital Market Days; support with the production of Annual Reports and ESG reports; and advice on ESG controversies and negative media. We also provide proactive shareholder advice to address concerns from institutional investors on ESG topics.*

*Covering all regions, our ESG experts are based in major offices across the globe.*