

Environmental, Social and Governance

Sustainability as a Strategy

How Embracing Sustainability Can Improve The Bottom Line,
Employee Retention, and Customer Satisfaction



What is your role?

A. Hospital/System: C-suite

B. Hospital/System: Board

C. Hospital/System: Other Staff

D. Other Role



What is your familiarity with “ESG”?

A. Huh?

B. Heard of it, but don't know much yet

C. Some familiarity (through articles, webinars, etc.), but no direct experience

D. Some direct experience (i.e., board/management discussions or early-stage visioning)

E. Extensive experience (i.e., it's an articulated strategy of our organization)



Terminology

- **Sustainability** – measuring an **organization's impact on the world**
 - Historically associated with *environmental* impact, but its meaning has broadened
- **Corporate & Social Responsibility** – an organization's **framework of sustainability plans** and responsible cultural influence
 - Primary focus is often on external stakeholders
- **Diversity, Equity, and Inclusion** – like CSR, but more **focused on human capital**
 - Primary focus is often on internal stakeholders
- **ESG** –broader than the others; includes measures of **how the world impacts the organization**
 - Includes **external factors** such as local/regional social structures and demographics
 - Measures the **outcome** of sustainability, CSR, and DEI plans
 - **The language used by investors, rating agencies, and other capital market participants**

Bottom line: There's plenty of overlap and terminology is converging. Use what works for you. Consider speaking the language of ESG with lenders, investors, and credit analysts



These issues have galvanized public opinion and changed societal expectations about how companies should be playing their part in addressing these issues

E

- Climate change
- Carbon emissions
- Waste
- Pollution

S

- Social justice
- COVID-19
- Human rights
- Health disparities

G

- Cyber risk
- Executive pay
- Board structure & diversity
- Supply chain
- Staffing challenges



Sustainability Matters to Consumers & Employees

- “More than a third of global consumers are willing to pay more for sustainable products” ¹
- “Consumers...increasingly want to purchase products they view as sustainable across the entire value chain, including matters of equity and equality” ²
- 7 in 10 US job seekers care at least somewhat about a potential employer’s environmental record ³

The global flow of digital platforms has raised awareness of ecological and social crises around the world, including Me Too, Covid-19, Black Lives Matter, and climate change.



92%

of S&P 500 Index companies published
Sustainability / Responsibility
reports in 2020 ⁴

Corporate sustainability reporting is now a best practice for the leading U.S. public companies... *as they recognize the value of being recognized for their commitment to ESG*



ESG Reporting Generates Benefits

% of Companies Saying ESG Reporting Has Generated Benefits⁵



Does Your Organization Publish an ESG or Sustainability Report?

A. Yes

B. No

C. Stay tuned; it's in the works

D. Don't know



Sustainability Matters to the Capital Markets

- More than 4,000 asset managers signed the Principles of Responsible Investing (PRI); pledge to **include ESG in investing decisions**
- All major rating agencies routinely score hospitals/healthcare systems on ESG factors and cite ESG as **one of the most common reasons for rating changes**
- Securities regulators are increasing focus on disclosure and **materiality of ESG factors**

“As institutional investors we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, *we believe that ESG issues can affect the performance of investment portfolios.*

We also recognize that applying these principles may better align investors with broader objectives of society”*

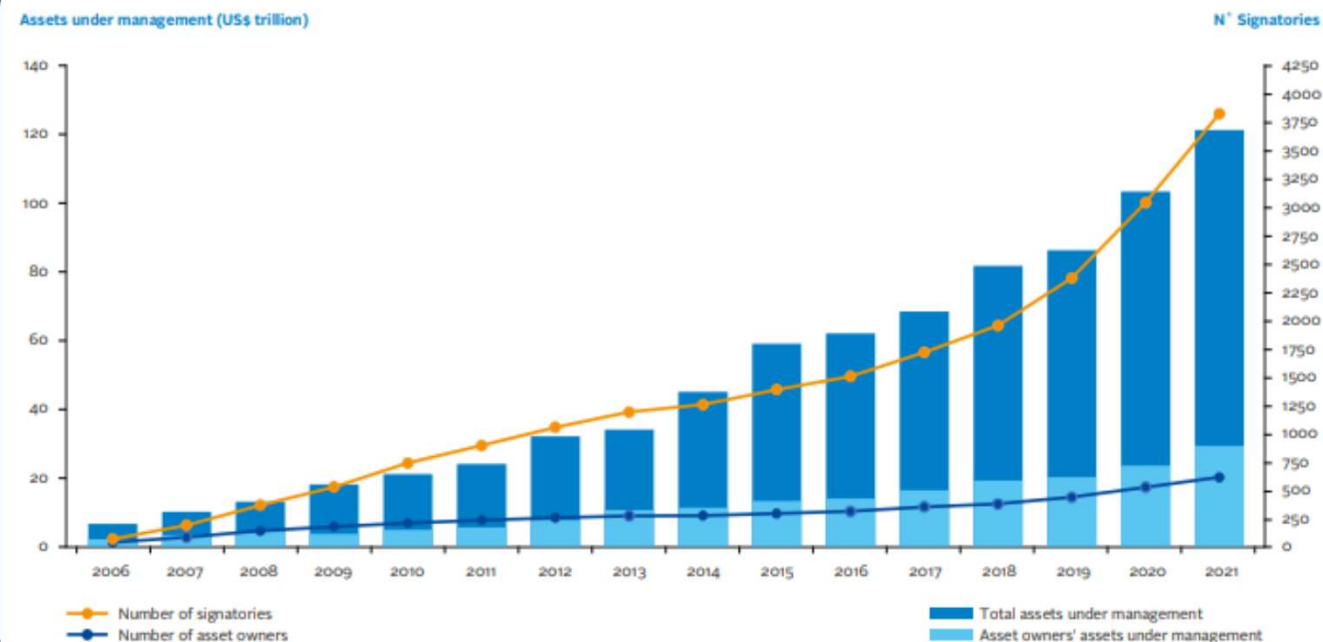
* [The Principles of Responsible Investment](#)



PRI Signatories Manage More Than \$120 Trillion

SAMPLE SIGNATORIES

The Vanguard Group
Fidelity Investments
BlackRock
Goldman Sachs Asset Mgmt.
Federated Hermes
JP Morgan Asset Management
State Street Global Advisors
PIMCO
T. Rowe Price
Prudential
Bank of America



Data is as of April 2021. The Principles of Responsible Investing reached over 4,000 signatories by the end of 2021

2022 NRC HEALTH SYMPOSIUM



Sustainability in the Municipal Securities Market

- S&P projects more than \$60 billion **sustainable bond issuance** in 2022⁶
- There are at least a dozen **municipal bond mutual funds and ETFs focused on various sustainability strategies** (green, social impact, etc.)⁷
 - Brown Advisory, Neuberger Berman, JP Morgan, Franklin Templeton, Hartford, Invesco, VanEck
- Example: **VanEck HIP Sustainable Muni ETF**. Bonds must meet four criteria⁸:
 - Improve community's resilience to climate change threats
 - Proximity to Opportunity Zones; lower income and racially diverse population
 - Align with United Nation's Sustainable Development Goals
 - Score high on ESG measures

* Bonds labeled as providing a sustainable purpose by the issuer or an independent verifier. Includes green, social impact, and other sustainability and ESG labels



Sustainability Matters to Rating Agencies

- S&P, Fitch and Moody's are signatories to the Principles of Responsible Investing (PRI)
- All 3 have embedded ESG factors in credit rating methodologies
- S&P cited ESG factors as ***the most common cause of rating changes***⁹
 - *34% of all US Public Finance rating changes*
 - ***Governance is most common reason at 67%, followed by social (28%) and environmental (5%)***
- All 3 rating agencies produce ***ESG scores*** in addition to credit ratings

“We include the impact of ESG credit factors such as climate risks, waste and other pollution costs, or health and safety costs, if we deem these material to our analysis of creditworthiness and if we have sufficient visibility as to how those factors will evolve or manifest”¹⁰



ESG And Rating Agencies – Example (S&P)

What We're Watching - U.S. Not-For-Profit Acute Health Care



Expense pressures

Inflation and labor-related expenses are likely to present the largest headwind over the next year.



Volume and revenue trends

As COVID-19 continues to circulate, related governmental support wanes, and staffing shortages persist, volumes and revenue could remain uneven.



Maintenance of balance sheet strength

Balance sheet strength will be critical for sustaining credit stability at a time of increased operating pressures and catchup on deferred capital spending.



Federal actions

Legislative and policy initiatives could support or deter the ability of hospitals to meet targets and goals.



COVID-19's impact on trends

Data and technology could improve care delivery and efficiencies, and evolving payment and operating models are likely to accelerate as affordability remains at forefront.



ESG risks

Climate change, cybersecurity, and social capital will continue to present challenges to credits in 2022.



Widening credit quality gap

Credit quality gap between stronger and weaker rated providers likely to continue to grow.



ESG and Rating Agencies – Example (Fitch)

All nonprofit hospitals and healthcare systems are scored 1-5 on each of the following:

Environmental	Social	Governance
Greenhouse gas emissions from operations	Low-income patient access	Strategy (development & implementation)
Energy use in operations	Data privacy	Board independence & effectiveness
Water use in operations	Pricing transparency	Organizational complexity
Management of medical waste	Worker safety and accident prevention	Disclosure – quality and timing
Climate change – business disruption risk	Quality and patient safety	Ownership concentration
Climate change – changing health needs	Pressure to control healthcare cost growth; political/legislative environment	Transparency - Related-party transactions

Source: FitchRatings, sample healthcare system ESG scorecard



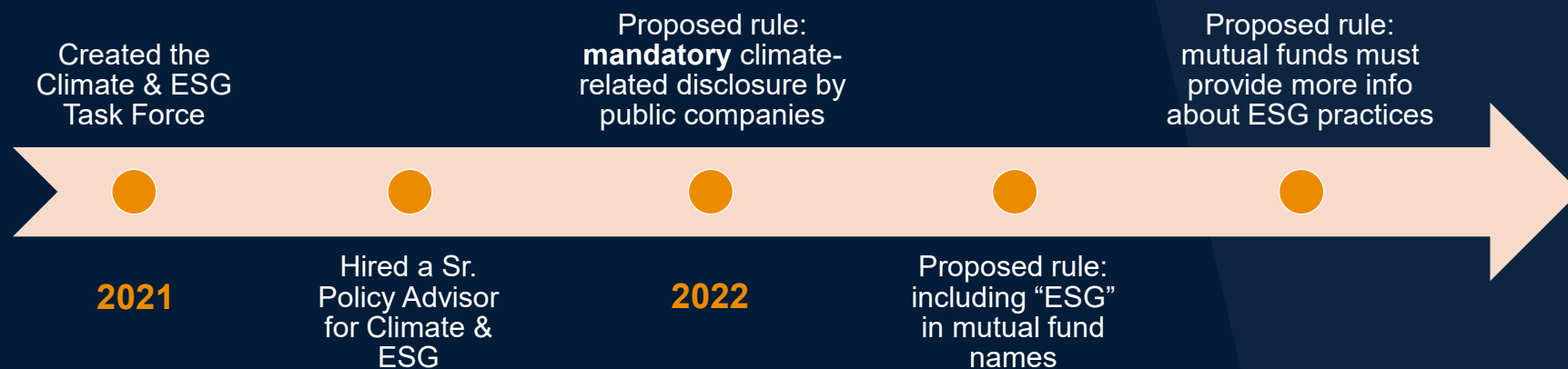
Which ESG factors present the greatest risk to your organization?

- A. **E**nvironmental (Climate change, energy use, medical waste)
- B. **S**ocial (DEI, workforce safety, pay equity, employee retention)
- C. **S**ocial (SDoH, health equity, local economic base)
- D. **G**overnance (Quality and patient safety)
- E. **G**overnance (Cyber security, board composition, pensions)



Sustainability Matters to Regulators

SEC* Ramping Up Scrutiny of Climate & ESG in Securities Market



Bottom line: These actions don't apply directly to non-profits, but the SEC is signaling the growing materiality of ESG and climate risks. Materiality DOES apply to non-profits

* Securities and Exchange Commission; the primary regulator for public company stocks and bonds



Sustainability Matters in Healthcare

40 health systems commit to addressing **health disparities caused by racism**¹¹

Lown Institute **socially responsible hospital ranking** measures include pay equity, racial inclusivity, others¹²

HHS documented at least 125 **cyber attacks against healthcare organizations** since April 2022¹³

Advocate Aurora, Oregon Health Sciences University, SSM Health produce **ESG disclosure reports**¹⁴

CommonSpirit Health produces annual **Sustainability Report**¹⁵

“We believe there is an unbreakable connection between the health of our planet and the health of our people”
Lloyd Dean, CEO



Sustainability Matters in Healthcare - Climate Edition

Climate change is *the greatest threat to global public health*, according to medical researchers¹⁶

The healthcare industry accounts for 8-10% of U.S. **total greenhouse gas emissions**¹⁷

After massive flooding in 2020 Norwood Hospital, MA is **being demolished**¹⁸

Ascension Health, Common Spirit, Kaiser Permanente among 61 healthcare companies joining Biden Administration **pledge to reduce greenhouse gasses 50% by 2030**¹⁹

University of Wisconsin Hospitals & Clinics issued \$315 million of **green bonds** in 2021²⁰



Now for the Good News...

You already have a sustainability strategy...

...Connect the dots for your stakeholders!

Nonprofits are uniquely positioned for strong sustainability/ESG performance because they:

- ✓ Focus on organizational sustainability over maximizing enterprise value
- ✓ Have a multi-stakeholder approach
- ✓ Culture of resource stewardship
- ✓ Reinvest profits into the business
- ✓ Mission to improve community health status
- ✓ Provide uncompensated care
- ✓ Provide free and low-cost services



Connecting the Dots Example – Kaiser Permanente

Economic Opportunity

“Inclusive economic growth is critical to both individual and community health. **When there is a lack of economic opportunity in communities**, the prospects for upward social mobility are diminished, **often resulting in poorer health and higher mortality rates** for people living in those communities”

“As a large, influential institution in our communities, Kaiser Permanente recognizes that **the way we do business can support economic opportunity in local communities by being intentional** about how we hire, purchase, build our facilities, and partner with communities.” *

Environmental Stewardship

“We know one way to **improve the health of the more than 68 million people** who live in the communities we serve is by **improving their environmental conditions.**”*

“We believe it is **our obligation to minimize our environmental impact**. We work to be environmentally responsible throughout our organization — in how we power our facilities, purchase food and medical supplies and equipment, manage waste, and invest in our communities.”

* Kaiser Permanente website, [Economic Opportunity](#) and [Environmental Stewardship](#)



Sustainability connects initiatives that were previously considered distinct

Connecting them under a sustainability or ESG umbrella makes your story more powerful and helps you see connections that are hidden when initiatives are siloed.



Your first ESG/
sustainability
strategy:
Keep it simple.
Build on what
you already do



How Do You Feel About Sustainability as a Strategy Now?

A. Totally get it. It's the right thing to do AND good business

B. Maybe, but I'm not sold yet. Need more convincing

C. Interested, but it still seems complicated

D. I don't think it's right for us

E. Don't know / Other



ESG & Sustainability Reporting Examples

For Profit

- ❑ [AmerisourceBergen ESG report](#)
- ❑ [CVS Health ESG report](#)
- ❑ [CIGNA Corporate Responsibility Report](#)
- ❑ [J&J's list of ESG policies and positions](#)
- ❑ [Merck ESG report](#)
- ❑ [Novartis ESG portal](#)
- ❑ [Philips ESG portal](#)
- ❑ [UnitedHealth Group sustainability portal](#)
- ❑ [Walgreen ESG report](#)

Non-Profit

- ❑ [Kaiser Permanente environmental stewardship](#)
- ❑ [SSM Health ESG Report \(Pages 99-102\)](#),
- ❑ [Advocate Aurora ESG Report \(Pages 46-50\)](#),
- ❑ [Oregon Health Sciences University ESG Report \(Pages 105-107\)](#)
- ❑ [CommonSpirit, 2021 Sustainability Report](#)



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Liz Sweeney

President, Nutshell Associates, LLC

Board Member, University of Maryland Medical System (UMMS)

liz@nutshellassociates.com

201-424-0640

