ESG in healthcare
The new burning platform
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If non-profit health systems are only as strong as the communities they serve, then it would seem logical that ESG would be central to their core mission. “Environmental Social & Governance” (ESG) has become a buzzword across all industries, as 96 percent of the top 250 global companies – from Kroger to Bank of America to Pfizer – are reporting on sustainability.¹ For health systems, ESG initiatives will be critical and will play a major role in driving economic vibrancy, delivering value through effective engagement with all stakeholders, and achieving long-term sustainability.

For example:

1. Ensuring that all constituencies, particularly underserved communities, fare equally well in the face of health crises like the COVID-19 pandemic and broader population health issues.

2. Evolving toward a “smart-hospital” model that uses renewable-energy resources, minimizes the environmental footprint of its operations, and streamlines its supply chain management.

3. Keeping diversity and inclusion top of mind in hiring, promotion, and retention practices.

ESG in healthcare is a burning platform that includes telling your ESG story and making it synonymous with your brand. Failing to do so could result in someone else – the media, disgruntled former employees, the public – telling your story for you.
Why now?

**Brand integrity**
First, it is no secret that, despite the heroic efforts of healthcare organizations during the pandemic, public perceptions continue to reflect not-so-subtle criticism. For example, a recent Harris Poll concludes that, although 70 percent of Americans trust their physicians, only 22 percent trust hospital executives. The perception that money is more important than mission flies in the face of the fact that many health systems are genuinely committed to the highest possible health outcomes and patient experiences. The problem is many organizations aren’t sufficiently vocal about their efforts to serve their communities.

**Investor scrutiny**
Second, there is increasing interest in environmentally conscious investing, with many investors demanding that companies are transparent and accountable when it comes to their ESG policies. At the end of the day, investors want to understand the impact on the environment and climate change of the companies whose stock they own or might buy. Although it is always possible to be more mindful about communication efforts, organizations are largely heeding this call: More than half of the world’s largest companies acknowledge in their reporting that climate change is a financial risk to their businesses, and 80 percent of companies worldwide now report on sustainability. For non-profit health systems, eligibility for tax-exempt bonds puts an even brighter spotlight on their commitment to ESG, particularly in the eyes of investors.

While healthcare may be a bit behind the eight ball compared to some other industries, health systems are starting to tell their ESG stories in a more purposeful manner: For example, the Cleveland Clinic devotes sections of its Quarterly Management Discussion and Analysis (MD&A) reports to ESG-related initiatives, and several other health systems, CommonSpirit and Tenet among them, are beginning to report as well.

**A more socially conscious hiring pool**
Third, a healthcare organization’s ESG posture is poised to become an increasingly critical tool in talent acquisition and retention. As more and more millennials and members of Generation Z move into the healthcare workforce – whether as doctors, nurses, or administrators – they are apt to be drawn to organizations that can demonstrate their commitment to fair pay and hiring practices, tangible diversity and inclusion efforts, and community wellness.

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Regulatory mandates

Fourth, regulatory bodies are continuing to focus on encouraging, if not mandating, that healthcare up its ESG game. The Department of Health and Human Services (HHS) has unveiled an Office of Climate Change and Health Equity in an effort to treat climate change as a health issue.7 As the Center for Medicare and Medicaid Innovation (CMMI) seeks to foster true movement toward value-based care, social and governance aspects of ESG, such as health equity, are taking on increased prominence.8

The SEC’s regulatory agenda has spurred organizations across industries to begin looking at ESG through a strategic lens and assessing their organizations for material blind spots. SEC Chairman Gary Gensler seems to favor mandatory reporting,9 and, even before that becomes a reality, he continues to stress the importance of “consistent, comparable, and decision-useful disclosures” when it comes to ESG issues. For example, action will be viewed much more favorably than mere claims when it comes to goals like reaching net-zero carbon emissions by 2030.

Since the SEC guidance won’t be issued until sometime in October 2021, some of the specifics are still unknown. However, it is likely that the focus will expand beyond climate change to include human capital and cyber-risk governance. And, while mandatory ESG reporting for not-for-profit health systems may not come to fruition with this regulation, it is inevitable that it will happen: The SEC’s guidance – as well as the other three trends we noted in this section – will make ESG reporting “table stakes” for any major U.S. organization. Finally, it is worth noting that, although the FASB and IFRS Foundations do not intend to provide standards for now, they are providing guidance on how to apply existing standards to ESG reporting.
ESG in the boardroom

Healthcare boards, particularly at the audit committee level, are increasingly focused on whether their organizations can demonstrate and report on not only their ESG outcomes, but also the degree to which they are able to minimize ESG-related risks. Arguably, the healthcare industry has its work cut out for it here. At present, U.S. healthcare ranks last in comparison to other high-income countries when it comes to social consciousness, according to a recent Commonwealth Fund report.\textsuperscript{10} Going forward, boards will be interested in the degree to which healthcare organizations are able to remove cost and social barriers to care, reduce administrative burdens that stand in the way of health-improvement efforts, and invest in social services for their less-advantaged constituencies.

Further, boards will want to know about the often forgotten “G” in ESG - the governance of ESG efforts insofar as it demonstrates the organization’s leadership, internal controls, and commitment to shareholder rights. In addition to board and management diversity and structure, organizations will be asked to report on such factors as the ethical use of clinical data, how well the organization protects patient privacy and electronic health records, quality of care and patient satisfaction, pricing and billing transparency, minimization of unnecessary testing and procedures, third-party risk management, and cybersecurity efforts that take into account an increasingly sophisticated threat landscape.

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How to get there

It is critical that healthcare organizations take a strategic approach to all aspects of ESG – from assessment to governance – and to the collection and usage of relevant data. Increasingly, this will require collaborative, cross-functional engagement of professionals and leaders who can align on and own ESG goals. The five steps healthcare organizations should consider are as follows:

1. **Assessment and level-setting**
   Leading healthcare organizations start by benchmarking where they stand in relation to similar organizations when it comes to sustainability and other efforts to “green” their operations; community outreach; socially responsible investing; risk management; human resources issues such as diversity, fair pay, and optimal working conditions; cybersecurity and privacy; and the ethics of their overall mission. In order to access accurate metrics for use in reporting, it is important to assess whether your organization’s data hygiene and reliability are up to par, bearing in mind that much of the current data exists in silos including websites, the Form 990, financial statement disclosures, and numerous other areas.

2. **Strategic goal setting**
   One of the key mistakes that organizations can make is to move directly from assessment to reporting, missing the opportunity to undertake strategic goal setting. Therefore, after the initial assessment, it is critical to develop a strategic roadmap that addresses material blind spots and sets clear, measurable goals such as becoming carbon neutral by a particular date, reducing sepsis mortality rates, decreasing energy usage by a certain percentage, and increasing the annual spend with inclusive suppliers.
Implementation
The building blocks of a fully realized ESG program include a spectrum of activities spanning all three aspects of ESG (environmental, social and governance), as well as stakeholder risk management.

- **Environmental risk management (the “E” in ESG):** The global push toward carbon neutrality, alternative energy sources, and sustainability continues apace, and health systems are not exempt. There will be increasing scrutiny into how organizations act in their roles as stewards of nature – through their energy usage, recycling practices, minimization of pollution, natural resource conservation, and management of both environmental risks and employee health and safety.

- **Third-party risk management (the “S” in ESG):** Many health systems are pursuing inorganic growth agendas that could include virtual care, cross-institutional data sharing, M&A, joint ventures, partnerships, and other forms of collaboration across the business-combination spectrum. As they forge these deals, they will want to undertake rigorous due diligence to ensure that all third parties – as well as any subcontractors they use – comply with agreed-upon standards for regulatory compliance, cybersecurity, and legal issues. Some healthcare organizations, e.g., Mayo Clinic, have launched cross-institutional models that are designed to offer true health equity – sharing information with healthcare providers, scientists, and governments around the world, including in poorer countries, to raise health outcomes for all people regardless of what country they happen to live in. While initiatives such as the Mayo Clinic Platform are prime examples of the social aspect of ESG, they of course open up additional risks that organizations must address, from new kinds of cyber-attacks, to reputational risks, to loss of proprietary data.

- **Enterprise data governance (the “G” in ESG):** In the effort to provide a more consumer-friendly healthcare environment, many health systems are turning to digital technologies and advanced data analytics to improve everything from the standard of care to patient outcomes to wayfinding and patient throughput in the hospital to physician/patient communication to the overall customer experience. While these trends are poised to transform the healthcare ecosystem, they come with their own set of risks, particularly when it comes to Protected Health Information (PHI) and Personally Identifiable Information (PII). Therefore, it is critical that health systems seeking to digitalize their operations ensure that they have robust enterprise data governance in place, including policies around not only data privacy, but also data integrity, data hygiene, and data ethics.

- **Stakeholder risk management:** Health systems have a wide variety of stakeholders: patients and their families; the broader community; consumers; the doctors, nurses, and support staff who deliver patient care; pharmaceutical firms; public and private payors; investors; rating agencies; and the government. Keeping all these constituencies informed of the health system’s ESG efforts will go a long way toward minimizing risks to the organization’s reputation, brand, and bottom line, as well as the risk of both patient and staff attrition.
Measurement and reporting

Quantitative monitoring is used to measure progress against stated goals using emerging frameworks that should eventually ensure that ESG reporting is addressed with the same relevance, reliability, and rigor as financial reporting. Currently, there are quite a few industry-agnostic reporting frameworks to choose from, including guidance from the Value Reporting Foundation (VRF) (formed through a merger between the SASB and the IIRC). There are also other frameworks such as the TCFD, used for climate disclosures in the UK, the CSRD for sustainability disclosures in the EU, and the World Economic Forum’s guidance on sustainable development. The fact that there are numerous frameworks is both good and bad news: The good news is that organizations have options. The bad news is that there is a need to coalesce around a single framework to ensure comparability and consistency in reporting. Healthcare organizations could take the initiative here to propose one consistent framework.

Finally, as healthcare leaders assess their disclosure options, they will want to consider including an ESG narrative in their quarterly management discussions and analyses, in their investor and rating-agency presentations, on their websites, and, increasingly, in stand-alone ESG reports.

Assurance and controls

To minimize the possibility of reputational risk and ensure the relevance and reliability of key metrics used in ESG reporting, healthcare organizations should evaluate internal controls that support the data they use and elevate their third-party risk management efforts, particularly as they relate to cybersecurity.

Frameworks that touch specifically on ESG in healthcare are still less common than those that cover other industries. Therefore, there is a need to ensure that internal controls over clinical reporting and other non-financial reporting in healthcare reach the same level of maturity as internal controls over financial reporting. Consider, for example, the Office of Civil Rights (OCR) standards governing issues like data privacy and patient safety as compared to the more detailed and sophisticated Internal Controls over Financial Reporting (ICOFR).
Health systems seeking to raise the bar in their ESG efforts should start by answering the following four questions:

• **Do you have a multi-faceted approach** to stakeholder risk management?

• **Do you have a coordinated approach** to third-party risk management that includes cybersecurity, regulatory compliance, legal issues, subcontractor management, and ways to address concentration/reputational risks, as well as strategic risks?

• **How will you approach enterprise data governance** including policies around data privacy, data ethics, data integrity (both relevance and reliability), and data hygiene?

• Given the above, **what is your overall strategy** for environmental social & governance (ESG), including investments, debt, and external reporting?
Conclusion

Although healthcare organizations have garnered much-deserved praise for their heroic efforts throughout the past 18 months, there is more to their ESG story. They are educators about how climate change is impacting human health and infrastructure. They are advocates for community building around health inequities. They are leaders when it comes to diverse hiring and retention practices. And so much more. In U.S. healthcare, ESG is no longer a peripheral issue, a “nice to have.” It is the burning platform – one that is synonymous with what it means to preserve and protect the public’s health.

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