



Divides and Dividends: Leadership Actions for a More Sustainable Future

Healthcare

2022

Healthcare firms face a significant opportunity to make sustainability core to their DNA—and help build a fairer world for all.

Sustainability is now *the* defining issue of our time.

Society, employees, investors, and consumers are looking to firms to curb their environmental footprint, prioritize DE&I, boost employee wellbeing, and positively impact the world around them.

The transition to sustainable business practices will demand a total rethink of strategy, operational models, and supply chains. The journey will not be easy. Hard decisions and complex trade-offs will be inevitable. Yet it can be done.

We set out the progress firms have made so far—and how leaders can accelerate their sustainability journeys, unlock commercial success, and build a greener, fairer future for all.



A global survey

We set out to understand the maturity of organization's sustainability journeys—and how ready leaders were to lead the agenda.

“ Senior ESG leaders are likely to have experience across multiple functions, most often sustainability, finance and corporate strategy. Additionally, they tend to be predominantly female and are overwhelmingly hired into the company as opposed to being promoted into the role. ”

50

C-suite executives



Progress made towards sustainability

145

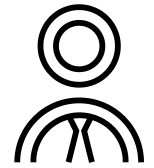
Next-generation leaders



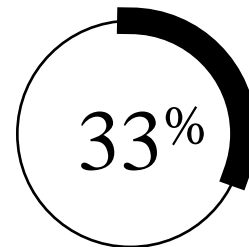
The barriers to sustainable business

528

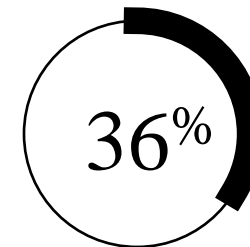
Employees



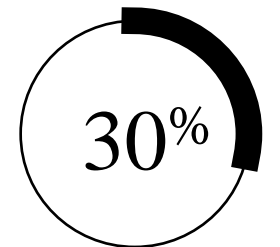
How prepared executives are to lead the agenda



Americas



EMEA



APAC

ESG has emerged as a critical topic in the healthcare industry



“At NewYork-Presbyterian, we recognize the **intrinsic relationship** between the **health of people** and the **health of our environment**. By adopting sustainable practices in the hospital and community, we aim to create a healthier environment for our patients, our teams, and for the communities we serve.”



"GE has always held a **larger purpose**. With 174,000 employees serving customers and communities in more than 170 countries, our cutting-edge technology, global network, and exceptional team are **anchored in the service of others**. Every hour of every day, our team has an opportunity to broaden access to electricity, healthcare, and transport around the world."



“As a family-owned company, we are driven by the ambition to serve humankind by improving human and animal health -- both now and in future. As part of this, we have developed a more ambitious framework: **Sustainable Development**.

Sustainable Development goes hand-in-hand with our **principles of planning in generations, innovation, taking responsibility for our communities and the environment** and serving humankind – today and tomorrow.”



“Guided by our purpose, Biogen has long been committed to leadership in various aspects of corporate responsibility. As part of our commitment, we have **tied** a portion of our employees’ and executive officers’ 2021 **compensation to advancing our ESG strategy**.

We believe our governance structures and processes, including our ESG materiality assessment, can **strengthen stakeholder relations** and **help ensure accountability**.”

01

A radical opportunity

The sustainability advantage



A radical opportunity

The transition to sustainable business practices is no longer just the right thing to do. It is also the smart thing to do.

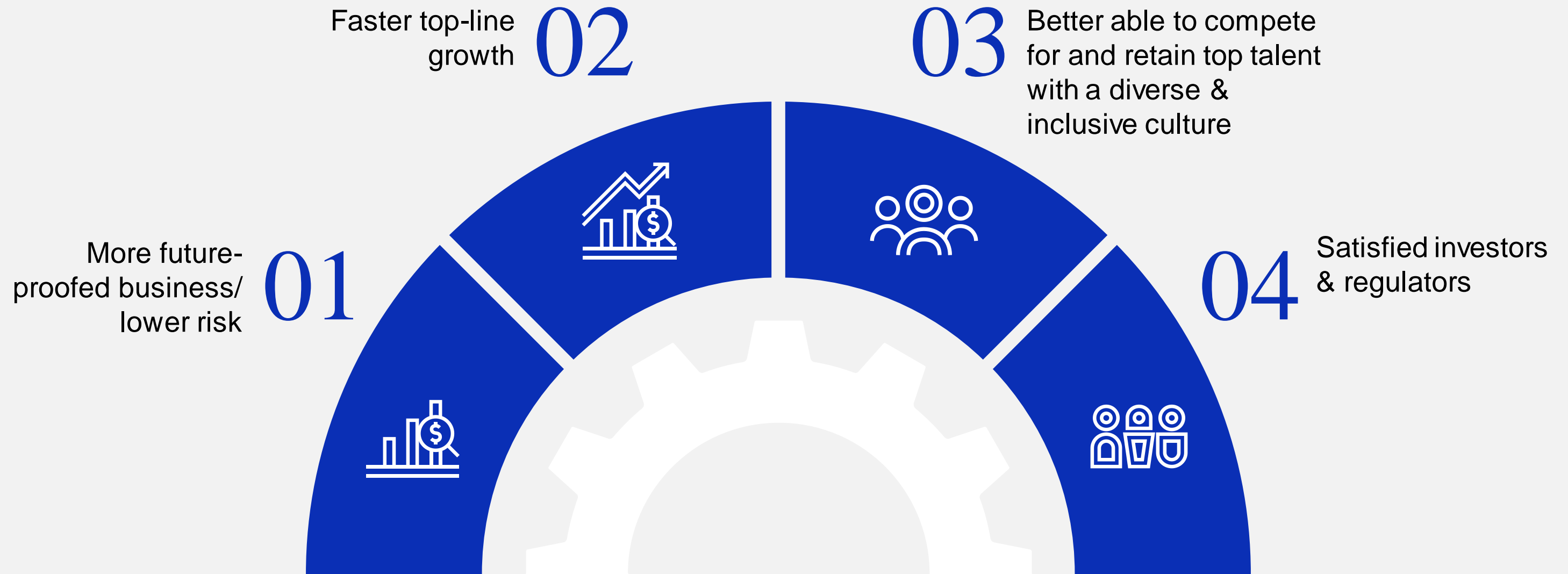
Significant commercial benefits await those who embed sustainability across business strategy—from faster innovation, to more engaged employees and customers, to faster top-line growth.

The question is whether healthcare companies are ready to unlock this radical opportunity.

Sustainability: The path to resilience and relevancy.

Healthcare companies expect myriad benefits from the transition to sustainable business practices.

How do you think your organization will benefit from future sustainability actions?



Key factors driving ESG focus in Healthcare

We believe several macro trends will drive increased growth of investment in sustainable practices

Supply chain emissions

- The supply chain represent over half of most healthcare organization's carbon emissions. Regulations are beginning to pop up in order to hold firms accountable, such as the recently approved Supply Chain Due Diligence Act in Germany
- Companies should conduct an analysis of their value chain (including suppliers, services, and materials) to identify material risk of contributions to greenhouse gas emissions

Pricing

- Pricing is increasingly becoming a broader ESG topic, cutting across corporate governance, the investment community, and global access to medical products
- Companies need to balance the need for innovation with the needs of policymakers
- The supply chain is a great place to start: Statutory health insurance funds in Germany are also introducing ethical considerations into pharmaceutical supply contracts. Those with higher environmental standards had a better opportunity to win the contracts, while in the past, the main criteria was price.

Health equity

- Diversity in clinical trials is critical. People from racial and ethnic minority and other diverse groups are underrepresented in clinical research. This is a concern because people of different ages, races, and ethnicities may react differently to certain medical products.



Employees are standing up

- Employees are demanding compassionate, inclusive, and equitable career experiences; as the war for talent continues, companies must invest in sustainability initiatives and strategies in order to attract and retain the top talent.
- Companies should address diversity in leadership and income equality, including a gender pay gap

Technologies are advancing

- With the exponential growth of technologies such as blockchain and artificial intelligence, and increasing adoption of these technologies by capital markets, the industry is in a better position than ever before to scale up sustainable investments.

Regulators are stepping in

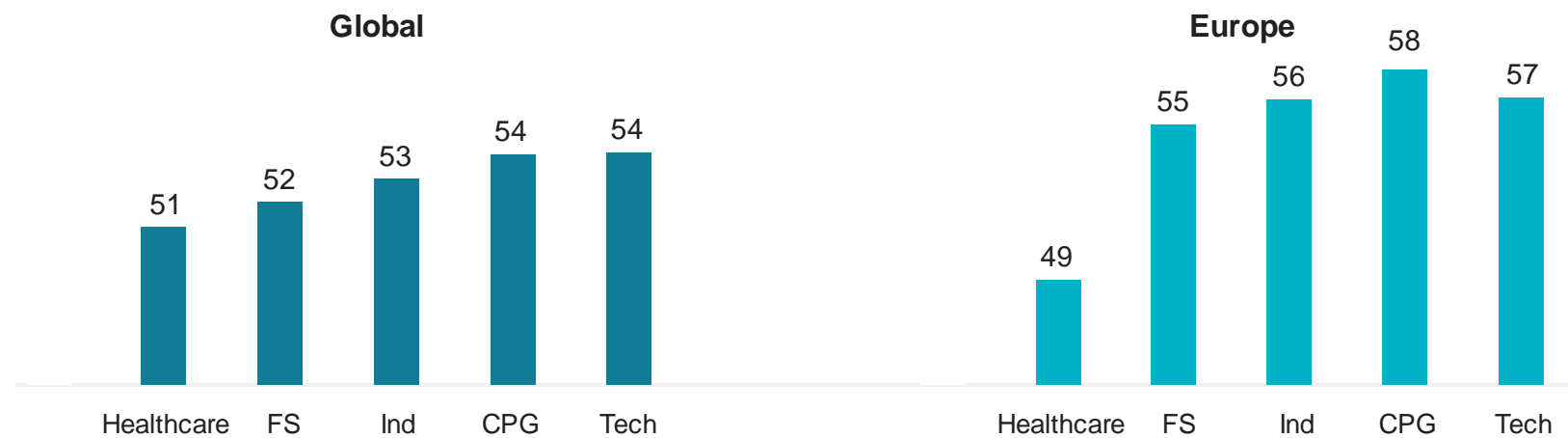
- For years there was a lack of clear reporting standards, but the ESG reporting landscape is now rapidly moving toward global harmony,
- In June 2021, the G7 Finance Ministers and Central Bank Governors clearly committed to addressing ESG challenges and moving quickly toward deeper, multilateral economic cooperation.

Generating a more sustainable future



Across sectors, stakeholders are demanding greater levels of corporate transparency – particularly regarding sustainability and the business’ impact on the environment.

ESG Performance Ratings by Sector, Global vs. European Overall Average Score



FS=Financial Services; Ind=General Industrial; CPG = Consumer Products; Tech = Technology

Source: CSRHub analysis of 1,829 global ESG rankings, March 2021

As a downstream industry that directly contributes to the Scope-3 emissions for the bulk of the global supply chain, it is not surprising that **healthcare carries some of the lowest overall ESG ratings.**

European Healthcare companies score even lower than American companies, and it is still clear there is much to learn from other industries leading in sustainability metrics.

CSRHub provides a consensus view of the societal impact of over 18,000 corporate entities based on the aggregation of over 700 sources of ESG data and published rankings.

What next?

- Decentralized and siloed organization systems must change, but more than that the willingness of the company culture to **embrace new technologies and diverse approaches** will be key to sustainable success.
- Meaningful progress requires sustainability to be embedded throughout the leadership culture and **integrated into the objectives, incentives, and remuneration of management.**

Source: Russell Reynolds Associates

02

The story so far

Understanding the *real* state of progress today



Healthcare firms are at the early stages of their sustainability journeys

Sustainability is easy to talk about. But much harder to deliver.

Despite a host of net-zero commitments and statements on DE&I, our research shows that healthcare firms are yet to make significant progress towards sustainable business practices.

Our research shows that many healthcare firms just see sustainability as a brand-management exercise. Yet sustainability is so much more than a reputational risk to manage.

Only when leaders see sustainability as a lever for value creation will they have the courage to unleash the total business transformation that sustainability demands.

Sustainability is not yet infused across strategy or operations

Only

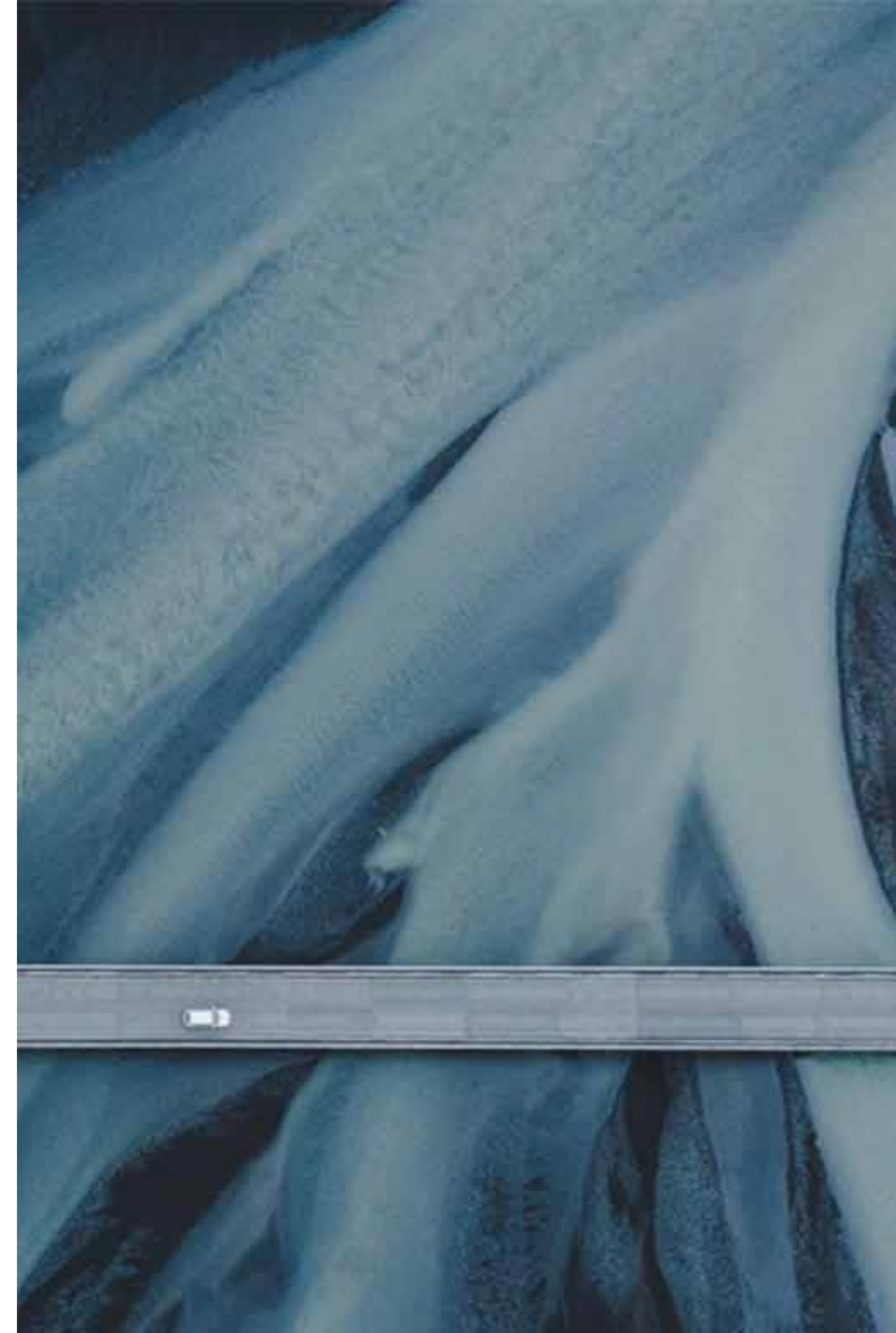
44%

of healthcare C-suite leaders say their organization has a **sustainability strategy** that's been acted on and clearly communicated.

Only

38%

of healthcare C-suite leaders expect to make **significant/great deal of progress** embedding sustainability across strategy and operations in next 5 years.



Many healthcare firms look at sustainability through a brand lens.

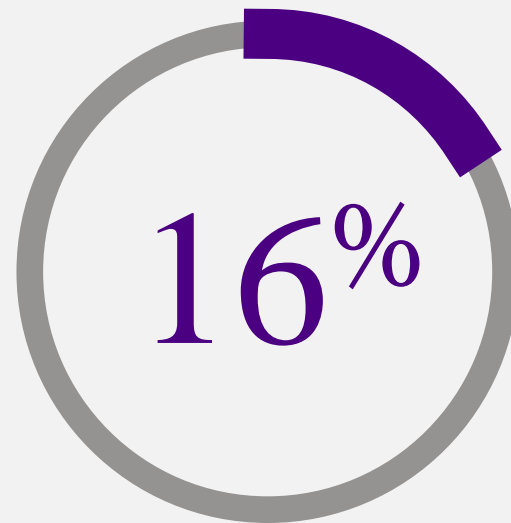
Healthcare firms are at the early stages of their understanding of the value sustainable business practices can bring their organization—and the world around them.

What is motivating your sustainability actions?

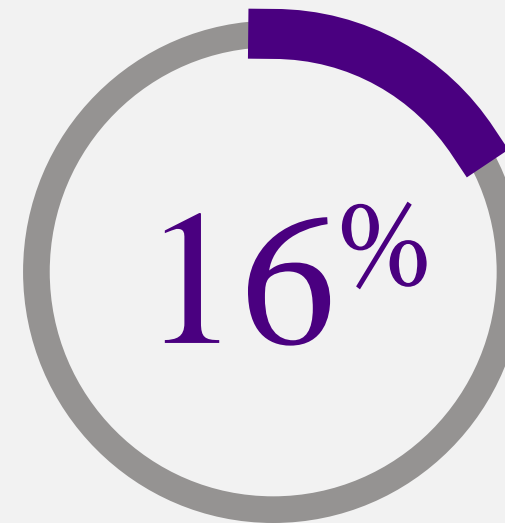
Brand management



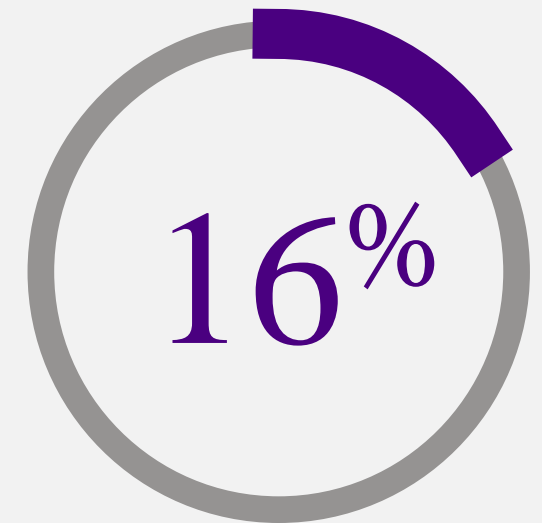
Value creation



Impact reduction



Risk avoidance



Top challenges

The path to sustainable business practices will not be easy. Healthcare firms are running into many challenges on their journeys.

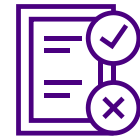
What are the greatest barriers leaders face in making sustainability happen?



Slow changing company culture



48%



Short-term pressures from investors



28%



Outdated perceptions that no longer fit the organization



40%



Lack of organizational investment



30%



Lack of drive from senior leadership



46%

03

The role of leadership

Go much further, much faster

Leadership + Culture = Action

Sustainability action starts at the top.

Without great leadership, healthcare companies will struggle to make progress towards sustainable business models and operations.

Unfortunately, our research shows many of the leaders at the helm of healthcare companies today lack the critical skills they need to galvanize action.

Yet there are encouraging signs that next-generation leaders coming through the ranks can help change organization's sustainability trajectories.

We set out how organizations can engage leaders today and tomorrow to foster a culture of sustainable leadership—and go much further, much faster.



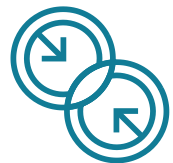
Route to the top: recently appointed senior ESG leaders

RRA analyzed the backgrounds of 43 senior ESG leaders appointed in the last 18 months to gain further insight into the typical profile. Our data reveals that these leaders are predominantly **female**, overwhelmingly **hired into the company** versus being promoted into the role, and bring **cross-functional** expertise to the position.



58%

of the newly appointed leaders are **female**, which contrasts with traditional male domination in other senior roles



70%

were **appointed externally**, reflecting the shift away from internal promotions into this role

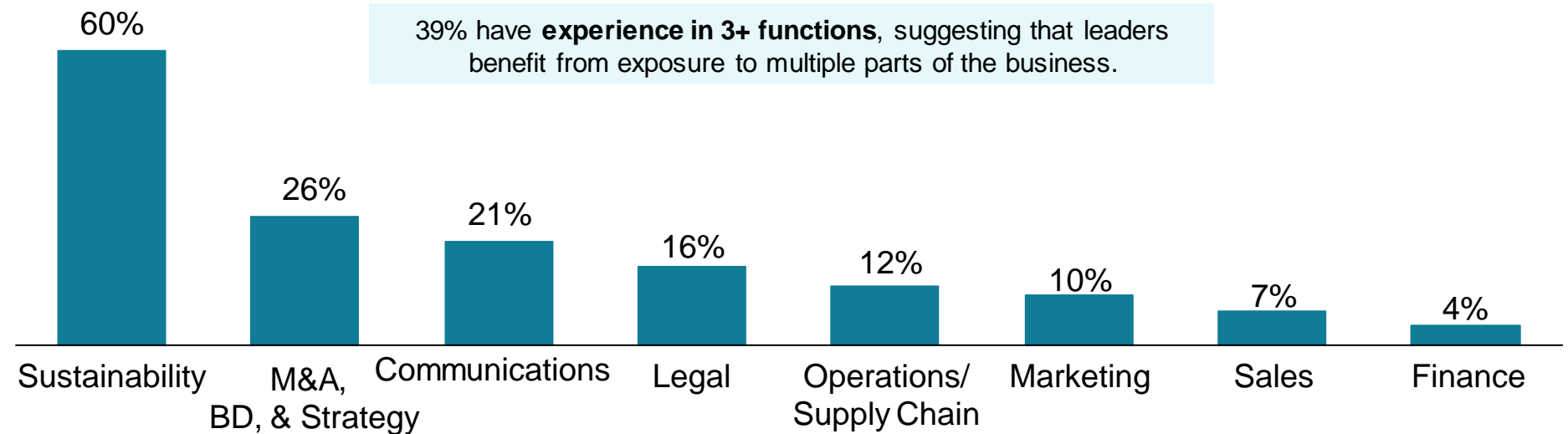


3yrs

is the average tenure of these leaders, with the majority joining in **2021**

Senior ESG leaders are likely to have experience across multiple functions, most often sustainability, corporate strategy, and communications.

% with prior experience in function



Source: RRA Analysis; includes recent appointees at 40+ healthcare companies

Leadership issues

Our research shows many executives lack the skills that are needed to embed sustainability across their organizations.

Attributes that C-suite respondents think their senior-most leaders display





Next-Generation Leaders at the Vanguard

36%

**of next-generation leaders have taken on
3+ job responsibilities in the past 2 years.**

Top actions:

- Changing internal processes
- Identifying new ways to make products/workplace more sustainable
- Creating or redesigning products/services to reduce their environmental impact

04

How we can help

Leadership actions

Sustainability must become a key part of what it means to be a successful leader—today and tomorrow.

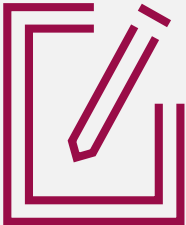
Key actions include ensuring sustainability features in your selection, rewards, development, and succession practices.



Selection



Rewards



Development



Succession

Skills to prioritize

RRA's Sustainable Leadership Model

The Sustainable Mindset

Purpose-driven belief that business is not a commercial activity divorced from the wider societal and environmental context in which it operates.



Skills to prioritize

RRA's Sustainable Leadership Model



The stakes for healthcare leadership have changed

Traditional static leadership models are not fluid enough to cope with the demands of the evolving healthcare landscape. They lack relevance in today's context and fail to provide a go-forward blueprint for leaders on sustainability.

Our dynamic model identifies forward looking leaders who demonstrate the capabilities needed to deliver sustainable value creation and succeed in the new normal.

- LEADERSHIP SPAN**
Range and span across competing competencies; agility and adaptability in the face of transformation.
- INCLUSIVE LEADERSHIP**
Lead distributed teams, span boundaries, drive collaboration, and maximize the diversity of their workforce
- INNOVATIVE LEADERSHIP**
Productively disrupt legacy paradigms, continuously evolve ways of operating, integrate technology as an enabler
- SUSTAINABLE LEADERSHIP**
Balance immediate needs with long term perspectives, navigate competing interests and societal impact

When combined, together these have a multiplier effect in delivering long-term value creation in a responsible finance focused manner.

These can deliver the organization a range of competitive advantages

AGILE OPERATING

- ✓ Stop the perpetuation of the status quo, develop and implement innovative strategies
- ✓ Reduce complexity, bureaucracy and inertia, increasing the pace of change

ABILITY TO DELIVER

- ✓ Ensure outputs are not over-engineered, functions are agile
- ✓ Develop new consumer-focused products and services while getting them out to market faster

POSITIVE CULTURE

- ✓ Improve the employee value proposition and attractiveness of your organization to top talent
- ✓ Re-shapes the culture, creating an environment of inclusivity, transparency and accountability

STAYING POWER

- ✓ Continue to enhance sustainable development, and mitigate ESG risks
- ✓ Connect with patients, clinicians and key stakeholders in a more authentic manner, enhancing reputation

How RRA can help



Board advisory

“My company’s board needs to understand stakeholder perspectives and embed a sustainability lens in their decision-making”



- Analyze stakeholder priorities and identify opportunities to strengthen board oversight of ESG risks and opportunities
- Assess strengths and weaknesses of board composition against sustainability strategy
- Assess board culture, structure, and director onboarding/education vis-à-vis sustainability strategy



Leadership advisory

“My company’s leadership needs to embed a sustainability lens into their team and organizational culture”



- Build a Top Team culture that equips it to engage with the complexities of sustainability
- Assess and develop sustainable leadership capability in executive teams
- Embed sustainable leadership into succession planning
- Use Culture Analytics to understand how culture can hinder or enable the sustainability journey



C-suite and board search and selection

“My company needs to embed a sustainability lens across our C-suite and board”



- Identify and assess CEOs, board and C-suite leaders for a sustainable mindset and leadership capability



Sustainability/ESG leader search and selection

“My company needs help identifying executives to lead our sustainability and/or ESG strategy, business units, or investments”



- Identify and assess Chief Sustainability Officers and Heads of ESG
- Identify and assess Sustainable Finance leaders
- Identify and assess leaders for sustainability-oriented business units