

03 Oct 2023 | Analysis

Why Investing In ESG Measures Is Good For Medtech's Health And Sustainability

by [Marion Webb](#)

For medtechs, implementing an ESG strategy will need to become a priority as global rules are being introduced for companies to report ESG data. A panel discussion with medtech ESG leaders at the recent LSX Congress USA conference in Boston outlined some strategies and sustainability goals.

According to a [survey](#) by the New York-based consulting group Bain & Co. of procurement decision makers, environmental, social and governance (ESG) factors such as reducing greenhouse emissions and waste, digital privacy and employee safety are becoming key purchasing criteria for health care providers. The survey, published in February, showed that 75% of US respondents and 82% of German respondents expect the importance of ESG in purchasing criteria to increase in the next five years.

“Several social and governance factors – such as corruption and transparency, data security, employee safety, and labor standards – are already table stakes,” said Scott Daubin, a partner at Bain & Company, in an article highlighting why sustainability and ESG factors are important considerations for medtech companies. (Also see "[News We're Watching: Impella Recall Linked To Deaths, FDA OKs New Sterilization Rules, Boston Sci Plans Expansion](#)" - Medtech Insight, 28 Jul, 2023.)

Already more than half of medical equipment buyers formally consider performance in these areas when assessing a third-party supplier, the survey found. But topics such as digital privacy and security, material use and waste are poised to rapidly move up the priority list in the next two years. (Also see "[The E In ESG: Sustainability Goals Do Not Exempt Companies From Antitrust Compliance](#)" - Medtech Insight, 19 Apr, 2023.)

Regulators Worldwide Finalize Rules On Sustainability

Meanwhile, regulators around the world are establishing rules to require companies to publish standardized ESG information.

In Europe, regulations are already in place. Among them is the German Supply Chain Due Diligence Act (SCDDA), enacted in January 2023, which requires that German companies investigate their supply chain and identify environmental and human rights risks. Noncompliance penalties are steep.

In the US, [the Securities and Exchange Commission](#) last March proposed new disclosure requirements for public companies around climate-related risks and relevant risk management processes. California recently passed legislation requiring large companies to file sustainability disclosures by 2026. California Gov. Gavin Newsom said he will sign the bill.

How To Think About ESG

At the recent LSX Congress USA conference in Boston, Daubin moderated a panel discussion with ESG leaders that zeroed in on key ESG considerations for medtechs and steps companies are taking to become more sustainable. (Also see "[The E in ESG: Data Reporting To Meet Healthcare's Sustainability Challenge](#)" - In Vivo, 19 Jul, 2023.)

Daubin kicked off the conversation by asking each of the three panelists to define the term ESG and how their companies think about sustainability.

[Becton Dickinson AB](#)'s director of sustainability, Sarah Hill, told the audience she has seen the ESG space evolve over the last two decades and believes it will expand more rapidly in the coming years. ESG isn't "rocket science," she said. It can be applied to existing strategies.

"We've been around for over 125 years, so I think we've figured out this sustainability thing," Hill said. "We've figured out how to sustain and it's really just about understanding your risks, managing and mitigating those, growing revenues, and growing your margins."

Key Takeaways

- Medical device makers that rely on global manufacturing and supply chain networks will be heavily impacted by evolving regulations worldwide to implement ESG factors.
- Medtechs that meaningfully address ESG factors are expected to reap benefits, such as enterprise growth and competitive advantage.

(Also see "[HLTH 2022 Roundup: CEOs Of BD And Google Cloud On Innovation, Interoperability, AI](#)" - Medtech Insight, 25 Nov, 2022.)

Becton Dickinson has lofty [ESG goals](#) in place, including to reduce greenhouse gas emissions (GHG) emissions by 46% by 2030 and achieve carbon neutrality across operations by 2040. By 2030, BD also aims to cut energy by 25%, water use by 40%, waste by 50%, as well as to reduce air emissions and completely eliminate use of [R-22](#), a hydrochlorofluorocarbon refrigerant often used in air-conditioning equipment.

- According to an EY report, reprocessing single-use medical devices can cut hospital costs by as much as 50% and can cut ozone depletion by almost 90%. The reprocessed medical devices market in the US is projected to grow at a compound annual growth rate of 15.7% until 2028, with market revenue expected to triple during that same period.

Panelist Alisha Jerauld, senior internal auditor at Merit Medical Systems, which makes disposable medical devices used in interventional, diagnostic and therapeutic procedures, echoed Hill's view that ESG affects all areas of business. Jerauld said she encourages employees to think about "topics" that fall under ESG and affect all departments, even if they go by different names.

"For example, we use the term social responsibility within our supply chain management, because we want to measure and make sure social responsibility is happening with our suppliers," Jerauld said. "In HR and recruiting [we use] the terms DEI (diversity, equity and inclusion); when it comes to environmental, we probably use the term environmental sustainability."

"For medtech companies, key focus areas for sustainability transformation include single-use plastics and devices, product packing and recycling, manufacturing infrastructure and processes, and supply chain network design." – Jim Welch

Baker Flagg, director of transformation at [GE HealthCare](#), considers himself a "neophyte to the ESG world." He is a leader at the firm's "Green Team Network," a special interest group for employees focused on sustainability. Flagg said his role also entails partnering with other businesses to further sustainability initiatives.

“For us at GE HealthCare, everything goes back to impact, like impact on patient outcomes and clinician outcomes,” he said. “So ESG, for us, is looking at what are other dimensions along which you can think about impact ... impact on the planet, impact on communities ... not only where you produce things, where you work, where you’re providing care.”

On 20 September, GE HealthCare published its inaugural [Sustainability Report](#), which describes steps the company has taken to establish its ESG practice and infrastructure goals. In the report, GE HealthCare outlines five priorities: expand greater access to health care for underserved populations globally, promote inclusion and diversity across the enterprise, mitigate climate impact and improve resilience by working to reduce greenhouse gas emissions, advance circular economy and environmental design by promoting and enabling the reuse of equipment and parts from deinstalled equipment, and protect patient data and cybersecurity by adopting a standardized approach. (Also see "[Healthcare Reform: GE HealthCare On ‘Building A Bridge To The Future State’](#)" - In Vivo, 7 Aug, 2023.)

We can come up with the best product ever but if it has a bad impact on the environment it doesn't make sense. Sarah Hill, BD on ESG impact. [@LSXLeaders](#) [#medtech](#) [#esg](#) [#environment](#) [#health](#) [pic.twitter.com/oK6UiQquiJ](#)

— Marion Webb (@medtechMarion) [September 14, 2023](#)

Like BD, GE HealthCare also has set ambitious sustainability goals, targeting a reduction in operational GHG emissions by 50% by 2023 and net zero status by 2050.

Andrew Meadow, general partner at Health Innovation Capital, which focuses on pediatric health care and maternal fetal medicine, said the VC firm initially struggled with how to take ESG into account in the investment process.

“It all came down to the single word of [patient] investing in solutions that engage with the patient more efficiently, more effectively – focusing on engagement and then also outcomes as well,” Meadow said.

It all comes down to the patient, he said. He gave the example of companies that offer solutions for patients that live in the most remote parts of the world, are highly vulnerable and

underrepresented. He also sees protecting patient data as a priority for the company.

The panelists agreed that medtechs, which rely heavily on global manufacturing and supply chain networks, have an important role to play in driving sustainability improvements for a greener future.

A 2022 article, authored by EY's global medtech leader Jim Welch and Jay Zhu, EY-Parthenon principal, strategy and transactions, highlighted why investing in ESG measures is expected to give medtechs a competitive edge.

Welch wrote that today's health care industry remains highly carbon-intensive, responsible for more than 4% of global greenhouse gas emissions and 10% of total emissions in the US.

About 80% of health care emissions are believed to be tied to supply chains, and given medtech's reliance on single-use devices, rising use of digital and electronic components, and often complex global supply chain network design, the medtech sector is contributing significantly to health care's outsized carbon footprint.

Medtech DEI Experts Talk Shop: 'It's Going To Transform Businesses'

By [Marion Webb](#)

19 Sep 2023

An all-female panel of medtech DEI leaders at the LSX Congress USA conference discussed the importance of diversity and inclusion in research, clinical trials, product development and services to advance health equity as well as fundamental business goals.

[Read the full article here](#)

"For medtech companies, key focus areas for sustainability transformation include single-use plastics and devices, product packing and recycling, manufacturing infrastructure and processes, and supply chain network design," Welch wrote.

A Price To Be Paid?

At the same time, the panelists questioned whether the extra costs in making an environmentally friendly product should be passed on to customers.

Jerauld speculated that for certain niche products, customers may be happy to dig deeper into their wallets. She gave the example of her own personal shopping preference at the upscale Whole Foods store to buy organic fruits instead of going to the lower-priced Walmart.

But Hill was quick to point out that developing medtech products that are not accessible and

affordable to the wider population begs the question of whether they are “doing the right thing” for customers, which then becomes a health equity issue.

Jerauld pointed out that while reprocessing of medical devices, such as single-use products and product packaging and recycling, cuts costs for customers, it can be challenging for manufacturers to meet the complexities of different regulatory regimes.

She gave the example of how producing individually wrapped sterile syringes with the thinnest amount of plastic helped the company reduce waste, but noted that in Spain, medtech companies need to pay a tax if the product isn’t shipped in recyclable material. And that adds costs.

“In the US, it’s not going to come from government, it’s going to come from customers,” Hill said. She pointed to one of BD’s largest customers, Kaiser Permanente, which has set clear targets for sustainability.

“And we have to do that without increasing prices, still meeting all the other requirements we have,” she said.

Flagg said another way to look at sustainable transformation is to build it into the R&D process. He gave the example of GE HealthCare’s “CT scanner in a box technology” which is a modular CT scanner that can be put on a flatbed truck that can go almost anywhere in the world.

“It’s really the customers who are pushing for this – if you can reduce the total cost of ownership for your customer, that can be the differentiator,” Hill said.

Welch wrote that recent reports indicate that reprocessing single-use medical devices can cut hospital costs by as much as 50% and can cut ozone depletion by almost 90%. The reprocessed medical devices market in the US is projected to grow at a compound annual growth rate of 15.7% until 2028, with market revenue expected to triple during that same period, he wrote.

GE HealthCare, Becton Dickinson and Merit Medical Systems rank among medtech companies that have set sustainability goals. [Medtronic plc](#) announced in fiscal year 2022 a new ambition to be net zero across its value chain by fiscal year 2045. [Edwards Lifesciences Corp.](#)’s new CEO Bernard Zovighian wrote in a letter on the firm’s website that the Irvine, CA-based company remains focused on its goal to achieve carbon neutrality by 2030 and 1.5° C science-based targets. (Also see "[Medtech 100: For Edwards Lifesciences' Mike Mussallem, Inspiring People Has Been A Way Of Life](#)" - Medtech Insight, 20 Dec, 2022.)

"The investment required by MedTech companies in setting and meeting ESG goals is minimal and can even be cost-neutral for years to come," according to an article by the Boston Consulting Group.