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ESG In 2024: Stakeholder Views From 'Strategic Imperative' To 'Largely A Nonsense'

2024 Crystal-Gazing With Industry Leaders

by Medtech Insight Team

Medtech Insight and *HBW Insight* reached out to industry stakeholders for feedback on new climate-related disclosure requirements and growing environmental, social and governance (ESG) pressures on businesses.

2024 stands to be another big year for environmental, social and governance (ESG).

The European Union is on track to implement ESG reporting mandates this year, the US Securities & Exchange Commission is poised to require climate-related disclosures following rulemaking proposed in 2022, and California will begin requiring environmental impact reporting from businesses in 2026 under legislation enacted in 2023. (Also see "*New US, EU Climate-Related Disclosure Requirements Will Have Ripple Effects Through Value Chains*" - Medtech Insight, 2 Jan, 2024.)

Medtech Insight and *HBW Insight* reached out to stakeholders with the question:

Is ESG, as it stands today, moving industry forward or setting it back?

Kathryn Unger
Vice President of ESG
Boston Scientific

The continued focus on environmental, social and governance (ESG) measures is moving Boston Scientific and the industry forward because our impact as a health care company extends to how we operate our business and care for the world around us. A healthier planet leads to healthier people.

Standardized reporting requirements from governing bodies like the Corporate Sustainability Reporting Directive (CSRD) from the European Commission are driving companies to create processes and have the infrastructure and update capabilities to report on ESG-related measures. Going forward, through CSRD, companies operating in Europe will need to report on applicable material topics, regardless of progress or setbacks.

We know we can only improve what we measure. More transparency within ESG will foster a better understanding of the collective industry impact to our people and our planet. When companies are accountable, together we can advance equity in our health care systems, empower people to make the best health choices and ultimately create a healthier planet.

Read how Boston Scientific and other leading medtechs have embraced ESG in today's post-pandemic landscape.

Deepak Sahu
Managing Director
Trinity Life Sciences

A 2019 Arup report exposed the healthcare sector's substantial environmental impact, contributing 4.4% of global new emissions – equivalent to two gigatons of carbon dioxide annually. If healthcare were a nation, it would rank as the fifth-largest emitter globally, with medtech playing a significant role. Additionally, at the provider level, medtech generates substantial unrecycled waste, accounting for 60% to 70% of the healthcare sector's global footprint. Existence of global healthcare equity is underscored by the stark reality that, as of November 2023, only 35% of Africa has received full vaccination of a COVID-19 vaccine.

Recognizing this, an environmental, social, and governance (ESG) strategy, effectively implemented by medtech companies, can be transformative. Such a strategy holds the potential to drive profitability, sustainability, and expanded healthcare access. By reducing waste, medtech companies can tap into new revenue streams while meeting the healthcare needs of underserved populations.

However, the success of this approach hinges on a fundamental shift in corporate strategies and boardroom priorities within the medtech industry. Embracing ESG isn't just a pathway to environmental responsibility – it's a strategic imperative for financial viability, sustainable practices, and equitable healthcare access.

Read how factors such as reducing greenhouse gas emissions and waste are becoming key purchasing criteria for health care providers.

Simon Turner
Partner
Sofinnova Partners

Fundamentally, Sofinnova invests in life sciences. People (the entrepreneurs, the healthcare practitioners, and patients) are the focus of our companies and the products and services they are developing. We launched one of the first-ever investment strategies dedicated to Industrial Biotechnology over 15 years ago; it evolved into what is now a formal impact fund.

ESG may have taken center stage in recent years; however Sofinnova has long considered questions of environmental, social, and governance fundamental pillars of 'good business.' In healthcare, stakeholder relationships can be extremely complex: the buyer, prescriber, distributor, user and benefiter can all be different people in healthcare, meaning that taking into account all stakeholders and how they are affected is important. As such, it's not a burdensome process for us to adopt ESG best practices when considering new investments, or support our companies' development, rather an extension of that key principle of healthcare investing: understand all the stakeholders, their relationships, and how you can minimize the negative impact/maximize the positive impacts in each case.

Given we operate across the board from company creation to listed companies, it is important to think of ESG as a positive and accept that everything can't be done immediately as companies need certain size and scale. As investors, we feel we have an important role to provide sufficient support so companies can continuously improve their ESG policies and practices as they mature. Our thesis there has been, and remains, that a robust ESG approach makes for a robust company.

Read about Sofinnova's new AI-based investment platform.

Onur Durmus

EMEA Service Leader for Sustainable Operations
ERM

Starting to operationize sustainability disclosures, particularly the Corporate Sustainability Reporting Directive.

The scope of application of CSRD requirements apply to an increasing number of entities and extend beyond climate to take into account broader sustainability disclosures. CSRD is the first legal driver to gather high quality sustainability performance data for companies by making it a mandatory disclosure requirement. This will transform decades of voluntary action into a mandated systematic space, where quality of sustainability data needs to become as good as the quality of financial data disclosure. Staying on top of these and understanding how they apply to any organization remains challenging but critical. 2023 was the year for many companies to “discover” what these requirements are. In 2024 companies will deep-dive into these requirements and start operationalizing via digital systems and integration into management systems and upskilling their staff as well and upgrading their technology and processes.

Read how the EU’s Corporate Sustainability Reporting Directive will extend ESG reporting requirements to some 50,000 businesses.

Jan Van den Berghe
Co-founder
Novalis Fund

ESG is a disaster. It distorts everything anyone does. Mostly, indeed, for all the wrong reasons (labels, subsidies...). It is stupidly expensive when done well; hence the various shortcuts taken. 'We will be carbon neutral in 2050' and the like. It is also something that doesn't actually help much with anything (we're still digging up more oil and gas and even coal). For all the worldwide efforts to date, what have we actually achieved and at what cost? How much would it have cost to solve cancer instead? Or world hunger? I hate ESG as it is being abused by governments and associates to steer business just for their own benefit. It is largely a nonsense, at best a bit of marketing towards influenceable non-scientific people. I'm talking mainly about the E bit. S and G are a bit better and more relevant.

Read how the EU's Green Claims Directive will put the kibosh on CO2 offset-based claims such as 'carbon neutral,' among other impacts.

John Villafranco
Partner
Kelley Drye & Warren

Forward, in fits and starts. It is a good thing for corporations to embrace worthy environmental, social, and governance initiatives; companies should be permitted to inform consumers about the choices they make. Those choices, after all, may be highly material to the purchase decision. It is also a good thing that the EU, the SEC, and California are requiring companies to convey truthful and accurate information to those same consumers, and that may require specific disclosures and independent third-party verification. These laws, along with the FTC's revisions to the 'Green Guides' and National Advertising Division decisions, send a signal to companies that ESG claims are fair game for marketers, but those claims must be supported and transparent. It will take a while to clean things up, but ultimately, increased scrutiny of ESG claims will be good for consumers and for competition.

Read about the Federal Trade Commission's Guides for the Use of Environmental Marketing Claims and updates requested by stakeholders.

Daniel Fabricant
President and CEO
Natural Products Association

One of the most significant shifts has been the focus on authenticity. Brands are hyper-focused on targeting social issues, how their customers feel about the sustainability of the materials they use, or why their 'influencers' connect with consumers. As the head of the Natural Products Association, I'm inspired by the responsibility our brands feel toward their consumers and we've worked hand-in-glove with our membership to ensure we are meeting the needs of our members.

Consumers are looking for a deeper meaning from the brands they support. Though it can't be seen as disingenuous. Additionally, brand management books tend to be written by management consultants and 'thought leaders' who study successful companies during peace. While it may be an uncomfortable reality to digest, the reality is special interest groups have gaslighted the industry with claims the products NPA memberships sell are equivalent to tobacco and alcohol. Our industry can not make the mistake of believing that external forces can be turned from foe to friend in the same way internal alliances can be formed. Peacetime techniques encourage broad-based creativity and contribution across a diverse set of possible objectives. The natural products industry's survival depends upon strict adherence and alignment to the mission at all costs. The reaction by many in business is avoidance, as the resultant chaos is not without casualties. However, avoiding the problem doesn't make it go away. The 30th anniversary of DSHEA [Dietary Supplement Health and Education Act] serves as a reminder of such; while there was a great deal of emotion involved, what won the day was a strategy that stood united.

Read how NPA is fighting an age restriction imposed on sales of consumer health products marketed for weight loss and bodybuilding in New York.

Maggie Spicer
Attorney & Principal
Source Beauty ESG

ESG was always a blunt instrument for an incredibly nuanced and complex set of issues, so it's not surprising that it would outgrow its original utility in the financial reporting context. The discourse around ESG has become so entangled in political and cultural divides that ESG as we know it is dead. However, the underlying concepts are still very much alive and will continue to evolve.

For our industry to continue making necessary progress on important sustainability and social impact issues, we cannot get bogged down in jargon and should instead focus on the following:

- Aligning impact with business in a way that is authentic, measured, and holistic (no more relegating sustainability to the marketing department);
- Identifying ways to make clear and consistent progress, including science-based targets and alignment with external frameworks; and
- Communicating that progress to consumers transparently and with nuance.

Read why the UK Competition and Markets Authority is investigating environmental claims across Unilever's portfolio, which "may be overstating how green certain products are."

Scott Trevino
Senior Vice President, Cybersecurity
TRIMEDX

Cybersecurity and data privacy are key elements of any ESG framework. TRIMEDX has already taken the initiative to make ESG a priority, regardless of any future government requirements. TRIMEDX recently received recertification with the highly regarded International Organization for Standardization's Information Management Security certification ISO/IEC 27001:2013. This verifies that TRIMEDX meets the latest information security industry standards and reaffirms our commitment to protecting providers' and patients' confidential data. Because this has long been a TRIMEDX priority, we are ready for whatever ESG rulemaking may arise in 2024, and we are ready to help our clients prepare for any upcoming changes.

Read about the crucial need for effective cybersecurity regulation in a health care sector increasingly beset by cyberattacks.

Hugo Harrod
Partner
MVM Partners

A focus on ESG can be valuable if it isn't merely a form-filling exercise. One positive, concrete example is the increased presence of women on medtech boards, driven in part by ESG considerations, which brings fresh thinking and perspectives to what remains a fairly stuffy industry.

Read about perceived stagnation in the movement to achieve gender parity in the medtech C-suite.

Frans Cromme
CEO
ViCentra

We believe driving the best clinical results should go hand in hand with products that don't harm the environment more than required. In the pump industry, there is a clear distinction between disposable pumps you throw away after use, and rechargeable pumps. With Kaleido, we proved that one of the smallest patch-pumps can be rechargeable which is highly beneficial for the environment.

Read more about Kaleido, the smallest insulin pump on the European market.

Dan Vukeliech
President
Medical Device Reprocessors

Circular business models such as FDA-regulated commercial reprocessing reduce cost and waste. Resilience is strengthened and greenhouse gas emissions lowered with each reprocessed device used – and they save money as well. ESG measures are another way for us to demonstrate to hospitals and health systems that using more reprocessed devices result in a better value proposition. ESG reporting should put more hospitals in a position to see the evidence close up: reprocessing is a lower cost, circular business model that reduces greenhouse gas emissions and breaks our ‘disposable’ mentality in healthcare.

Read about the benefits and drawbacks of using reprocessed endoscopic devices.

Lisa Powers
Executive Vice President, Public Affairs & Communications
Personal Care Products Council

ESG is a catalyst for positive change and a framework to managing impacts, risks and opportunities; creating value for business, brands and for society; and diversifying supply chains.

The emerging nonfinancial, ESG-related regulatory disclosure requirements provide additional incentive for large, multinational publicly traded companies to advance their sustainability approach and accelerate progress. These requirements will help move the cosmetics and personal-care products industry forward by encouraging alignment and collaboration to create impact at scale and improve recycling systems across the country and globally. Creating alignment and consistency of measurement and disclosures between countries and regions is critical to create a common understanding of the material topics, interlinking with investors' data needs, GHG reporting and human rights due diligence.

While new disclosure requirements and meeting new ESG reporting standards are not without challenges, PCPC member companies view the new regulations as opportunities for promoting innovation, building a foundation for a more sustainable future, and accelerating the trajectory of ESG in 2024.

Read PCPC's asks of the Federal Trade Commission in the planned "Green

Guides" update.

John Chave
Director-General
Cosmetics Europe

ESG issues tend to be dealt at company level rather than primarily through the trade association, and companies address them in different ways. Given the particular nature of our industry's relationship with the consumer, we feel the expectations as regards ESG vis-à-vis our sector are particularly high and we take it very seriously.

Read more from Chave on the growing need to defend ingredients' environmental impacts, among other historic challenges facing the sector.

Farah Ahmed
President and CEO
Fragrance Creators Association

Fragrance Creators recognizes the importance of responsible growth of the fragrance industry, emphasizing the need for a healthy planet and respect for communities. As a convenor of the industry, the association has been a platform for collective pre- and pro-competitive action, and we are wholly focused on operationalizing our commitment as stewards of the industry at large.

My one ask is that when efforts are undertaken to address one sustainability-related concern, we take a comprehensive review and consider the overall impact to people and the plant. Sometimes, by minimizing one narrow concern, we can inadvertently create an overall greater burden to people or the planet – unintended consequences can be avoided. This is where we believe industry can and should use credible science and data-driven scenarios to educate stakeholders towards real, results-producing solutions.

In 2023, I shared with HBW that it would be the year for responsible industry stewardship, following the launch of our Responsible Industry Stewardship Program in 2022. This program, endorsed by a growing number of our members through a voluntary pledge, focuses on ten key priorities. Fragrance Creators will continue to advocate for a holistic approach to sustainability, using credible science and data to avoid unintended consequences and promote effective solutions for the benefit of people, perfume, and the planet.

Read Fragrance Creators' position on the importance of risk assessment in a global regulatory landscape that is growing increasingly hazard-based.

Jo Stephenson
Managing Director
PHD Marketing

We often find that, while slower to bend and flex than many consumer-facing sectors, the health, pharmaceutical and life sciences sectors tend to follow suit in areas of focus and innovation.

Sustainability has been on the agenda in these industries, but never quite taking center stage. However, winds of change are sweeping and we're gearing up for a profound shift in 2024. The consumer market is still backing businesses that align with their goals and values, and in combination with increasingly tight legislation, the pressure is on for pharmaceutical businesses to switch from talk to action.

However, it's not quite as simple as innovating in packaging, manufacturing and logistics, there are also key changes in how sustainability is communicated. The UK's Green Claims Code and similar EU Green Claims Directive signal a seismic change in marketing communications, all designed to reduce the proliferation of 'greenwashing.' In a world increasingly scrutinizing environmental impact, the answer for pharmaceutical businesses lies in crafting connected, data-led narratives backed by context and evidence. These must not only resonate with the conscience of the industry, but also stand up to rigorous scrutiny.

As we navigate the intersection of commerce and conscience in 2024, we want to see B2B marketing strategies leverage the power of analytics to create narratives that are not only compelling but backed by tangible evidence. The pharmaceutical and life science sectors are on the cusp of a transformative journey, and we empower our clients to communicate their sustainability initiatives effectively, fostering a new era of transparency and responsibility.

In the year 2024, marketing within the pharmaceutical field isn't just about selling products, functional ingredients or a value proposition, it's about shaping the narrative of an industry that is committed to making a lasting, positive impact on the world.

Listen to Stephenson explaining the new EU Green Claims Code on the "Over The Counter" podcast, which proposes detailed rules for companies that wish to make environmental claims.

Matt Maxwell
Business Unit Director, Worldpanel Division
Kantar

Kantar's latest global sustainability attitudes study found that the number of consumers who are most engaged with sustainability (we dub them 'Eco-Actives') is on the rise again after a brief dip amid the uncertainty of the past couple of years. They are now at an all-time high, with this consumer group making up an incredible 33% of the British population. But while the demand for greener options is higher than ever, there are still huge pressures on household spend putting a cap on their ability to put their good intentions into action.

In terms of inflation, prices in health and beauty categories have generally been rising more slowly than food inflation over the past year. However, while the latter is now showing signs of slowing down, this is not yet the case across the health and beauty sector. In fact, price inflation in toiletries recently overtook the rate in the wider grocery market – with prices growing 10.4% year on year.

In this context, it's not difficult to see why the cost-of-living crisis is affecting shoppers' ability to pick the sustainable choice in store. Not every shopper who values sustainable credentials can afford or is willing to pay a price premium. We looked at how many Eco-Actives consider themselves to be struggling to make ends meet each month, and a quarter said this was the case in their households. So a significant number of people who are really engaged with sustainability simply cannot afford to pay more to make the better choice. In 2024, the industry needs to get to grips with the challenge of bringing products to market which appeal to these shoppers who want to make choices that are better for the planet – but without demanding premium price tags.

Read more about Kantar's market intelligence, for example how growth in the UK's VMS market is being driven largely by probiotics and women's health categories.