


Part 4 UNDERSTANDING ESG AND HEALTHCARE INNOVATION:

WHY HEALTHCARE COMPANIES SHOULD CONSIDER THE SOCIAL DIMENSION AND HOW TO DO IT.



This is the fourth in a series of papers taking investors and healthcare leaders on an “ESG journey”: what it is, why it matters, and how to put ESG into practice.

Introduction

Every company is part of a wider social ecosystem. As awareness of the issues and factors that affect this ecosystem grow, so does the need — and requirement — for healthcare organisations to adapt and evolve their practices.

In **Part 1** of this series, we introduced the foundational concept of ESG. In **Part 2**, we defined the approach that Endeavour Vision takes with its portfolio companies, highlighting priorities

and recommendations for early- to growth-stage organisations. Moving on to consider each of the three dimensions of ESG in detail, **Part 3** describes why and how healthcare companies should embrace environmental sustainability. Building on this, our **fourth paper** makes the case for the “social” dimension of ESG and provides recommendations to help organisations improve their social footprint.

The social dimension of ESG

The social dimension of ESG is heavily influenced by current affairs, movements, and events. Recent examples include #MeToo, Black Lives Matter, and the COVID-19 crisis, as well as calls for improved workforce representation and recent labour strikes to compensate for the increased cost of living.

To understand the social dimension of a firm, its entire value chain needs to be considered. First, it is necessary to look at the company itself, consider its working conditions, work-related rights, and equal opportunities in the workplace. Equally important is the need to consider the broader social context and the impact a company has on its wider communities, its end-users (including patients) and society as a whole.



Barriers to development

Despite this, work to develop the social dimension of an organisation is often neglected. For many, it is seen as too complex and political, as well as holding potential for conflict.¹ Measurement processes can

also be off-putting, with the measurement of social factors often less standardised and straightforward than for other elements of the ESG process.

The cost of inaction

A failure to understand and develop the social dimension of an organisation can have far-reaching human and financial consequences. For example, recent years have seen companies across different sectors get caught up in a range of controversies.

The healthcare sector is not immune, with issues reported linked to employee working conditions, supply chains, marketing tactics, and the treatment of patients and other end-users.

1. Marieke Huysentruyt, Spotlight on the Social Dimension Measurement in ESG. HEC Paris.
<https://www.hec.edu/en/knowledge/articles/spotlight-social-dimension-measurement-esg> (Accessed 3 May 2023)

At a glance: our portfolio companies

The goal of ESG social factors is to measure how well organisations are meeting their human obligations in operations, global supply chains, local communities and towards their customers – and to use this as a foundation for organisational growth and development.

We are proud to see that the Endeavour portfolio companies that completed the ESG Apex questionnaire achieved their highest score in the “social” dimension. The majority have created development opportunities for their employees, measured employee turnover, and have an employee benefits plan in place. Results also show that most of our portfolio companies have moved to implement diversity and inclusion initiatives, with almost all taking measures to manage human and labour right breaches.

But still there is room for improvement. Only a few companies reported more than one female board member and almost none had calculated their mean and median gender pay gap. Data also shows us that only a few organisations regularly track their health and safety indicators (e.g. injuries), and that the majority are yet to prepare and implement their human and labour rights policy.

SOCIAL	53%
Employee Development Opportunities	<div></div>
Employee Engagement Survey	<div></div>
Living Wage Guarantee	<div></div>
Employee Benefits plan	<div></div>
Employee Turnover 2021	<div></div>
Net Jobs Created 2021	<div></div>
Organic Net Jobs Created 2021	<div></div>
Female Board Members	<div></div>
Gender Diversity Management	<div></div>
Gender Diversity All Employees	<div></div>
Ethnic Diversity Board Members	<div></div>
Ethnic Diversity Management	<div></div>
Ethnic Diversity All Employees	<div></div>
Gender Pay Gap Monitoring	<div></div>
Diversity and Inclusion Initiative	<div></div>
Health, Safety and Well-Being Policy	<div></div>
Employee Health and Safety Indicators	<div></div>
Corporate Citizenship Metrics	<div></div>
Human and Labor Rights Policy	<div></div>
Human and Labor Rights Breach Management	<div></div>

Analysis of social ESG factors of a company in the Endeavour Vision EMC II portfolio. Boxes highlighted in blue indicate categories for which the company provided a positive response, along with relevant supporting evidence. For this company, the overall score for “social” was 53% (9/17).

Organisational specific social considerations

Developing the social dimension of an organisation can bring multiple benefits. Three key factors that have proven beneficial include:

1. EMPLOYEE ENGAGEMENT

Many CEOs see human capital as their company’s greatest asset. Indeed, employee engagement is shown to have a significant impact on productivity.

Engaged employees are “those who are involved in, enthusiastic about and committed to their work and workplace.”²

In 2022, the Gallup ‘State of the Global Workplace’ report found a strong link between employee engagement and performance outcomes, including retention, productivity, safety, and profitability.³ Analysing 112,312 business units in 96 countries, the report also concluded that only 21% of employees are “engaged” at work, and that **low engagement costs the global economy an estimated USD 7.8tn and accounts for 11% of global GDP.**³



63.3% of companies say retaining employees is harder than hiring them (“war for talent”)⁴



US employers spend **USD 2.9m** per day looking for replacement workers⁴



Since the outbreak of the pandemic **53%** of employees report feeling more exhausted⁴



Highly engaged workplaces experience **70%** fewer safety incidents⁵



Highly engaged workplaces observe **41%** lower absenteeism⁴



Companies with high employee engagement are **21%** more profitable⁴

2. Gallup. Gallup Daily: U.S. Employee Engagement Gallup Daily: U.S. Employee Engagement.

<https://news.gallup.com/poll/180404/gallup-daily-employee-engagement.aspx> (Accessed 3 May 2023).

3. Gallup. State of the Global Workplace: 2022 Report. <https://www.gallup.com/workplace/349484/state-of-the-global-workplace-2022-report.aspx> (Accessed 3 May 2023).

4. Hailo. 8 Employee Engagement Statistics You Need to Know in 2023.

<https://hailo.com/blog/employee-engagement-8-statistics-you-need-to-know/> (Accessed 3 May 2023).

5. Gallup. Engaged Workplaces Are Safer for Employees.

<https://news.gallup.com/businessjournal/191831/engaged-workplaces-safer-employees.aspx> (Accessed 3 May 2023).

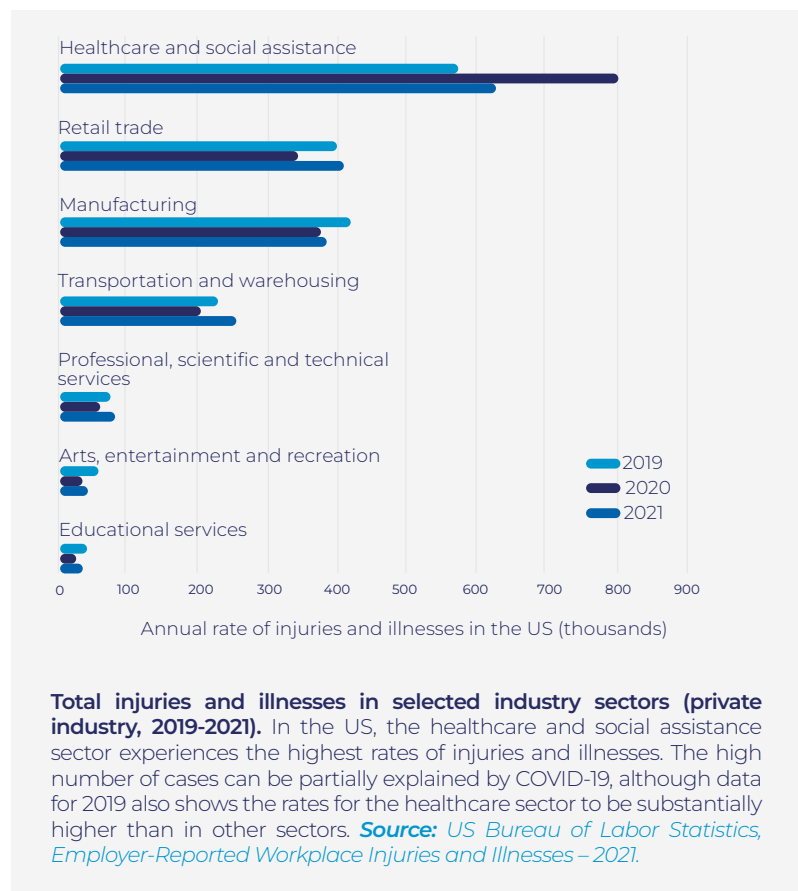


2. DIVERSE TEAMS

We cannot talk about the social dimension of ESG without considering diversity. Extending beyond gender and ethnicity, diversity also includes a person's religion, sexual orientation, educational background, skills and abilities, language, and culture. A diverse team brings unique perspectives and fresh ideas, which can improve creativity and innovation, and could lead to more balanced and higher quality decision-making.⁶ In fact, a study published by Boston Consulting Group shows that **companies with above-average diversity levels had 19% higher innovation revenues and 9% higher earnings before interest and taxes.**⁷

3. EMPLOYEE HEALTH AND SAFETY INDICATORS

Health and safety indicators relate to the number of work-related fatalities and injuries, and include the number of days lost due to such injuries. Regularly tracking these indicators over a longer period could unveil useful insights that help organisations reduce absenteeism and build a more efficient and productive workforce. Such information is especially relevant to the healthcare sector as employees are in regular contact with patients.⁸



6. Forbes. New Research: Diversity + Inclusion = Better Decision Making At Work.

<https://esgclarity.com/healthcare-scores-poorly-for-esg-but-is-a-vital-sector/> (Accessed 3 May 2023).

7. Harvard Business Review. How and Where Diversity Drives Financial Performance.

<https://hbr.org/2018/01/how-and-where-diversity-drives-financial-performance> (Accessed 3 May 2023).

8. US Bureau of Labor Statistics. Employer-Reported Workplace Injuries and Illnesses – 2021. <https://www.bls.gov/news.release/pdf/osh.pdf> (Accessed 3 May 2023).



The regulatory environment

As focus on the social dimension of companies grows, so does the regulatory environment that surrounds it. A brief summary of relevant legislation is provided below:

REGULATIONS LINKED TO DIVERSITY

In August 2021, the US Securities and Exchange Commission approved a proposal requiring Nasdaq-listed firms to have at least two diverse directors (one person who identifies as a woman and one other as an under-represented minority or LGBTQ+) or be able to explain why not.⁹ Implementation is phased, with companies required to have at least one diverse director in place by 31 December 2023, and the second by 31 December 2025 — with all listed companies required to release annual diversity statistics.¹⁰ According to a Nasdaq study in 2020,

more than 75% of listed companies would not meet the proposed targets.⁹

The most recent EU regulation about diversity is described in the Corporate Sustainability Reporting Directive (CSRD). This sees large companies and listed SMEs required to report on the diversity of their company boards, with data sets to include age, gender, education, and professional background.¹¹

NB: *Country-specific regulations should also be considered.*

THE BROADER REGULATORY ENVIRONMENT

■ **US law** prohibits importing any product that was mined, produced, or manufactured wholly or in part by forced labour, including child labour.¹²

■ The **German Parliament** passed a new law that requires larger companies to conduct supply chain due diligence activities. Coming into effect in January 2023, companies must identify, prevent, and address human rights and environmental abuses within their own and their direct suppliers' operations and act if they find violations.¹³

■ In July 2020, **Switzerland's** revised equal pay regulations required organisations with 100 or more employees to perform an analysis of equal pay, in line with a recognised method. Linked to Article 8 of the Federal Constitution, analysis should be verified by an authorised and specially trained independent body and the results communicated to relevant stakeholders.¹⁴

9. BBC News. US stock exchange sets diversity rules for listed companies. <https://www.bbc.com/news/business-58123730> (Accessed 3 May 2023).

10. McDermott, Will & Emery. Nasdaq compliance deadlines for board diversity rules.

<https://www.mwe.com/insights/nasdaq-changes-compliance-deadlines-for-board-diversity-rules/> (Accessed 3 May 2023).

11. KPMG. The new Corporate Sustainability Reporting Directive, The new CSRD: What does this mean for you?

<https://assets.kpmg.com/content/dam/kpmg/ie/pdf/2021/05/ie-esg-eu-reporting.pdf> (Accessed 8 May 2023)

12. U.S. Customs and Border Protection, Forced Labor. <https://www.cbp.gov/tags/forced-labor> (Accessed 3 May 2023).

13. Sedex. Germany's new Supply Chain Due Diligence Act: What you need to know.

<https://www.sedex.com/blog/germanys-new-supply-chain-due-diligence-act-what-you-need-to-know/> (Accessed 3 May 2023).

14. Deloitte. Revised Swiss Gender Equality Act: What you should know and do.

<https://www2.deloitte.com/ch/en/pages/audit/solutions/swiss-gender-equality-act.html> (Accessed 3 May 2023).

A phased approach to social development

We have developed a four-phase approach for organisations looking to improve their social footprint. This process will help your company to comply with increasing regulatory standards and cater to growing expectations for corporate responsibility. We recommend designating a responsible party within the organisation's management or the ESG committee to oversee and manage this process.

1 PHASE 1: CONDUCT AN EMPLOYEE ENGAGEMENT SURVEY

Recognising human capital as one of your greatest organisational assets, we recommend that firms conduct a formal survey to measure their employee engagement. Outsourcing this to a third-party will ensure confidentiality, result in more reliable data, and increase participation rates.

Gallup has prepared a short, 12-question employee engagement survey that can be used for this task.¹⁵ This has several benefits. Firstly, it ensures anonymity and can be run on a regular basis. As an online platform, it also allows nominated individuals to view and download reports, see benchmarked results and analyse strengths and weaknesses. It also allows a person to identify their next steps and keep track of actions.

Q12® ENGAGEMENT HIERARCHY



Source: Gallup Q12® Employee Engagement Survey

15. Gallup. Gallup's Employee Engagement Survey: Ask the Right Questions With the Q12® Survey. <https://www.gallup.com/workplace/356063/gallup-q12-employee-engagement-survey.aspx> (Accessed 3 May 2023).

2

PHASE 2:

CALCULATE THE MEAN AND MEDIAN GENDER PAY GAP

Building on this, we recommend that healthcare companies take the time to calculate their mean and median gender pay gap. Such calculations are relatively easy to perform, as the data is readily available and there are a number of online tools that take you through the calculation process.¹⁶

Given the confidentiality of required data, pay gaps should be calculated by someone from within the HR department, with adjustments made with regards to age, experience, and other employee-related factors. It should also be noted that differences in resulting calculations can be higher for early- to growth-stage companies, as the population is smaller and the data more prone to outliers.

More information on how to calculate your mean and median gender pay gap can be found on the [Equality and Human Rights Commission website](#).

3

PHASE 3:

DEVELOP A HUMAN AND LABOUR RIGHTS POLICY

We also recommend that early- to growth-stage healthcare companies move to implement a human and labour rights policy. Not only does this mitigate against potential violations, it also reduces the risk of associated reputational damage and inequalities. Topics covered by the policy should include: forced and child labour, equal employment opportunities, the right to freedom of association, elimination of excessive hours, a respect of living wages and commitment to comply with relevant legal requirements. Policies should also include details around discrimination and grievance procedures, and employee health and safety, including stress and mental health.

A human and labour rights policy template is available to download on our [website](#).

4

PHASE 4:

EMPLOYEE HEALTH AND SAFETY INDICATORS

As a fourth step, it is important that companies start to regularly track work-related fatalities and injuries, and record the number of working days lost due to these injuries. This can be done by assessing, recording and reviewing the responsibilities relating to the health, safety and well-being of company employees. We also recommend that companies start to track work-related incidents, injury rates and absenteeism. This provides key information for stakeholders and allows the organisation to identify and mitigate any risks.

16. Equality and Human Rights Commission. Step 2: how to calculate your gender pay gap figures. <https://www.equalityhumanrights.com/en/advice-and-guidance/step-2-how-calculate-your-gender-pay-gap-figures> (Accessed 3 May 2023).

Conclusion

In general, healthcare companies score well in the social dimension of ESG. Perhaps this is due to the beneficial nature of their work, and a mindset and approach that readily transfers across the value chain and to employees. But still there is room for improvement. Developing the social side of an organisation might be complex, but it can — and should — be done. A good first step is to conduct an employee engagement survey, as this can give vital insights into employee satisfaction. Beyond this, healthcare companies should move to calculate their mean and median gender pay gap, and prepare and implement a human and labour rights

policy. We also recommend that companies work to measure employee health and safety indicators and be ready to implement an action plan if work-related injuries and illnesses reveal themselves to be higher than expected.

Finally, companies should also be prepared to consider the regulatory environment for diversity and beyond, and be prepared to assess the impact of their operations and value chain. How you sit within the social ecosystem matters. Healthcare organisations need to be aware of this and should be prepared to act accordingly.

About the authors



Bernard Vogel is co-founder and managing partner of Endeavour Vision. He leads the firm's operational, financial, investor relations, HR, and legal functions, and is responsible for its ESG strategy.

Contact: bv@endeavourvision.com.



Robert Oosterloo is a financial analyst at Endeavour Vision where he is involved in financial, legal, and administrative matters, including investor reporting and ESG policy.

Contact: ro@endeavourvision.com.

Stay up to date with our news and be the first to hear when the next issue of our ESG whitepaper series is released. Sign up to our newsletter [here](#).

