

Social Sustainability in Life Sciences

What Is Right for a Better World
Is Also Right for the Bottom Line

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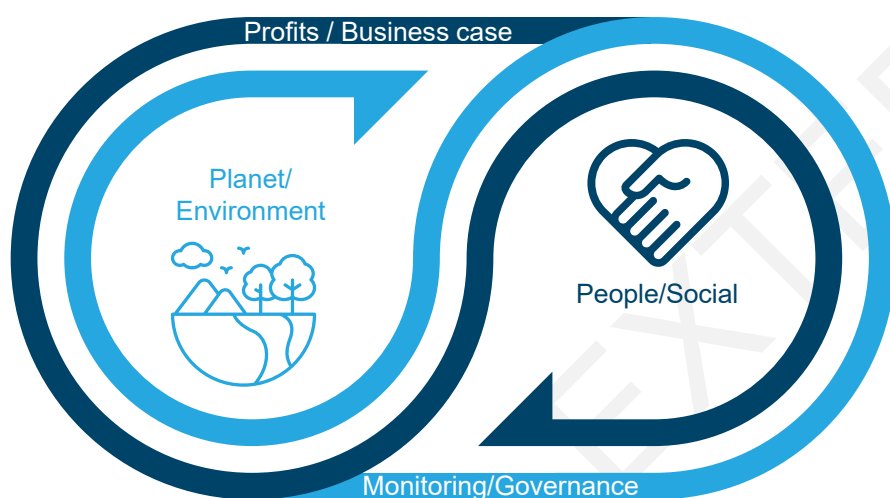
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Introduction

From the start, the life sciences industry has sought to make a difference in the lives of patients and communities worldwide. In recent times – sustainability – has become a strong buzzword across enterprises, investors, patients, industry associations, and regulatory bodies.

Sustainability initiatives refer to the collective efforts and programs built around Environment, Social, and Governance (ESG) strategies. These initiatives closely tie with all three aspects of the triple bottom line: people, planet, and profits. The exhibit below depicts Everest Group's purpose framework, which connects ESG principles with the triple bottom line to guide enterprise decisions and actions toward sustainability.

Everest Group's purpose framework



- Planet/Environment considerations related to end-to-end value journey of an enterprise
- People/Social obligations (including employees) towards the community, its values, and principles
- Wrap around concepts:
 - Monitoring/Governance refers to set of a policies, processes, and systems to enable robust and transparent operating structures
 - Profits/Business Case refers to the traditional financial considerations

Increasingly, life sciences enterprises are integrating sustainability with their business strategies. Moreover, sustainability initiatives have transitioned from compliance-fulfilling efforts or risk mitigation strategies to opportunities aimed at gaining investor confidence and building public sentiment, creating business value.

Notably, creating value through ESG initiatives will require people, processes, and technology to come together to create a lasting impact. Enterprises will need to place patients at the center of their decision-making, build strategies that foster stakeholder (including customer) trust, strengthen brand reputation, and drive sustainable growth and value for all stakeholders.

In this viewpoint, we highlight the growing importance of sustainability in the life sciences industry, focusing on social sustainability as the key driver to build a purpose-driven ecosystem. The research will also assist enterprises in prioritizing sustainability initiatives and adopting a phased journey to become truly purpose-led organizations.

The growing importance of sustainability in the life sciences industry

Investors, patients, and regulatory bodies are demanding greater responsibility from life sciences enterprises, forcing them to broaden their sustainability initiatives. In fact, the one thing that helped enterprises steer through the pandemic was their efforts to create a strong social impact by improving or protecting public health.

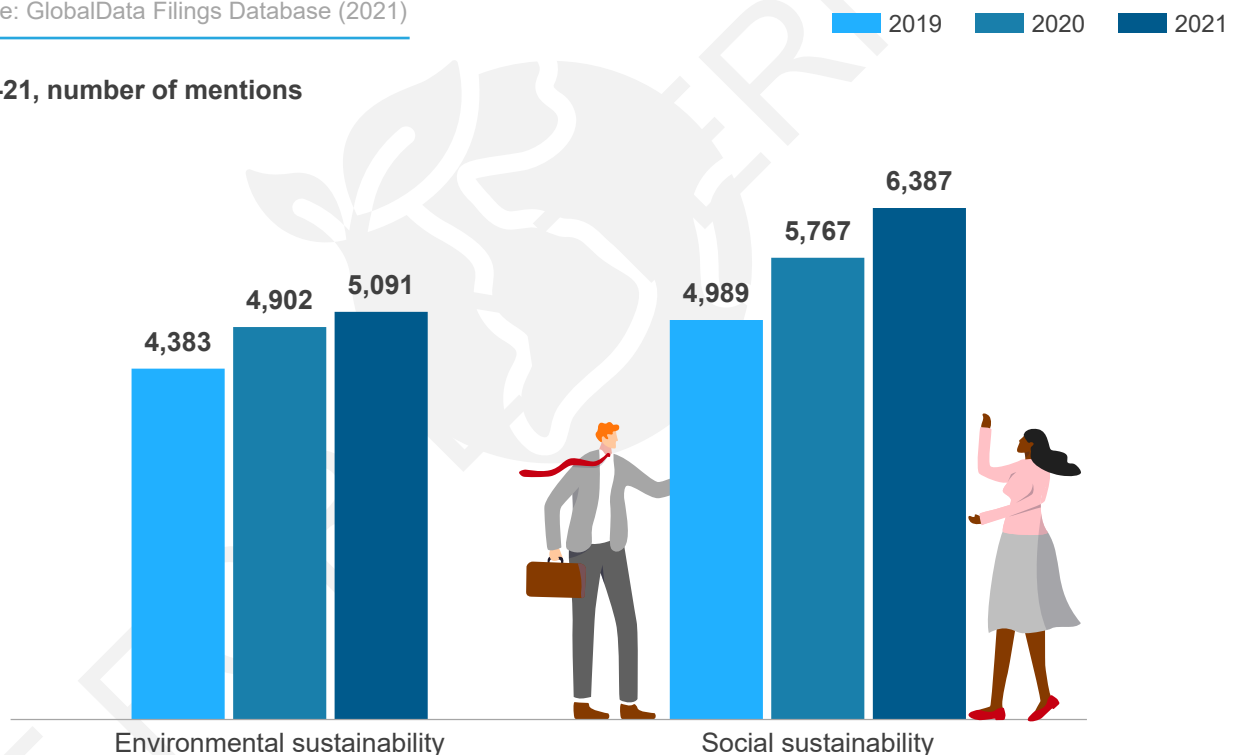
This growing importance of sustainability initiatives is also evident from the spurt in ESG-related reports – a 27% increase in 2021 over 2020 – that top biopharma companies published. Exhibit 1 highlights the increase in the number of sustainability mentions, over the years, in annual and quarterly filings. These instances suggest that it is not enough to deliver sustainable solutions; it is equally important to communicate these efforts through reports, webinars, earnings calls, and investor meets.

EXHIBIT 1

Sustainability mentions in annual and quarterly filings

Source: GlobalData Filings Database (2021)

2019-21, number of mentions



A major consideration for implementing ESG initiatives is the funding for these activities. Lately, an increasing number of enterprises have been pursuing sustainability-related bonds, and investors are heavily funding ESG initiatives. In 2020, many large enterprises such as Sanofi and Pfizer pursued sustainability-linked bonds tied to their ESG efforts and US investors remained bullish on sustainable funds, which reached a record fund flow of US\$51.1 billion by the end of 2020, more than double the figure in 2019, as depicted in Exhibit 2.

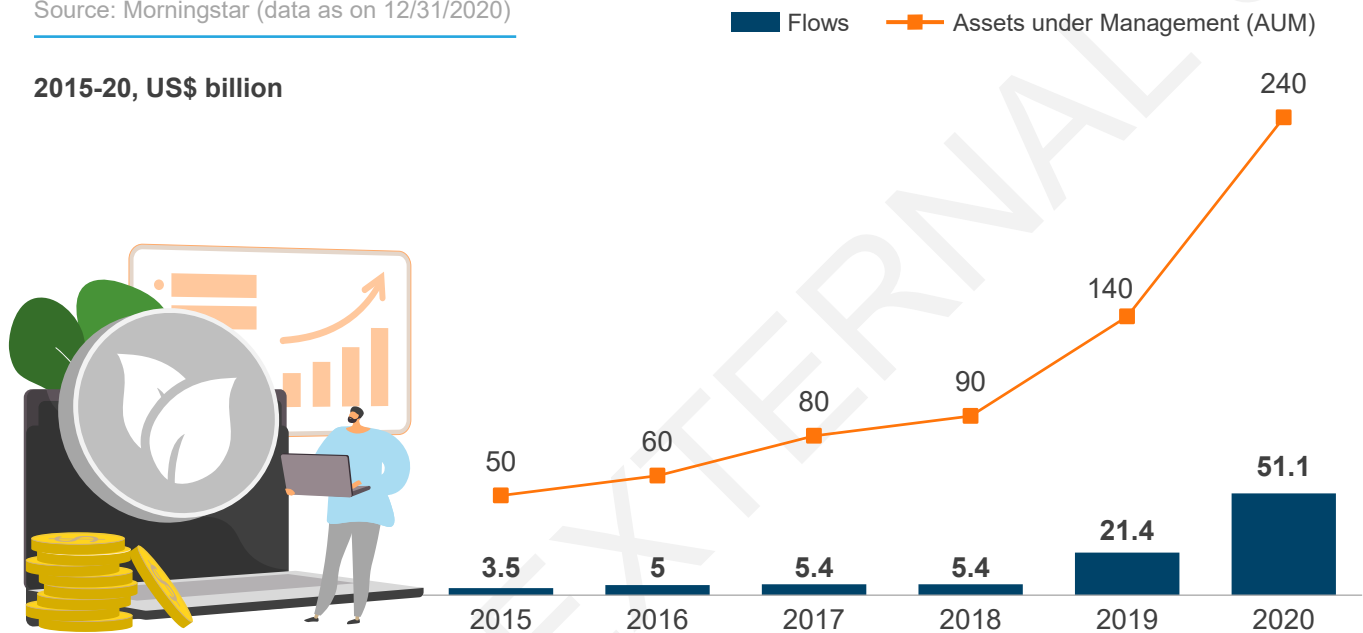
In September 2020, multinational pharmaceutical company Novartis announced that it had issued an **EUR1.85 billion sustainability-linked bond**, with interest payments tied to the achievement of patient access targets.

EXHIBIT 2

Annual flows for US sustainable funds

Source: Morningstar (data as on 12/31/2020)

2015-20, US\$ billion



Globally, the online search for sustainable goods has increased by 71% over the past five years.¹ Patients and consumers value products from organizations that are deeply committed to protecting and improving the environment. Moreover, there has been tremendous pressure on the industry related to drug pricing, accessibility to care and medicine, and counterfeit drugs. These issues present an opportunity for the life sciences industry to invest in sustainable efforts to strengthen their reputation and change public perception for good. Having said that, while committing to bold sustainability action is a promising first step, delivering real change will require long-term strategy driven by purpose.

“ Because the fight against climate change is also a fight for health and well-being, we commit to environmental sustainability. This is our planet mobilization ambition.

– Julie Van Ongevalle, Executive Vice President, Sanofi, 2020

¹ Report from The Economist Intelligence Unit, commissioned by WWF, 2021

A sustainability maturity framework

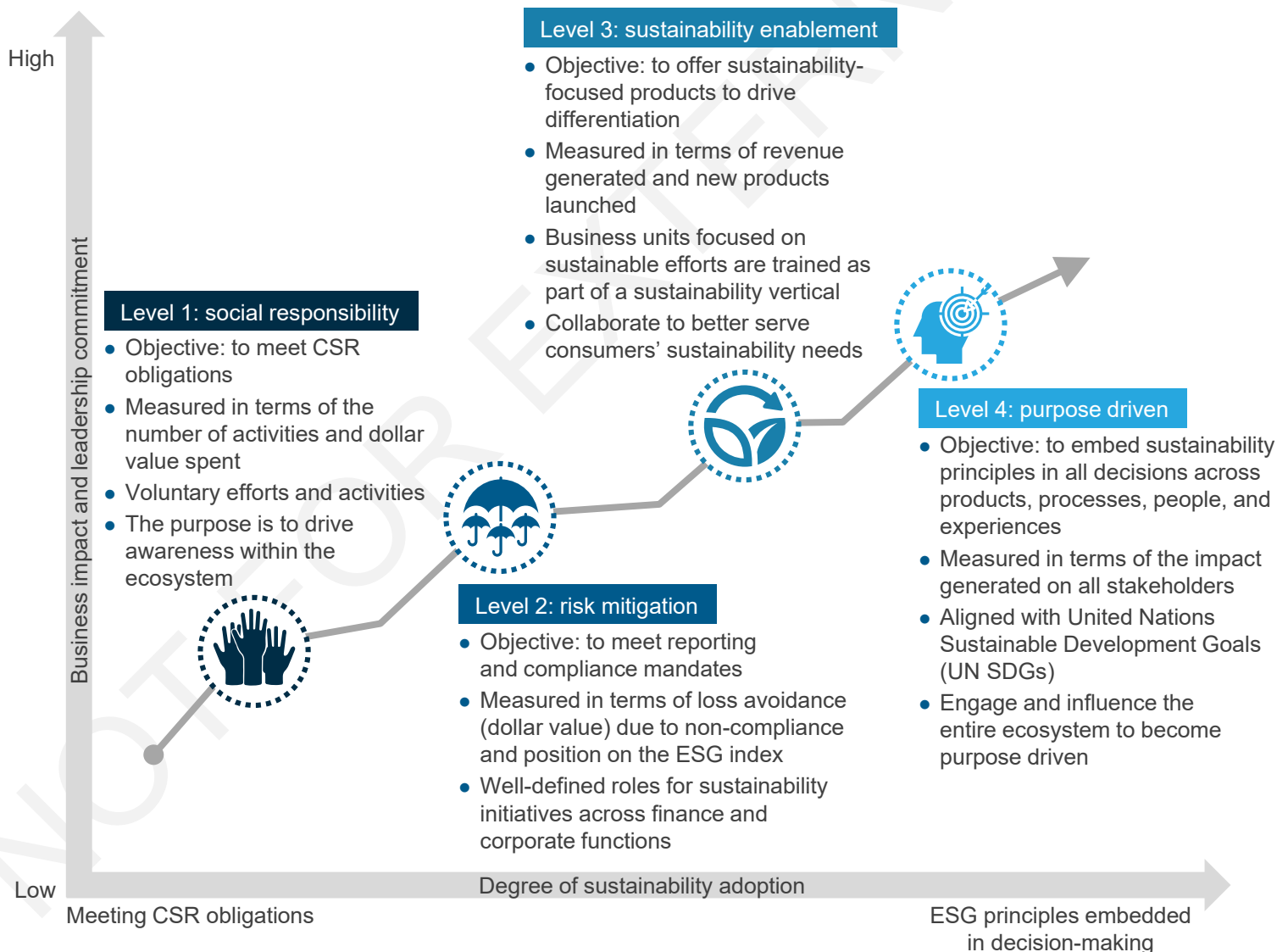
The industry ecosystem offers multiple areas along the ESG pillars where sustainability initiatives can be successfully implemented. Some of these initiatives might be efforts to meet regulatory obligations, while others could be efforts to engage and influence the entire ecosystem to become purpose driven. Thus, it is important to understand the various sustainability maturity levels so that the initiatives can be categorized to help enterprises hone their ESG strategies and prioritize efforts to maximize impact.

Everest Group's sustainability maturity framework, as depicted below, helps map ESG initiatives across four levels based on their business impact and depth of sustainability adoption in business decision-making.

EXHIBIT 3

Everest Group's sustainability maturity framework

Source: Everest Group (2022)



Level 1 or social responsibility is about select voluntary efforts targeted at meeting CSR obligations and driving awareness; **level 2 or risk mitigation** relates to initiatives aimed at meeting reporting and compliance mandates for purposes of risk mitigation and redressal. **Level 3 or sustainability enablement** is targeted at efforts that drive differentiation, with dedicated business units focused on sustainability efforts. **Level 4 or purpose driven** pertains to initiatives that embed sustainability principles in all decisions across products, processes, people, and experiences. At this level, sustainability is considered paramount for business excellence and efforts are aligned with the United Nations Sustainable Development Goals (UN SDGs), with the aim of engaging the entire ecosystem to become purpose driven.

Efforts around water usage reduction and carbon neutrality have almost become a given in the industry. However, initiatives focused on improving health infrastructure in underserved communities or expanding access to medicines and therapies remain isolated and require substantial business commitment to meet success. Mapping ESG initiatives across the sustainability maturity framework, as presented in the exhibit below, will help understand the maturity stage at which enterprises are operating in the industry and the opportunities that lie ahead.

EXHIBIT 4

Mapping ESG initiatives on Everest Group’s sustainability maturity framework

Source: ESG-based reports and Everest Group (2022)

NOT EXHAUSTIVE

	 Environmental initiatives	 Social initiatives	 Governance initiatives
Level 1: social responsibility 	<ul style="list-style-type: none"> Carbon neutrality within 5-10 years Reducing waste and energy consumption 	<ul style="list-style-type: none"> Drug donation Health and wellness awareness campaigns Blood donation drives 	<ul style="list-style-type: none"> Equal opportunity and pay scales Tax compliance across geographies
Level 2: risk mitigation 	<ul style="list-style-type: none"> Reusing materials from old and discarded objects Environment, Health, and Safety (EHS) in manufacturing 	<ul style="list-style-type: none"> Supplier risk management EHS initiatives for employees Product safety 	<ul style="list-style-type: none"> Fraud, ethics, and compliance management initiatives Robust policies for conflict of interest
Level 3: sustainability enablement 	<ul style="list-style-type: none"> Reduced water usage Sustainable fleet (fuel efficiency and route optimization) management 	<ul style="list-style-type: none"> Tackling counterfeit drugs and medical devices Diversity and inclusivity in clinical trials Ethical marketing Supplier diversity 	<ul style="list-style-type: none"> Diversity (gender and racial) in executive bodies Reporting transparency and comprehensive reports
Level 4: purpose driven 	<ul style="list-style-type: none"> Manufacturing 4.0 Decentralized clinical trials 	<ul style="list-style-type: none"> Decentralized clinical trials Improving health infrastructure in underserved communities Expanding access to medicines and therapies 	<ul style="list-style-type: none"> Investing in ESG and diversity leadership teams Predicting and preparing for upcoming regulatory guidelines

Over the last few decades, life sciences enterprises have made considerable efforts on the environment front to address climate change, reduce carbon emissions, and minimize water wastage. ESG reports of leading life sciences companies abound with statements such as “commitment to achieve net-zero carbon emission by 2027” or “commitment to sourcing 100% renewable electricity across all global operations by 2030.” The COVID-19 pandemic ushered in radical disruptions and pushed enterprises to accentuate their efforts around improving medicine accessibility, enhancing diversity and inclusivity in trials, and building a sense of belongingness to the larger community in which they operate.

As highlighted in Exhibit 1, social sustainability mentions in annual and quarterly reports increased by 10%, while environmental sustainability mentions increased by only 3% in 2021 as compared to 2020. It is not surprising that even industry associations are talking about social sustainability. In 2020, Biopharma Investor ESG Communications Guidance 2.0 (part of Biopharma Sustainability Roundtable) identified 12 high-priority ESG topics for the biopharma sector, and 6 of them relate to social sustainability. The spotlight has turned on social sustainability initiatives and the next best step would be to identify initiatives, prioritize them, and optimize resources to implement them in a structured manner.

We are in the process of developing additional long-term goals under the “social” and “governance” pillars that focus on inclusion and diversity, ethics and compliance, and a responsible supply chain.

– Teva Pharmaceutical’s goals for 2030 (as stated in the company’s 2020 ESG report)




Social sustainability initiatives

According to the United Nations Global Compact, social sustainability is about “identifying and managing business impacts, both positive and negative, on people.” When translated for the life sciences industry, such initiatives focus on a company’s engagement with patients, employees, suppliers, investors, and the community at large. Diversity and inclusivity, access to medicine, ethical marketing, and personalized therapies are some of the areas covered under the social pillar of sustainability. In fact, social sustainability initiatives in the industry can be categorized into three major themes: accessibility and affordability, trust and safety, and responsible innovation. Exhibit 5 outlines the initiatives under each of these themes and the business value that enterprises can derive from implementing them.

EXHIBIT 5**Social sustainability initiatives**

Source: Everest Group (2022)

NOT EXHAUSTIVE

Theme	Initiatives	Business value derived
Accessibility and affordability 	<ul style="list-style-type: none"> • Inclusivity and diversity in clinical trials • Accessibility to care and medicine • Value-based pricing/fair-priced drugs 	Increase buy in and uptake of products by consumers
Trust and safety 	<ul style="list-style-type: none"> • Ethical marketing • Tackle counterfeit drugs • Supply chain transparency • Identify adverse drug reactions (ADR) from social media 	Mitigates risk and increase compliance
Responsible innovation 	<ul style="list-style-type: none"> • Personalized therapies • Rare disease therapies • Disease prevention 	Enter new markets and increase share in existing ones

Accessibility and affordability

Drug availability and affordability are big concerns, especially for patients in under-served communities and geographies. Enterprises should engage with local partners and resolve drug shortages, commit to responsible pricing, and increase access to treatment and medicines. For example, Teva donated drugs worth US\$571 million in 2020 and Amgen built programs for pediatric cancer patients in India (late 2020) and Pakistan (early 2021).

Major initiatives to improve accessibility and affordability include increasing inclusivity and diversity in clinical trials, enhancing the accessibility to care and medicine, and strengthening value-based pricing / fair pricing of drugs. Such initiatives will help address access-related disparities and increase the uptake of products and medicines, in turn adding value for the business.

Trust and safety

Building trust and a sense of safety among patients, local authorities, suppliers, and regulatory bodies enhances the credibility of life sciences enterprises and helps create value across the society. Before the pandemic, public perception about the industry was quite bleak; in fact, US citizens ranked the sector last in the 2019 Gallup poll.² However, efforts around accelerated and large-scale vaccine production during the pandemic have started to change public perception and the pharmaceutical industry has climbed couple of positions as per the 2021 Gallup poll.

Takeda initiated the Fight the Fakes campaign to educate patients on anti-counterfeit measures, while Novartis adopted blockchain to strengthen its supply chain security and monitoring. Enterprises can also focus on efforts around ethical marketing, social media mining, and anticounterfeit measures to build trust and safety to not only mitigate risks and stay compliant, but also enhance their brand image.

2 Americans' Views of U.S. Business Industry Sectors, Gallup, 2019

Responsible innovation

Responsible innovation will help enterprises develop personalized therapies and advance in the fields of rare diseases and disease prevention. Organizations should enter into academic partnerships and industry collaborations to learn about the latest technology developments and how they can leverage them to innovate therapies and treatments. In its 2020 ESG report, Novartis highlighted its use of big data analysis for developing personalized healthcare solutions. Teva launched a student forum for Israeli PhD and postdoctoral students in 2020 with the intent to accelerate the development of next-generation medicines. A commitment to responsible innovation will help enterprises enter new markets with innovative medicines and therapies and increase their shares in existing ones.

All the initiatives mentioned in Exhibit 5 aim to create a long-lasting impact on society. Moreover, these efforts will help enterprises generate greater business value. Social sustainability efforts have a positive correlation with economic benefits and business opportunities.

Ninety percent of studies (n=2,200) show a **positive or non-negative** relation between corporate performance and the adoption of sustainable initiatives.

– Journal of Sustainable Finance & Investment, 2015

Prioritizing social sustainability initiatives

Each of the aforementioned initiatives will require varying levels of financial investments, commitment from senior leadership, and timeframes to realize measurable impact. At the same time, they would fall under various stages of the sustainability maturity framework, (depicted in Exhibit 3). It would not be wise to push the pedals on all these initiatives simultaneously; instead, enterprises should prioritize their social sustainability initiatives.

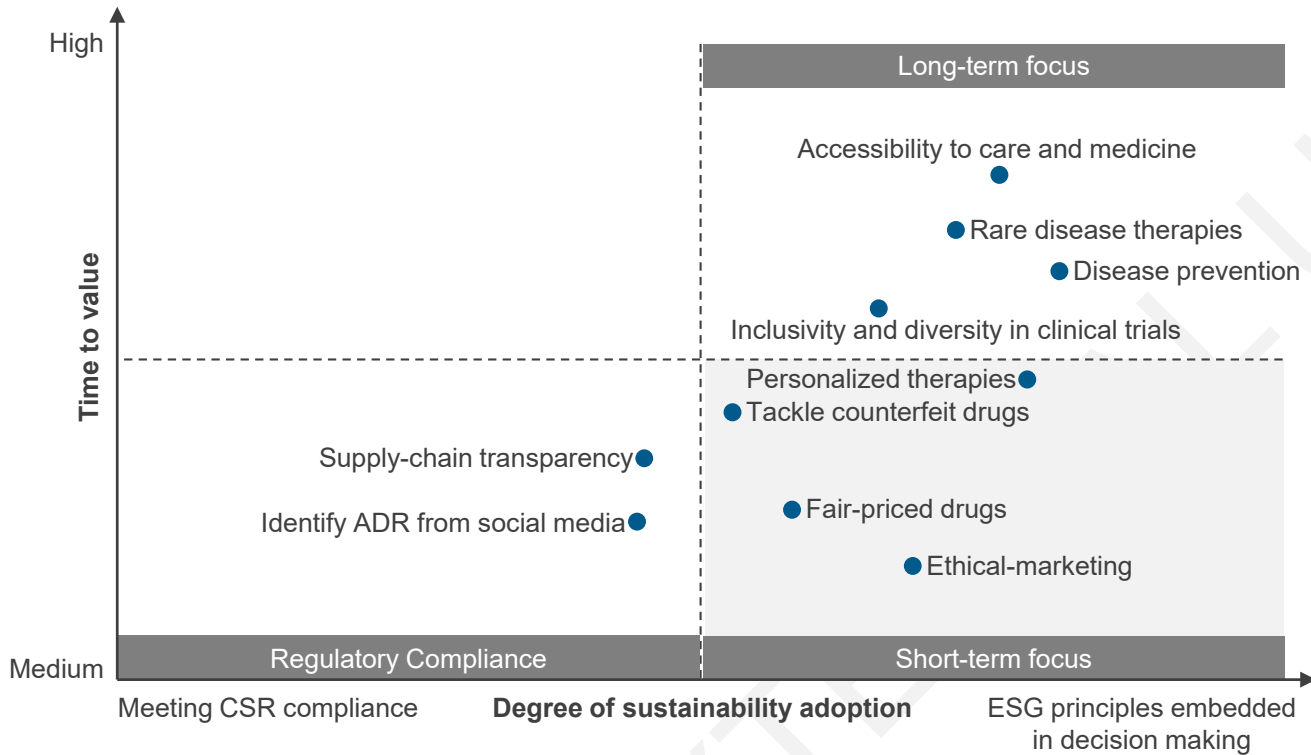
Exhibit 6 maps the initiatives on a two-by-two matrix based on the degree of sustainability adoption and the time-to-value. The degree of sustainability adoption is measured starting from regulatory adherence (extreme left) to ESG principles being deeply embedded in the decision-making (extreme right). Financial investments, commitment from business units, and the time required to generate measurable impact are considered for the time-to-value.

It would not be wise to push the pedals on all these initiatives simultaneously; instead, enterprises should prioritize their social sustainability initiatives.

EXHIBIT 6

Mapping social sustainability initiatives for successful prioritization

Source: Everest Group (2022)

NOT EXHAUSTIVE

The top-priority initiatives for enterprises lie in the bottom right quadrant. These efforts are more geared to the purpose-driven stage per the sustainability maturity framework and do not require considerable leadership commitment and financial investments. Efforts around drug pricing, anti-counterfeit programs, ethical marketing, and personalized therapies will enable enterprises to drive differentiation and stay ahead of the competition.

The long-term focus for enterprises should be rare disease therapies, disease prevention, and greater access to medicines and diversity in trials. These initiatives require significant commitment and investment from enterprise leadership.

“ We aspire to create a culture in which our ESG activities are deeply embedded in our daily work, reflecting both the responsibility we have to our patients around the world today, as well as those who will come after us.

– Vas Narasimhan, Chief Executive Officer, Novartis, ESG Report 2020

The road ahead

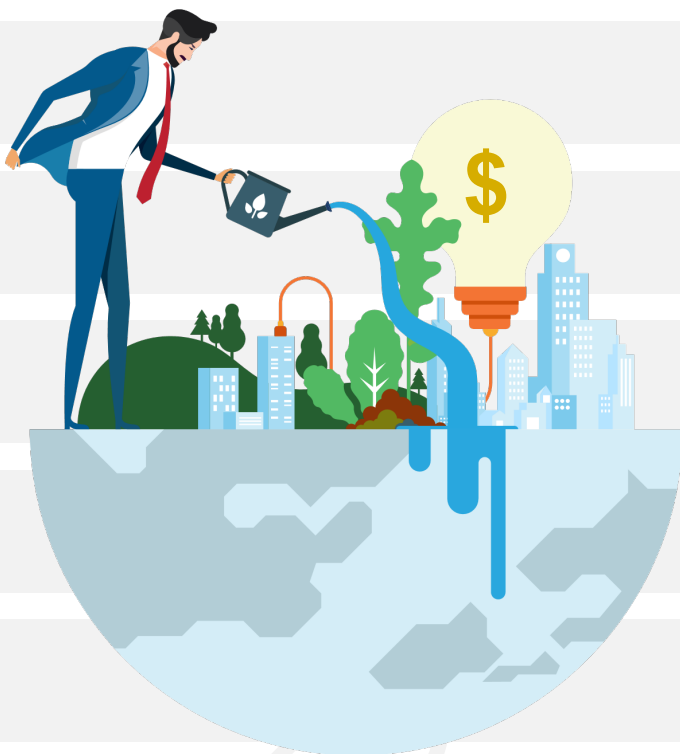
Life sciences enterprises should stay committed to their social sustainability efforts and embed sustainability principles in all business decisions. They should plan and prioritize their ESG initiatives in a way that they not only benefit the larger community, but also spur growth for the organization. Sustainable investments should be seen as efforts for long-term value creation.

We recommend enterprises to follow a simple five-step process, as depicted in Exhibit 7.

EXHIBIT 7

A guide to generating value from sustainability initiatives

Source: Everest Group (2022)



- 1 Gauge the market and investor sentiment
- 2 Prioritize ESG initiatives per Everest Group's matrix and the previous point
- 3 Ensure appropriate reporting standards
Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB)
- 4 Invest in human capital, as long-term value creation via R&D is a highly human-centric process
- 5 Communicate the value generated across all stakeholders to enhance reputation and stay ahead

This is not a one-time process; rather, it is an iterative process to create a culture of sustainability, where all related investments are regarded as a competitive advantage. When stakeholders – enterprises, investors, academia, regulatory bodies, and patients – work together, they are likely to create an ecosystem that runs on principles beyond profits and benefits everyone involved.

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