

# Not-for-Profit Hospitals & Health Systems Market Update

Industry Consulting Team | Q3 2022

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Environmental, Social, & Governance (“ESG”) – A closer look at issues impacting the U.S Healthcare System.

### **As mission-based not-for-profits, hospitals & health systems have been living ESG for years . . .**

ESG is not a new concept, but it is a much discussed topic in the current environment. ESG (which stands for environmental, social, and governance) is something that not-for-profit hospitals and health systems have been focused on in different ways for many years.

A review of hospital mission statements highlights the industry’s alignment with the core concepts of ESG. The areas addressed most often include energy efficiency, waste management, access to care, affordability of care, employee experience and diversity in workforce, suppliers and communities served.

The Covid-19 pandemic highlighted health inequities in many communities. As we look back, we see a direct correlation between access to quality healthcare and infection & death rates. The ongoing labor shortage in healthcare has been exacerbated by concerns over unsafe working conditions, low pay, clinician burnout, and other considerations. As a result, hospitals are more focused than ever on addressing ESG challenges.

While bond rating agencies have considered these concepts in their ratings for many years, several of the agencies now explicitly incorporate ESG scores into ratings. The environmental (earthquakes, wildfires, hurricanes, flooding, etc.) and quality of management considerations have expanded to consider carbon emissions, health equity, workforce & Board diversity and transparency of governance & decision making.

This is being done because some public bond investors are more closely considering ESG risks as they decide where to invest. So far, stronger ESG scores have not translated meaningfully into lower borrowing costs, but this may change over time as banks, mutual funds and investment policies adapt to recognizing these concerns.

### **Social issues related to equality of care, employee experience and diversity are hard to tackle, and results can be harder to quantify. However, hospitals have leveraged a variety of strategies to best serve their stakeholders, such as:**

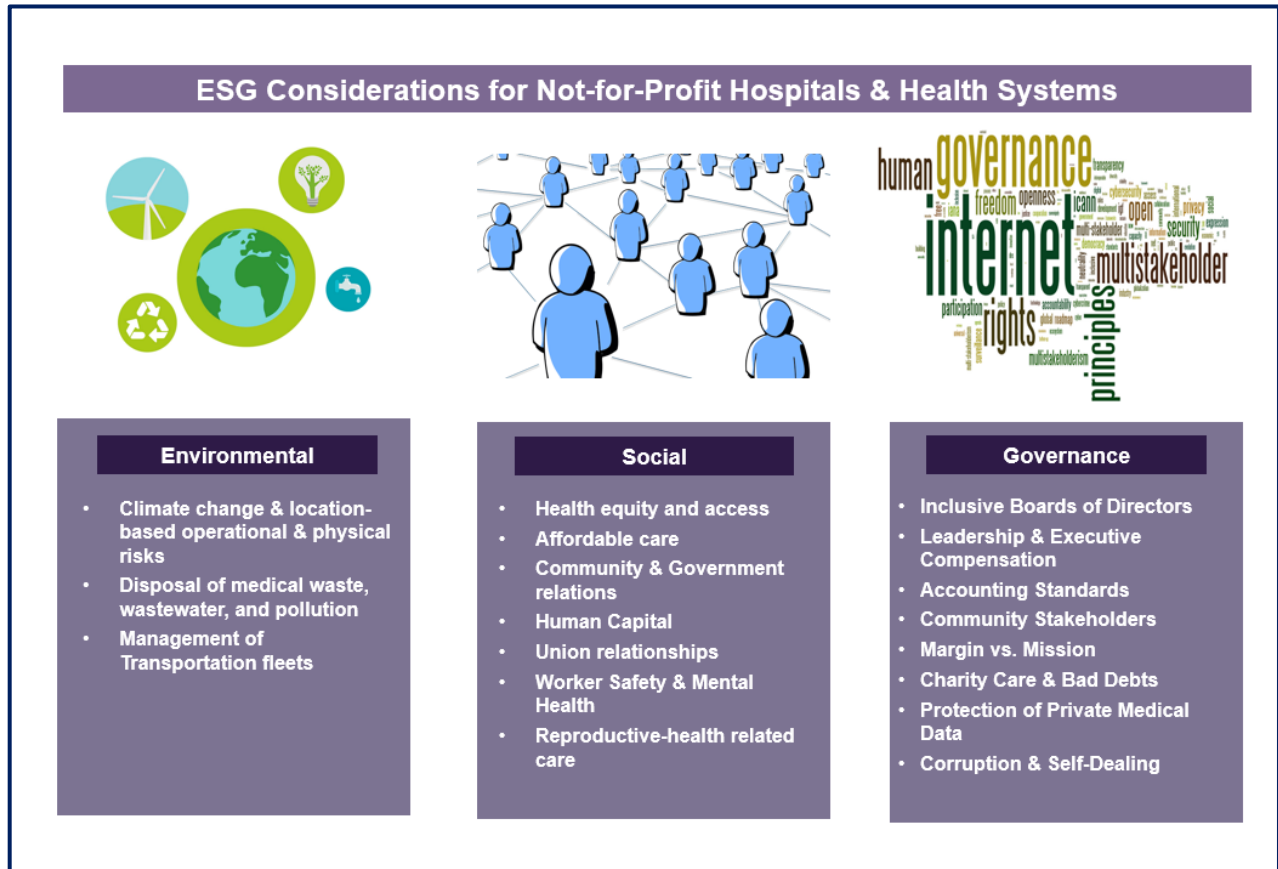
- Incorporating diversity and other ESG goals into supplier policies or creating purchasing consortiums to combine purchasing power. This can offer cost benefits, but it also allows research on potential suppliers to be managed more centrally reducing the burden on each entity to find suppliers that align with their goals.
- Initiating scholarship programs to promote health care careers and STEM programs in high schools for minority & female students.
- Measuring and reporting on progress such as percent of women and percent of racially-diverse individuals within the Board of Directors, leadership roles and across all employees.
- Encouraging community engagement and volunteerism within the organization and/or sharing the successes from community engagement with employees, patients, community leaders and prospective employees.
- Tracking quality of care metrics such as patient satisfaction, data security, readmission rates, and harm of care (healthcare-associated infection rates)



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Hospitals and Health Systems have evolved into large & complex organizations that are key components of what makes our communities thrive. Wherever a provider is on their ESG journey, the most critical factor to success is connection to the organization's mission and goals and the ability to recognize and address areas where they may be falling short.



## Conversation Starters:

1. How does your organization seek to address healthcare inequity in the communities you serve?
2. How have costs changed with respect to data security and privacy?
3. What strategies and tactics has your organization employed to manage workforce safety, burnout and mental health issues?

## Resources

- [Research: Moody's - ESG Credit Impact Scores expanded to more governments, companies and financial institutions globally - Moody's \(moodys.com\)](https://www.moodys.com/research/Moodys-ESG-Credit-Impact-Scores-expanded-to-more-governments-companies-and-financial-institutions-globally)
- [ESG Scores: What We Know and Don't Know | Kaufman Hall](https://www.kaufmannhall.com/insights/esg-scores-what-we-know-and-dont-know)
- [04-37665.global.compact\\_final \(unepfi.org\)](https://www.unepfi.org/global-compact/04-37665-global-compact-final)
- <https://www.spglobal.com/en/research-insights/articles/esg-industry-report-card-health-care>
- <https://www.washington.edu/news/2010/06/24/uw-team-wins-1-2-million-to-radically-reduce-hospital-energy-use/>
- [https://www.cms.gov/Medicare/Quality-Initiatives-Patient-Assessment-Instruments/QualityMeasures/Downloads/11\\_30\\_17-Meaningful-Measures-Final\\_508v2.pdf](https://www.cms.gov/Medicare/Quality-Initiatives-Patient-Assessment-Instruments/QualityMeasures/Downloads/11_30_17-Meaningful-Measures-Final_508v2.pdf)



Sources: Center's for Disease Control, KH February Hospital Flash Report, Refinitiv, CNN, Moody's Investor Services, The Wall Street Journal