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Paper 2: Embedding ESG Policy in the Strategy of Global Healthcare Companies

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Abstract

For the sustainable development of modern organisations, it is necessary to use the principles of social corporate responsibility, reflected in the Environmental, Social, and Governance (ESG) policy, and implement them into the strategy effectively. This is essential for global healthcare companies that should create value for patients regarding health and quality of life. The TASGRAM model provides a roadmap for integrating ESG policy into organisational strategy. It consists of the following constituents: thinking, analysing, strategy, goals, risks, actions, and monitoring. The first constituent – thinking makes it possible to assess the possibility of effectively integrating ESG policy into the company's organisational design. At the analysing stage, it is advisable to study ESG policy to create the company's strategy using various analytical tools, such as PESTEL analysis, stakeholder matrix, etc. At the next constituent – strategy, the company needs to determine how to integrate ESG policy into the corporate and business strategies to reflect this in the company's positioning and value creation for stakeholders. As part of the strategy, the ESG policy develops goals, and the risks that the company may face when introducing ESG policy into the company's strategy are identified and assessed. After this, the company takes appropriate actions to achieve ESG goals. At the final stage, the effectiveness of implementing ESG policy in the healthcare companies' strategy is monitored. It is worth noting that the success of integrating ESG policy into healthcare organisations' strategies also depends on the corresponding organisational culture, organisational structure and efficient use of digital tools such as artificial intelligence, machine learning, cloud computing, big data, etc.

Keywords: Strategy; Environmental, Social and Governance (ESG) Policy; TASGRAM Model; Healthcare business companies; Digitalisation

1. Introduction

The sustainable organisation development concept is considered as a holistic approach with three core elements: Environmental, Social, and Governance (ESG). The environmental issues focus on minimising factors such as carbon emissions, waste, and pollution and promoting sustainability efforts; social issues are aimed at improving labour practices, such as Equality, Diversity and Inclusion (EDI), community engagement, human rights, and access to healthcare; social issues pay attention to internal governance, transparency, and ethics.

Adhering to the ESG Policy is not just important, but it is an urgent necessity for global healthcare companies. Pharmaceutical companies are significant contributors to global greenhouse gas (GHG) emissions. For instance, the pharma industry's emission intensity is 55% higher than the automotive industry (Belkhir & Elmeligi,

2019). Medications have a profound social impact because they affect people's health and quality of life, especially vulnerable patients and those who suffer from rare diseases. Global healthcare companies should focus on the economic and physical availability of drugs, their quality, and high standards in different practices, R&D, manufacturing, etc. According to GlobalData Healthcare (2019), health and safety (49%) and human rights (26%) are pharma's most pressing social issues. The healthcare business industry has been criticised for prioritising revenues over patient welfare, which is reflected in the governance issues of ESG policy. Arnold et al. (2022) noted that the pharmaceutical industry paid more than $33 billion in settlements for misconduct in the US from 1999 to 2016, most of which were harmful to patients. This underscores the urgent need for global healthcare companies to address these issues immediately.

Achieving ESG goals must be embedded in the organisation's strategy and aligned with its organisational culture, namely with vision, mission, and values. This alignment is not just a theoretical concept but a practical reality that can lead to the organisation's sustainable development and the achievement of the United Nations (UN) Sustainable Development Goals (see Figure 1). Thus, this study aims to analyse the process of ESG embedding in the strategy of global healthcare organisations with the help of the TASGRAM model.
The specific objectives are as follows:

1. To conduct a literature review, including ESG reports of global healthcare companies.
2. To analyse the ESG initiatives embedded in each constituent of the TASGRAM model.
3. To study the influence of digitalisation on the effective achievement of ESG goals.

2. Methodology

The study is based on a systematic literature review of secondary sources of information, particularly on the analysis of ESG reports of such global healthcare companies as Pfizer, Novartis, Merck, Johnson & Johnson, and AbbVie. These companies were selected for the study because they were among the top 5 leading pharmaceutical companies worldwide based on projected 2023 sales (Evaluate Pharma, 2024). The above companies' vision, goals, and achievements were examined in integrating their ESG policy into the organisational strategy using the TASGRAM model. This model (Figure 2) is an integrated system of strategy creation and implementation that consists of the following constituents: thinking, analysing, strategy, goals, risks, actions, and monitoring (Aliekperov, 2021).

Figure 1. The influence of embedded ESG policy in global healthcare companies' organisational strategy on achieving the UN sustainable development goals

Figure 2. The TASGRAM model of strategy creation and implementation

3. Results

Thinking is determining a preliminary strategy for further analysis and consideration. As John Baldoni (2012, p.125) mentioned, "sound purpose begins with sound thinking – with taking time to think before we do." In this preliminary stage, leaders and responsible managers should reflect on such questions as:

- How do we prioritise our ESG initiatives?
- How can we align ESG goals with our organisational strategy and culture?
- How can we embed ESG policy in our corporate and business strategy?
- Who will be responsible for achieving our ESG goals?
- How can we improve our organisational structure?
- Which KPIs should be used to monitor our ESG indicators?

The next stage, ***analysing***, implies studying the influence of external and internal factors on the company's strategic development. Successful strategy implementation depends on understanding the competitive environment, company

resources, and capabilities with the help of analytic tools such as PESTEL, stakeholder matrix, and VRIO analysis.

PESTEL analysis studies political, economic, social, technological, environmental, and legal factors, allowing healthcare companies to determine industry development's leading trends and drivers. Regarding ESG Policy, pharmaceutical companies should know and follow ESG regulations. For example, the UK has enacted the Climate-related Financial Disclosure (TCFD) Regulations 2022, mandatory for companies with more than 500 employees and a turnover of more than £500m. According to the TCFD Regulations, such companies must provide climate-related financial disclosures in their strategic report (Worldfavor, 2024).

The stakeholder matrix involves identifying key stakeholders depending on the degree of their power and interest. Thus, global healthcare companies should:

- keep satisfied policymakers and regulators.
- manage closely patients, employees, shareholders, investors, and partners (healthcare professionals (HCPs), suppliers, and scientific centres).
- keep informed society.
- monitor competitors.

For instance, global healthcare company Pfizer defined its priority six ESG issues, considering their importance to stakeholders and their impact on the business: product innovation (S), equitable access and pricing (S), product quality and safety (G), business ethics (G), colleague diversity, equity, and inclusion (S), climate change (E) (Pfizer, 2022). Johnson & Johnson also uses a Priority Topics Assessment (PTA) to identify and prioritise ESG issues that are most important to the company and key stakeholders, including society (Johnson & Johnson, 2024). In addition, Johnson & Johnson actively engages with various global, national, and local stakeholders by participating in advocacy organisations and industry associations (Wu, 2024).

VRIO analysis allows global healthcare companies to determine valuable (V), rare (R), inimitable (I), organised (O) resources (tangible and intangible) and organisational capabilities to identify the company’s competitive advantages, including regarding ESG issues:

- valuable (V) – propensity for innovation, raising capital, and attracting investors to meet ESG goals, recognisable brands.
- rare (R) – unique regulatory experience, the ability to cope with risks affiliated with ESG, and prosperous partnerships.
- inimitable (I) – innovative medical products, unique technology platforms, customer experience (CX), and digital experience (DX) create firm commitments to ESG initiatives.
- organised (O) – clear ESG strategy, supportive organisational culture, leadership, and professional management.

It is worth noting that global healthcare companies can use various types of analysis of external and internal factors in creating and implementing a strategy per ESG policy, for example, Porter's five forces analysis, 5W client analysis, SWOT analysis, etc.

The next stage is a **strategy** that can be considered from two viewpoints: corporate and business strategies, which must align with mission, vision, and organisational values. Corporate strategy answers the question: Where can a company compete? Which markets, products, and technologies? Business strategy answers the question: How can a company compete and create value for stakeholders? ESG policy should be embedded in both strategies to achieve the organisation's sustainable development.

For example, the corporate and business strategies of the global pharmaceutical company Novartis are aligned with the vision, mission, and organisational values. They are directed toward improving patients' health and quality of life. Novartis' corporate strategy is focused on accelerating development in priority geographies and strengthening core therapeutic areas. Novartis' business strategy is to create value for patients by developing innovative, accessible, high-quality medicines while considering environmental sustainability, human capital, and ethical standards. As a result, the company can provide more patients with innovative treatments, create sustainable social and economic impact, and build trust with society (Novartis, 2023b). See Figure 3.

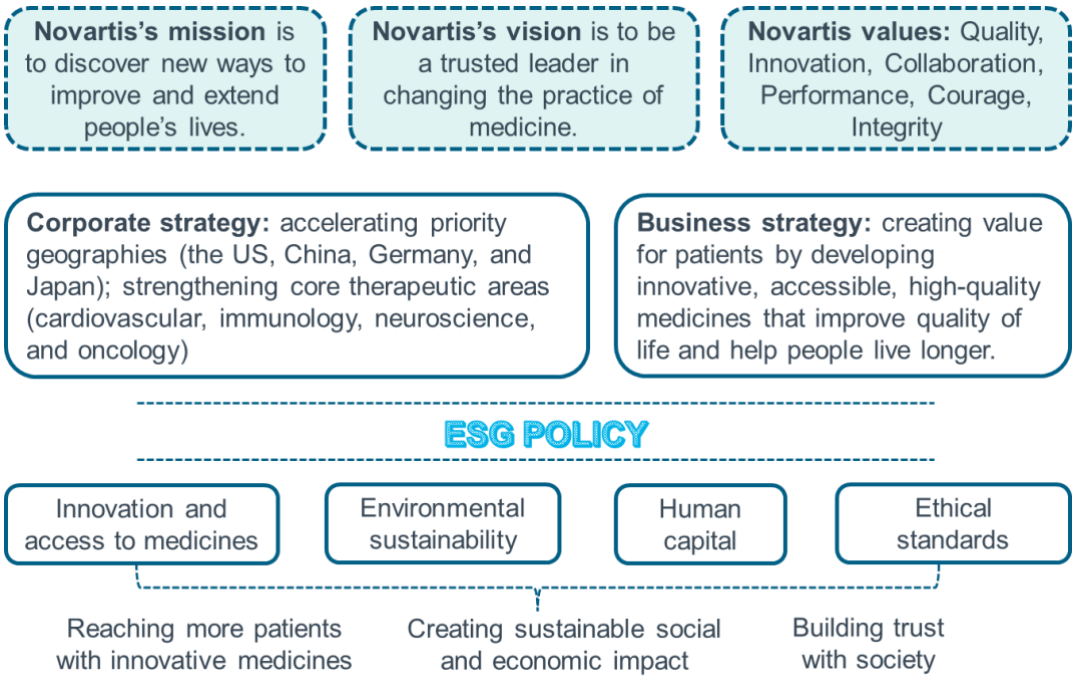

Figure 3. Embedding ESG policy in the business and corporate strategies of global healthcare company Novartis

The next TASGRAM constituent is the **goals**, which should be formed under the SMART system: specific, measurable, attainable, realistic, and timed. Goals need to be consistent with the mission, vision, organisational values, and corporate and business strategies and contribute to achieving UN sustainable development goals (United Nations, 2024). The examples of ESG goals of the pharmaceutical company Novartis are presented in Table 1 (Novartis, 2023b).

Table 1. The examples of ESG goals in the Novartis case

ESG goals	Relevant UN sustainable development goals
Environmental	
• Achieve net-zero carbon emissions across our value chain by 2040 • Reduce the amount of waste sent for disposal by half by 2025 • Become water-neutral in our own operations by 2030 • Become plastic-neutral by 2030	• (3) Good health and well-being • (6) Clear water and sanitation • (12) Responsible consumption and production • (13) Climate action • (14) Life below water • (15) Life on land
Social	
• Invest USD 250 million to advance R&D for NTDs and malaria over five years (2021-2025) • Increase the number of patients reached with strategic innovative medicines in LMICs by at least 200% by 2025 • Close the gender pay gap by 2023 • Achieve gender balance in management by 2023	• (3) Good health and well-being • (5) Gender equality • (8) Decent work and economic growth • (10) Reduced inequalities • (16) Peace, justice and strong institutions
Governance	
• Conduct risk assessments for all new eligible suppliers	• (5) Gender equality • (16) Peace, justice and strong institutions

Risks are an integral part of the strategy implementation process. According to Novartis (2023a), risks associated with a company's failure to meet rapidly changing expectations regarding ESG matters are classified as strategic risks, the management of which is a priority. Failure to properly manage these risks can lead to negative consequences regarding the company's reputation, selecting and retaining professional and motivated employees, achieving desired financial results, and implementing the company's strategic goals. To effectively manage the risks associated with the implementation of ESG policy, Novartis created the Sustainability & ESG Office, which is tasked with developing an ESG strategy and tracking performance against ESG targets.

Pfizer has identified and assessed risks associated with ESG matters by the TCFD guidance on a short-term (2030), medium-term (2040) and long-term basis (2050). For example, the company rated transition risk – carbon pricing mechanisms – as high for all periods (2030, 2040, 2050). This means that with a high degree of probability, the cost of carbon in Pfizer’s operations will increase direct and indirect (operating) costs (Pfizer, 2022).

Global healthcare companies should transform organisational goals into specific tasks or **actions** for strategy implementation. The value chain of these companies, from procuring the necessary resources for creating and producing medicines to their disposal, must align with ESG goals, particularly the environmental component – carbon footprint.

Research and Development (R&D) is a crucial and resource-intensive functional process in global healthcare companies. According to Buntz (2024), pharmaceutical giants, on average, invest between 14% and 30% of their revenue in R&D. The leader in investments in R&D in 2023 was Merck & Co., with an indicator of more than 50% of revenue. According to Troubniakov (2023), Merck & Co. uses various initiatives aimed at introducing sustainability principles into the company's R&D processes, including:

- green chemistry: use of the quantitative tool Process Mass Intensity (PMI)5 for assessing and minimising emissions, waste, and water consumption.
- animal welfare: using the 4R approach (reduce, replace, refine, and responsibility).
- EDI in clinical trials: prioritisation of EDI factors to eliminate differences in the health status of different patient groups.
- patient safety: safety monitoring of the entire life cycle of a product through a meticulous benefit-risk management process, high standard of clinical trials and transparency.

It is worth noting that digitalisation plays a significant role in the success of actions aimed at integrating ESG initiatives into the strategy of pharmaceutical organisations. Thus, the results of empirical studies by Su et al. (2023, p.18) confirmed that "digital transformation indeed effectively enhances ESG performance, with dynamic capabilities as the mediation pathway." Zhou and Liu (2023) noted that the digitalisation of the economy has become a crucial factor in achieving ESG goals. Sepetis et al. (2024) stated that ESG and digital transformation factors associated with the healthcare sector are essential for sustainability. Digital tools are environmentally friendly, so they reduce energy loss while increasing operational efficiency, enhance environmental protection throughout the production process, enable enterprises to pursue green production, narrow the distance between the company and stakeholders, enhance the level of corporate governance, etc. (Zhou & Liu, 2023; Sepetis et al., 2024).

Zhang (2023) noted that the effective integration of information technology (IT) and healthcare business simplifies the search for new drugs and promotes personalisation in creating effective drug therapy. Thus, the global healthcare company AbbVie (AbbVie, 2023) declares that it responsibly approaches the use of artificial intelligence (AI) and machine learning (ML) tools in the development, research, delivery of drugs, etc. To advance innovation in IT, AbbVie launched the AbbVie R&D Convergence Hub (ARCH) in 2021. The ARCH platform uses AI and ML to structure, classify data, predict and assist in decision-making regarding developing new molecules, patient data analysis, clinical trial design, etc.

It is worth noting that the COVID-19 pandemic has primarily catalysed the implementation of digital technologies in the functional business processes of global pharmaceutical companies, particularly in developing, producing and transporting antiviral vaccines. Currently, healthcare business companies use digital tools to create cloud technologies for drug discovery and development; to track real-world data and evidence of the R&D pipeline; to conduct virtual clinical trials; to form a virtual go-to-market model; for diagnostics, maintenance, and repair of equipment; for real-time supply and temperature monitoring, as well as for deepening patient and healthcare provider engagement. Digital transformation of the pharmaceutical business significantly contributes to achieving results in ESG policy. Lidia Fonseca, Pfizer's chief digital and technology officer at AWS re: Invent, noted that Pfizer's transition to cloud computing reduced carbon emissions by almost 5,000 tons and saved Pfizer $47 million per year (Buntz, 2023).

The last constituent of TASGRAM is monitoring. Healthcare business companies can use various KPIs to monitor the efficiency of achieving ESG goals. For example, Pfizer has defined KPIs for each ESG component (Pfizer, 2022). Regarding the environmental component, emphasis was placed on carbon emissions (in million metric tons CO2) and renewable electricity (%). Implementing these KPIs aims to reduce GHG emissions by 46% compared to the 2019 baseline, including achieving a 100% renewable energy target by 2030. Regarding the social component, Pfizer has defined KPIs regarding innovation, global health, and human capital: gender/racial/ethnic group representation (%). Governance KPIs aim to achieve ethics, transparency, quality, and accountability goals.

4. Conclusions and recommendations

The sustainable development of such global healthcare companies as Pfizer, Novartis, Merck, Johnson & Johnson, and AbbVie depends on the practical implementation of ESG policy in their organisational strategy. The TASGRAM model allows for consistently implementing ESG components following the organisation's vision, mission, and values . It also contributes to implementing UN sustainable development goals, such as good health and well-being, responsible consumption and production, climate action, peace, justice and strong institutions, etc. The first two constituents of the TASGRAM model – thinking and analysing – allow us to determine priorities in implementing ESG policy into the organisational strategy and assess organisational resources and capabilities, trends and drivers that influence the achievement of ESG goals. Next, ways to introduce ESG initiatives into companies' business and corporate strategies are determined to increase the availability of innovative medicines for patients, create a sustainable social and economic effect, and comply with ethical standards when interacting with stakeholders. Through business and corporate strategies, companies determine ESG goals that contribute to the achievement of UN sustainable development goals, assess possible risks and develop a plan to minimise them. Effective strategy implementation by ESG policy depends on integrating ESG goals and indicators in the value chain of companies, which largely depends on the digitalisation of business processes. The use of IT is necessary for business functioning in the Fourth Industrial Revolution and a factor influencing the achievement of ESG goals, such as reducing

GHG emissions. Achieving ESG goals is determined by specific KPIs for different periods, including long-term ones.

Considering the above, it is worth highlighting the following recommendations for the effective implementation of ESG policy in the strategy of global healthcare companies:

1. Integrating IT, including AI, ML, cloud computing, IoT, and big data, in creating and implementing healthcare companies' business and corporate strategy under ESG policy.
2. Creation and maintenance of a strong organisational culture, motivation and engagement of personnel in the transformation of business processes aimed at integrating ESG policy into the strategy of global healthcare companies, as well as the formation of organisational structure that allows achieving ESG goals.
3. Creating an ecosystem aimed at implementing ESG policies by global healthcare companies in collaboration with partners such as distributors, suppliers, research centres, etc., to create value for patients, the healthcare system and society.

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