

RE-EVALUATING ESG performance post-COVID IN THE BIOPHARMA INDUSTRY



DR. MICHAEL FÜRST
has more than 20 years of management and leadership experience in Corporate Responsibility (CR), ESG, social business & innovation and integrity & compliance management, in business and academia.



STEFFEN RUFENACH
is CEO of R.A.T.E. GmbH. For more than 15 years, he and his team have been advising companies on using data to improve communication with stakeholders.



JUDITH EXL
is a Sustainability Consultant at R.A.T.E. GmbH. She has over 5 years of experience in pharma and sustainability.



THOMAS SCHEIWILLER
is Chairman of the Advisory Board and supports the Center for Corporate Reporting (CCR) on projects and strategic issues. He is also the co-founder of the Biopharma Sustainability Roundtable.

For roughly the past year, the world has been firmly in the grip of the COVID pandemic. As the crisis first began to unfold, various ESG topics from supply chain disruptions to remote work sprang up in connection with COVID restrictions. Now that businesses are settling into new routines, it is becoming clearer which trends are here to stay. These will become new indicators by which investors measure performance.

To avoid being downgraded in investors' evaluations, companies need to anticipate potential changes to ESG frameworks. These frameworks represent an important pillar of the proprietary ESG evaluation methods employed by investors. Aiming to understand changing investor perceptions, the authors began researching financial market participants' current publications. We then verified our findings through interviews with experts from e.g. Domini Impact Investments and the Access to Medicine Foundation. This article focuses mainly on cross-industry trends, but also explores two pharma-specific trends to illustrate how crisis management can have a lasting impact on reputation.

COVID-induced ESG trends can be classified into the following categories (see Figure 1): First, trends are either unique to the COVID crisis, or well established from past crises. Second, they can be unlikely vs. expected to lead to changes in ESG evaluation criteria.

The focus is on a selection of the most significant trends. Naturally, trends that are both unique to COVID and likely to result in updates to ESG evaluation criteria should be prioritized by companies.

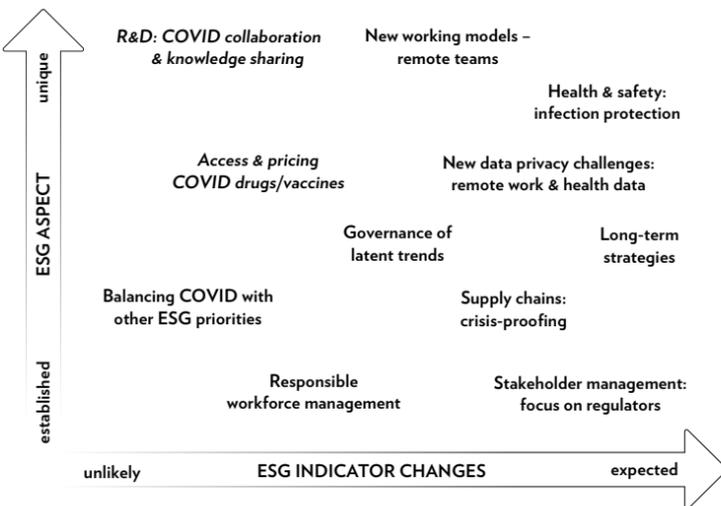


Figure 1: Classification of COVID-induced ESG trends. Italics: Pharma-specific trends. © R.A.T.E. GmbH and SCHEIWILLER IMPACTS

Health & safety (of employees), traditionally a focus area for heavy industries with high risk of accidents and fatalities, is now gaining cross-industry relevance. The risk of workplace infection translates into requirements to update health & safety protocols and sick leave policies.

Remote work has experienced an unparalleled rise in popularity as a way for white-collar workers to avoid potential virus exposure at the office or during their commute. Investors are likely to be interested in the remote work ratio and measures taken by companies to ensure productivity. Employers will also be judged by the measures they implement to safeguard employees' mental health and guard against excessive overtime. In the context of remote work, new data privacy challenges arise in connection with potential data leaks, employee productivity data tracking, etc.

Long-term strategies will increasingly be demanded by investors: companies need to prepare not just for the next pandemic, but also for other latent risks of similar magnitudes. For example, pharma companies will be expected to review their business models considering the effects of climate change on human health, e.g. shifting disease patterns.

Other trends are brought into a unique spotlight by COVID, but are unlikely to lead to changes in ESG evaluation criteria. This can be illustrated by taking a closer look at the pharma industry,

In light of the COVID crisis, investors are re-examining how to measure companies' sustainability performance. We expect recalibrations to become visible in ESG ratings such as DJSI, MSCI, Sustainalytics, and ISS. Existing criteria are changing, and new criteria are emerging. ESG ratings will reflect these changes through new or adapted indicators, and updated weightings. Companies can expect to be judged not only by how well they manage new risks, but also by how successfully they harness opportunities opened up by the crisis. The pharma industry provides a striking example of how this can be achieved.

By Michael Fürst, Steffen Rufenach, Judith Exl and Thomas Scheiwiller

which finds itself in the exceptional position of holding the key to ending the pandemic. Companies' handling of these challenges will either boost or harm industry reputation for years to come.

R&D is a topic specifically material in the biopharma industry and the starting point for creating COVID treatments and vaccines, but no biopharma company will be able to end the pandemic single-handedly. There are indications that investors will value companies that prioritize the finding of solutions through collaboration and knowledge sharing, rather than through individual efforts. Looking ahead, companies will be required to align R&D activities more closely with society's needs. Common diseases, e.g. in the field of infectious diseases, need to be targeted with new products and revised business models.

Access & pricing are generally agreed to be among the most material topics for the pharma industry. But during the COVID crisis more than ever, companies need to find the correct balance between conflicting stakeholder interests, e.g. shareholders expecting excess returns vs. governments expecting concessions in return for public vaccine development funding. Balanced pricing models will be required beyond the pandemic. Other access-related demands include companies taking a stand on fair distribution, considering need in addition to purchasing power.

Updated ESG frameworks have been published already and will continue to be published, and companies are advised to monitor any changes – particularly with regard to the trends outlined above. Each company will also need to view ESG evaluation criteria in the context of its own industry, and to balance COVID-related requirements with existing ESG priorities.

R.A.T.E. GmbH is a boutique consultancy specialized in sustainability, communication performance measurement, and global management of ratings & rankings including ESG.

The Biopharma Sustainability Roundtable is a sector-specific platform designed to connect and support senior biotech and pharma executives in driving their biopharma sustainability agendas forward (biopharmasustainability.com)

This is an abbreviated version of the full article, which can be accessed online: rate-index.net/news