SUSTAINABILITY REPORTING TRENDS IN PHARMA

Disclosures by North America's top 100 companies

ESG research series by industry

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Overview

This white paper provides pharmaceutical (pharma) manufacturers and brands with insights into two key areas of sustainability reporting:

1) Priority criteria identified by global frameworks, standards and rating agencies.

2) Actual reporting behavior of the top 100 pharma companies in North America.

This paper leverages publicly disclosed data from the top 100 companies in the pharma industry by revenue, doing business in the US and Canada per ZoomInfo (June 6, 2024).[1] SGS's experience in delivering sustainability assurance solutions also informs this content. Other sources are listed as references. Organizations were not contacted directly while gathering the findings of this paper.

YOU WILL GAIN AN UNDERSTANDING OF:

- How sustainability and environmental, social and governance (ESG) reporting evolved to become a key business focus across all industries, globally
- How material ESG initiatives are fundamentally tied to achieving sustainability outcomes
- The five key business drivers of ESG and sustainability programs and performance in the North American pharma industry
- The priority material ESG and sustainability topics, with key performance indicators (KPIs), for the North American pharma industry as defined by international frameworks, standards and rating agencies
- The leading material ESG and sustainability topics of the top 100 North American pharma organizations, based on actual reporting behaviors
- The importance of building a robust ESG and sustainability program supported by third-party assurance

Executive summary

The production, storage, transportation and use of pharmaceuticals account for around 25% of the greenhouse gas (GHG) emissions produced by the healthcare sector per year.[2] With growing concerns about the negative impacts of climate change on the global economy – sustainability and ESG reporting have become a strategic priority for the pharma industry. Of course, there is also a unique role that the healthcare industry plays in patient outcomes worldwide, for example, in its provision of access to healthcare and its prevention of the spread of infectious diseases due to climate change, particularly in less-developed countries.

The majority (66%) of companies in the pharma industry are publicly disclosing ESG and sustainability performance data. The most common environmental topics reported are material sourcing, chemical safety and energy consumption. The top environmental target reported is GHG emissions. The top social topics and targets reported are access to healthcare, occupational health and safety and product safety and quality.

A best practice for industry comparison and achieving positive ESG outcomes is alignment with a globally accepted reporting framework or standard. In the pharma industry, the most common frameworks being followed are the Carbon Disclosure Project (CDP), UN Sustainable Development Goals (SDGs), Task Force on Climate-Related Financial Disclosures (TCFD) Framework and the Sustainability Accounting Standards Board (SASB).

More than half of reporting organizations are aligning their reporting with more than one of these forms of guidance. Out of the 66 reporting organizations, 53 are disclosing ESG and sustainability data through the publication of a comprehensive stand-alone report.

The remaining 13 organizations are publishing data on their websites. When indexed to relevant reporting frameworks and standards, publishing a stand-alone report is a best practice that optimizes the ease with which stakeholders can find comparable information.

Importantly, investor-driven frameworks, standards and rating agencies prioritize 'top-down' governance of ESG programs. This means that the success of ESG programs hinges on 'real-life' actions stemming from strong 'governance and ethics'. In this regard, 58% of reporting organizations in the pharma industry have a senior governance committee in place to oversee and manage their ESG programs; just over half (56%) of these committees also have Board-level oversight. Although the majority of leading pharma organizations are carrying out and reporting on initiatives – a highly significant gap exists since 42% have yet to establish senior-level bodies to manage ESG programs and performance. Moreover, almost half of existing ESG committees lack Board-level oversight.

Finally, our research shows that only 27% of North America's top pharma companies are disclosing third-party assurance of their reported ESG and sustainability data – the majority at a limited level of assurance. This presents a significant reporting gap, where a large room for improvement also exists. The criticality of this gap is demonstrated through a recent survey of global investors, which indicated that 87% of respondents believed that corporate reporting contains unsupported sustainability claims. 75% of these respondents also said they would have greater confidence in sustainability reporting if it was accompanied by an independent, reasonable assurance report.[3]

The growing importance of ESG and sustainability

Climate change becomes top global economic risk

ESG is an acronym for three categories of non-financial reporting: environmental, social and governance. 'Non-financial' refers to any disclosures material to an organization's bottom line, yet not measured in currency. For this reason, they are also referred to as 'extra-financial' to remind us that they do, in fact, have real financial implications.

After the global economic collapse in 1929, the financial sector spent 50 years on reform to protect investors and the economy. Instead of historical cost accounting for accuracy, the focus became decision-useful data and context regarding future performance (e.g. discounted cash flows). In the 1970s, finance professionals first identified two major types of non-financial data deemed material to organizational performance: environmental externalities and social goals. In 1980, this led to the US adding a 'Management Discussion and Analysis' section in the annual reports of publicly traded companies, resulting in the term ESG.

It took another 30 years to develop the sustainability reporting frameworks, standards and rating agencies for businesses that we have today. In 1975, 83% of the S&P 500 market value was in tangible assets, such as buildings, equipment, vehicles and inventory. By 2020, that completely flipped to 90% of the S&P 500 market value held as intangible assets, such as intellectual property, brand value and goodwill. Intangibles can change more quickly than tangibles, and therefore, carry more inherent risk from poor ESG performance.

ESG reporting is driven by financial materiality. It focuses on impacts that environmental and social issues pose on the financial performance of an organization in the short, medium and long terms. In the 2022 World Economic Forum's Global Risks Report, nearly 1,000 global leaders in business, government and civil society voted climate change (environmental) as the number one economic risk in the world.

So, why the controversy?

When people point to a conflict between financial performance and protecting the planet or people, they are referring to the impacts of an organization on the environment, society or impact materiality. The term 'double materiality' is often associated with 'sustainability', which refers to an organization considering both financial and impact materiality when defining material topics to measure and manage – to maximize profit while limiting social and environmental harm. This aligns with voluntary standards, like the Global Reporting Initiative (GRI), UN Sustainable Development Goals (SDGs) and regulatory schemes, like the EU's Corporate Sustainability Reporting Directive (CSRD). Successful programs addressing financially material ESG topics are the foundation for effective sustainability programs addressing broader issues.

Climate action failure is considered the most critical threat to the world in both the medium term (2-5 years) and long term (5-10 years), with the highest potential to severely damage societies, economies and the planet.
– World Economic Forum Global Risk Report (2022)

ESG: a key framework within core business strategy

ESG is a lens into how organizations measure and manage environmental and social topics that financially impact them. It is directly tied to the core business strategies of leading organizations across industries. There has never been more alignment in reporting frameworks, standards and rating agencies than today.

The most trusted and utilized investor-driven reporting guidances include:

- Integrated Reporting (IR) Framework
- Sustainability Accounting Standards Board (SASB) Standards
- Task Force on Climate-Related Financial Disclosures (TCFD) Framework
- International Financial Reporting Standards (IFRS) S1 & S2 Sustainability Standards
- European Union's Corporate Sustainability Reporting Directive (CSRD)

The first three were combined under the Value Reporting Foundation (VRF) and absorbed into the IFRS Foundation.

IFRS guidance is followed by the majority of jurisdictions worldwide, excluding the US, where Generally Accepted Accounting Principles (GAAP) are still in use. IFRS released its S1 and S2 sustainability standards in June 2023. These now form the best starting point for any organization wanting to identify and report on material ESG topics, including industry-specific disclosures.

There have never been more business tools, frameworks and standards for businesses to implement ESG initiatives and to gather information on ESG performance.

ESG and sustainability in the pharma industry

Top 5 drivers of adoption and growth

1) Regulation

Regulation is leading the way in North America. Particularly, participation in the Greenhouse Gas Reporting Program (GHGRP) is mandatory for organizations that operate facilities emitting 10 kilotons or more of GHGs. In Canada, the IFRS S2 climate-related standard came into effect in January 2024. Large industrial emitters, large federal suppliers and federally regulated financial institutions are subject to climate disclosure rules.

In the US, rules also exist or have been proposed for large industrial emitters, large federal suppliers, large publicly traded companies and large companies doing business in California (where SB 253 and SB 261 climate disclosure rules will take effect for 2026 reporting). Broader ESG and sustainability disclosure is required for publicly traded and larger North American companies doing business overseas due to international regulations, including the IFRS S1 and S2 Sustainability Standards and the EU's CSRD.

2) Sustainability scores

ESG rating agencies continue to score publicly traded companies against their peers, driving organizations to act given their use in decision-making for lenders and investors. The most reputable rating agencies include the Dow Jones Sustainability Indices (DJSI), Morgan Stanley Capital International (MSCI) ESG, Institutional Shareholder Services (ISS) ESG and Sustainalytics. These sustainability scores are increasingly used by investors, banks and other financial institutions when making buy, sell or lend decisions. Higher ESG scores are often associated with lower costs of capital.

3) Supply chain pressure

ESG rating agencies' sustainability scores of publicly traded companies are impacted by transparency and performance in their supply chain. To manage this, organizations have rapidly increased surveys and requests for suppliers to disclose sustainability data – often on accepted platforms, like CDP for climate-related disclosures and EcoVadis for broader ESG and sustainability disclosures. This provides transparency in the organization's supply chain. Scores are increasingly used to support whether a supplier can meet minimum requirements or achieve preferred status.

responsible health initiative

powered by ecovadis

The Responsible Health Initiative (RHI) aims to improve the social, environmental and ethical impacts of healthcare, pharmaceutical and biotechnology supply chains. Founded in 2018, the initiative seeks to create synergies between companies active in these sectors to raise standards and improve sustainability performance. The initiative continues to grow and welcomes pharma, biotechnology, healthcare companies and, on a case-by-case basis, also medical technology companies. Learn more

4) Consumer demand

Although the market for sustainable pharma is immature, Lifestyles of Health and Sustainability (LOHAS) consumers are a USD 546 billion global market, with 23% market share in the US – with an anticipated 10% year-over-year growth.[4] One of the six LOHAS market segments is 'personal health', which although distinct from the pharma industry, is impacting priorities and partnerships in the industry.

According to the PwC 2024 Voice of the Consumer survey, consumers are increasingly prioritizing sustainability in their consumption practices, with 85% experiencing the disruptive impacts of climate change in their lives. 46% say they are buying more sustainable products as a way to reduce their impact on the environment.

Traditionally, the pharma industry has been focused on developing drugs to treat illnesses rather than preventing them. However, the rise of health-conscious consumers has prompted a shift in the industry's approach. There is a growing emphasis on preventive medicine, lifestyle drugs and wellness-oriented solutions. As a result, partnerships between pharma companies and wellness brands are on the rise, creating a greater synergy between traditional medicine and holistic health.[5]

5) Recruitment and retention

A wider pool of top talent is available to organizations that can brand themselves as an environmentally responsible place to work. According to IBM's 2022 Institute for Business Value survey of 16,000 employees across 10 countries, 67% of job applicants are more willing to apply for and accept positions with companies they feel are sustainable.

In the UK, a Unily survey of office employees showed that 83% felt their employer was not doing enough to tackle sustainability and climate change, while 65% would prefer to work for a company with stronger environmental policies.[6]

ESG priorities based on global frameworks, standards and ratings

Let's have a look at the priority ESG material topics with related disclosures and KPIs for the pharma industry that have been identified by global frameworks, standards and rating agencies through multi-stakeholder approaches – including investors and industry professionals.

1. Governance & ethics

- Senior governance structure for managing and reporting on material ESG topics
- Names and qualifications of leaders assigned to senior ESG governance
- Stakeholder engagement process to identify ESG risks and opportunities
- List, description and management approach of material ESG topics
- Certification to a governance standard (e.g. ISO/IEC 27001, ISO 37000)
- Tier 1 suppliers certified to a governance standard, by type
- Monetary losses: false marketing claims, corruption or bribery
- Code of ethics: off-label product use and interaction with healthcare professionals

2. Product safety & quality

Social

- Management of quality and patient safety in clinical trials
- Inspections resulting in voluntary remediation or regulatory/ administrative actions
- Legal monetary losses from clinical trials in developing countries
- Products listed in public medical product safety or adverse event alert databases
- Certification to quality standards (e.g. ISO 9001, ICH Q7 API, EXCiPACT)
- Tier 1 suppliers certified to quality standards, by type
- Fatalities associated with products
- Recalls issued and total units recalled
- Product accepted for takeback, reuse or disposal
- Enforcement actions in response to violations of GMP or equivalent, by type
- Traceability of products in the supply chain to prevent counterfeiting
- Process for alerting customers and business partners, counterfeit product risks
- Actions that led to raids, seizures, arrests or criminal charges related to counterfeiting
- Facilities in Rx-360 audit program or equivalent for supply chain and ingredients
- Tier 1 suppliers' facilities in Rx-360 audit program or equivalent

3. Human capital development (occupational health & safety)

Social

- Talent recruitment and retention efforts for scientists and research and development staff
- Voluntary and involuntary turnover for all levels of employees
- Certification to a health and safety standard (e.g. ISO 45001)
- Tier 1 suppliers certified to health and safety standards, by type

4. Access to healthcare

Social

- Promotion of access for priority diseases and countries per Access to Medicine Index
- Products on the WHO List of Prequalified Medicinal Products
- Annual change in weighted average list price and net price across product portfolio
- Annual change in list price and net price of product with largest increase
- Patents, development capacity and product donations

5. Toxic waste & emissions

Environmental

- Incidents of non-compliance with air quality permits, standards and regulations
- Hazardous, toxic or carcinogenic waste and emissions
- Certification to an environmental management system standard (e.g. ISO 14001)
- Tier 1 suppliers certified to environmental standards, by type

6. Water management

Environmental

- Water-related risk and opportunity management systems
- Water intensity of operations
- Incidents of non-compliance with water quality permits, standards and regulations
- Water withdrawn and consumed in regions: high or extremely high baseline stress

Top 100 pharma companies: 12 key insights

Now let's look at the actual ESG and sustainability reporting behavior of the top 100 pharma companies doing business in the US and Canada, based on revenue.

Disclosure

1) Have businesses publicly disclosed ESG and sustainability performance data?

66% – Yes 34% – No

2) What are the most common reporting frameworks?

Environmental

3) Of reporting businesses, have they disclosed environmental performance data?

66% – Yes 34% – No

4) What are their three most commonly disclosed material environmental topics?

1. **Material sourcing**
2. **Chemical safety**
3. **Energy consumption**

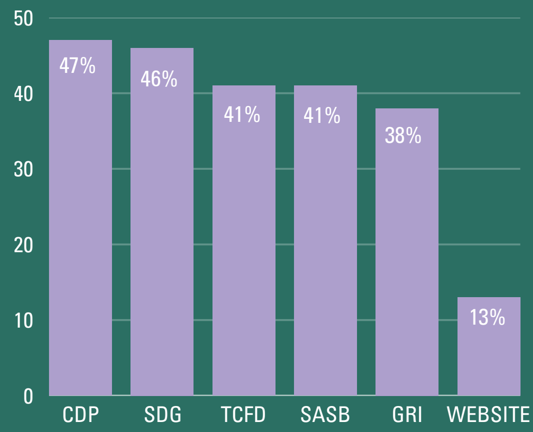
5) Which environmental topics most commonly have improvement targets?

1. **GHG emissions**
2. **Energy consumption**
3. **Material sourcing/Chemical safety**

Data disclosure

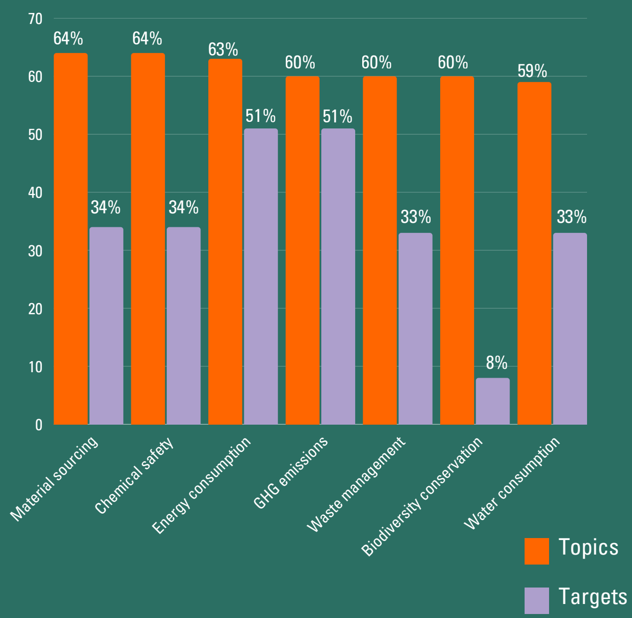
Avenue of disclosure

Frameworks



Environmental data disclosure

Material environmental topics and targets



Social

6) Of reporting businesses, have they disclosed social performance data?

66% – Yes   34% – No

7) What are their three most commonly disclosed material social topics?

1. **Access to healthcare**
2. **Occupational health & safety**
3. **Product safety & quality**

8) Which social topics most commonly have improvement targets?

1. **Access to healthcare**
2. **Occupational health & safety**
3. **Product safety & quality**

Governance

9) Have businesses established a senior-level governance body to manage ESG and sustainability risk and performance?

58% – Yes   42% – No

10) How many (of those) governance bodies have Board-level oversight?

56% – Yes   44% – No

Third-party assurance

11) Have reporting businesses had their ESG and sustainability performance data assured by an independent third party?

27% – Yes   73% – No

12) What level of assurance was sought for ESG and sustainability performance data?

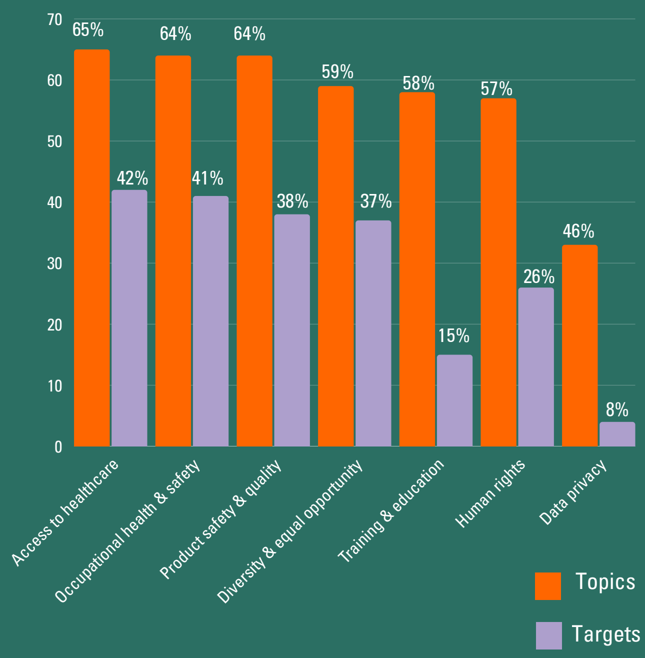
22% – Reasonable   74% – Limited

4% – AA1000 assurance standard

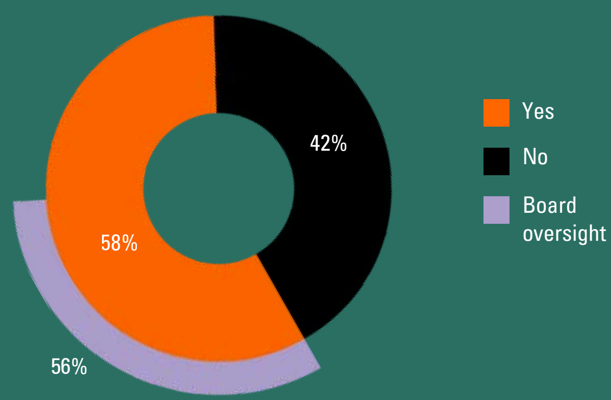
Companies disclosed an average of seven KPIs, with the most common standard for delivering assurance being limited.

Social data disclosure

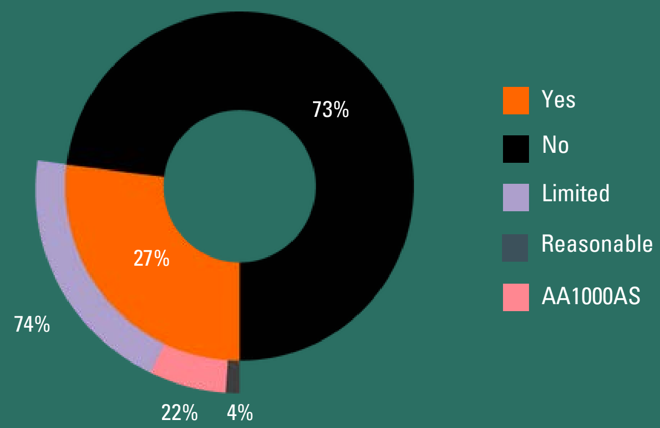
Material social topics and targets



ESG governance body



Third-party assurance



Leadership practices and industry challenges

Leadership practices

According to the data, your business can take a leadership position in the North American pharma industry by adopting the following practices that are most commonly pursued by industry leaders. These can mature your sustainability and ESG program, mitigate risk for your business, save costs, strengthen patient outcomes and enhance stakeholder and customer satisfaction.

First, you can publicly disclose data about your organization's environmental and social performance using one or more international frameworks, like the CDP, UN SDGs, TCFD and/or SASB. Second, you can report KPIs related to common social topics and targets, beginning with access to healthcare, occupational health and safety and product safety and quality. Finally, you can report KPIs related to common environmental topics, such as material sourcing, chemical safety and energy consumption, while setting improvement targets in GHG emissions and water consumption.

With climate change having a strong impact on healthcare outcomes, the popular social topic of 'access to healthcare' is also one that should continue to be pursued by pharma industry leaders, to strengthen the industry's ability to manufacture, store and deliver its products sustainably, for example, to efficiently and effectively prevent and/or address the spread of infectious disease.

Industry challenges

The 34% of top North American pharma companies that are not yet publicly disclosing ESG and sustainability performance data should do so immediately since this is a baseline industry practice. Of the majority (66%) that are publicly disclosing data, about 20 percent (13/66) are disclosing via their corporate websites, often resulting in poor or unclear coverage of data indexed to reporting frameworks or standards. A stand-alone report would resolve these discrepancies.

Although the majority of organizations (58%) have already established a senior governance committee to manage ESG programs, almost half have not (42%). This is also a leading industry practice that should be put into place without delay. Of the organizations that have established a senior governance body, almost half of these (44%) are without Board oversight. These findings highlight a critical discrepancy in the North American pharma industry since investor-driven frameworks, standards and rating agencies place senior governance oversight as the top 'governance and ethics' priority.

Also importantly, the large majority of organizations (73%) are not yet disclosing third-party assurance of their reported ESG and sustainability data. Particularly in North America, GHG emissions reporting has become mandatory for organizations that operate facilities emitting 10 kilotons or more. Gaining third-party assurance can ensure legal compliance and build investor and stakeholder confidence in reporting accuracy. Third-party assurance is therefore a critical area in need of attention. Organizations that sit beneath the 10 kiloton threshold would also benefit from seeking third-party assurance of their Scope 1, 2 and 3 emissions to strengthen their ESG programs and prepare for new regulations that might impact the industry in the future.

It is strongly recommended that third-party assurance be sought for a minimum number of KPIs, at a limited level, to strengthen sustainability reporting.

Sustainability assurance

Across industries, businesses are under stakeholder and regulatory pressure to have their ESG and sustainability reporting independently assured by a qualified third party. This includes ad hoc verification of individual KPIs (e.g. GHG emissions verification) and assurance of full compliance with ESG reporting frameworks, standards and regulations – such as the SASB, GRI, TCFD or EU's CSRD. New and proposed climate disclosure regulations in the US and Canada will require assurance, and this trend is growing globally. It is highly recommended that organizations consider pre-assurance and limited assurance for a minimum number of material KPIs to prepare for these regulations. A qualified, independent third party can validate the completeness and accuracy of public disclosures and provide a statement of opinion for publication.

SGS provides expert education and assurance for your ESG and sustainability program, including accredited statements of opinion that confirm the accuracy and reliability of your claims.

For more information contact:
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How we can help

Are you a pharmaceutical company that needs support with your ESG and sustainability journey? Our expert auditors and trainers are available across North America. We can help you build your ESG and sustainability program from the ground up or rectify gaps within your existing program.

WE OFFER:

- GHG Training
- GHG Gap Analysis
- GHG Verification
- CDP Rating Boost
- ESG Pre-Assurance
- ESG KPI Assurance
- Sustainability Report Assurance
- ESG Training
- EcoVadis Rating Boost

SGS: a global leader in sustainability and ESG assurance

We are the world's leading testing, inspection and certification (TIC) company, and have been a global leader in delivering ESG and sustainability assurance services for over 30 years. Our teams also contribute to the development and auditing of international industry standards.

In 2024, TIME Magazine and Statista ranked SGS the sixth most sustainable company in the world. We ranked first in the TIC sector. This high ranking was supported by our decarbonization target of achieving net-zero emissions by 2050, as verified by the Science Based Targets initiative. Additional factors included our implementation of energy efficiency projects, use of renewable energy for 97% of our total consumption, adherence to the UN Global Compact, inclusion in the S&P Global Sustainability Yearbook and recognition by CDP as a leading company. Our commitment to diversity also contributed to earning this ranking, with 31.9% of leadership positions held by women.

We continue to be recognized and ranked highly by every respected ESG rating agency, by which our clients are also being scored.

GOLD
Industry rating

LEADER
10 consective years

A-
PRIME rating

A-
Leadership position

AAA
Rating

"Our Strategy 2027 includes ambitious corporate sustainability targets and we aim to continue to lead by example by implementing the best practices for maximum sustainable impact."

– Géraldine Picaud, CEO, SGS

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When you need to be sure

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