Materiality and Healthcare Service Delivery

Setting the Stage for Corporate Social Responsibility (CSR) High Performance: Materiality in Your Business Sector

November 5, 2014
Agenda

- Critical definitions and implications
- Comparative context analysis: healthcare vs nonhealthcare
- Materiality for healthcare
- Application: Materiality of UPMC
Definitions and implications

- **Sustainable development** is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (The Brundtland Report, 1992)

  - Determining state of sustainability implies an initial assessment and prescriptive change to achieve defined goals.
  - The definition of sustainability implies that population health is an underlying prerequisite and expected outcome of sustainability. The health of current populations impacts the existence and health of future generations.
  - A fundamental mission of the healthcare industry is to maintain or improve the health of current populations.
  - The alignment of sustainability with a fundamental mission of the healthcare industry makes it difficult to wholly opt-out of sustainability/CSR.
Sustainability

Image depicting sustainable population growth and development. Point of inflection would indicate impact of incorporating sustainability principles.
Definitions and implications

- **Anchor institution** is a community-based organizations that have *deep roots in the community* and are *longstanding contributors to the community’s stability and strength*. Often these institutions are the *largest employers, purchasers, and landowners in the community* and as a result are the *largest contributors to the community’s economy and well-being*

  - Any organization that meets this definition *is expected to demonstrate CSR relative to community based sustainability*
  
  - Most healthcare institutions are community-based, community-dependent, influence their community’s well being, *which happens to be the mission of healthcare*, and depending their size and capacity, influence their community’s economy
Definitions and implications

- **Materiality** is a financial lens of what matters most to stakeholders and benefactors \((ROI \text{ vs } ROE \text{ vs } “ROEI”\))
  - In 2013, healthcare expenses account for **17.9% of the US GDP** and is projected to increase
    - Rate of increase indicates risk of poor population health and associated costly health economics
    - Based on the **WHO international ranking of population health** (2000), of 190 countries, US population ranked 37\(^{th}\) (indicates health burden) and has the highest per capita expenditure
  - **State health rankings**
    - ...first SASB industry workgroup: [healthcare industry spectrum](#)
    - ...healthcare was included among industries of the MIT Sloan materiality survey
Healthcare

• “Safe” generalization:
  – Healthcare is in business to go out of business => IDEALLY, a sustainable society should NOT need the VOLUME of modern intervention healthcare products and services

• Drivers and influences of sustainable healthcare
  – Key influences of developments: epidemics, lifestyles, cancers and responsive science and technologic development
  – Key mitigation factors: population health, funding sources and availability, and regulations
Comparative Analysis

**Healthcare**

- Our primary “products” are our “stakeholders”, which indicates an extremely high public influence of operations and services
  - Additional “products” are information and therapy regimens dependent on technology and drugs
- For a majority of healthcare organizations, public funding is a large part of financial source
- Facilities are mostly localized
  - evolving virtuality
- **(Persistent) primary concerns of stakeholders: service cost and quality**

**Non Healthcare**

- Products and services are not the stakeholders
- Except for nonprofit and other NGOs, most are not as dependent on public funding
- Facilities vary spatially and physically, increased opportunity for virtuality
- Concerns of stakeholders vary among E3 (equity, economy and environment)
Comparative Analysis

Healthcare

• Uses a lot of processed materials as part of service delivery
  – High material throughput associated with infection control ($$$)
  – Except for water ($$$), indirect impact on natural resources
  – Energy intensive industry (accessibility as part of emergency preparedness continuum) ($$$)

Non Healthcare

• Uses raw and process material
  – Extensive direct impact on natural resources
  – Energy demand varies based on nature of industry/organization
Materiality and Healthcare

• ...*How many red flags did you see so far?* 
  (...>10)

• **Quick summary:**
  – *As it currently operates, healthcares appears as a challenging scenario for sustainability:*
    • High processed material use
    • High energy and water use
    • High direct impact on human health and communities
    • Creeping cost of products, operations, and services contributing to increased percentage of the GDP
Disruptive Tools

• Disruptive tools have the power to change direction or have a lasting, significant impact on a large scale

• For healthcare:
  – Regulations
    • Affordable Care Act (2012)
  – Finance Tools
    • Social Impact Financing
ACA (2012)-impact

• **ACA (2012) shift emphasis from intervention to prevention and wellness promotion (“ROEI”)**
  – Prevention requires increased engagement
  – Translating services to outpatient contexts promotes innovation
  – Restructure *pricing framework* leveraging PREVENTIVE healthcare

• **In-patient census reduction could lead to the reduced demand in materials, energy, and water**
  => *reduced operation costs*
Social Impact Financing

• **“Social Impact Financing”**: private investors participating in these initiatives pay the upfront costs for social services and government agencies repay the investors if their investments achieve defined outcomes (ROEI)

• **“Pay for Success”**: an arrangement between the government and a service provider which the provider is only paid for reaching targeted outcomes, instead of continuing services with performance restrictions. (ROEI)

• SIFs bridge the timing gap between the money needed for service providers to carry out the repayments based on successful outcomes. Social financing enables innovative partnerships between the public, nonprofit, and private sectors.
MIT Sloan Materiality Survey (2013): Healthcare

• Industry-based, prioritized **social issues**: employee, community and customer health and well being
  – *Healthcare industry indicates that this is being well addressed*

• Industry-based, prioritized **environmental issues**: energy and waste, climate and product stewardship
  – *Healthcare industry indicates that this is not being well addressed (perceived as a lesser priority by stakeholders)*
Application

• Sustainability at UPMC
• Materiality at UPMC
About UPMC

- UPMC is the largest health care provider and the largest employer in the region.
- Through continuous operation, UPMC creates new businesses and industries and generate jobs in this region by creating an international market for health care-related products and services originating here in Pittsburgh. Current organization has been in existence from over 30 years in Western Pennsylvania and consistently, nationally ranked among high performance healthcare systems.
- In Fiscal Year 2013, UPMC contributed more than 15 percent of its net patient revenue, to community services and provides care to the most underserved areas in the region.
Sustainability at UPMC

- Sustainability addresses the triple bottomline (TBL) of E3: equity, economy, and the environment
- UPMC is committed to incorporating sustainability.
  - Relative to **equity**:
    - Center for Inclusion and Engagement
    - Disability Resource Center
    - Charity care
  - Relative to **economy**:
    - Sarbanes Oxley compliance
    - Charitable Contributions
    - Community Benefits
    - Allegheny Conference Initiatives
  - Relative to **environmental sustainability**, two complementivist corporate programs:
    - Environmental Initiatives
    - Energy Initiatives
Sustainability at UPMC

- Proactively addressing sustainability when the definition was first presented (fiscal responsibility, social responsibility, and then finally/ most recently environmental responsibility)

- Approach:
  - Industry: if not leading, align with “leaders”
    - Understand what makes/distinguishes a leader
  - Organization approach: top-down and bottom-up
  - Establish relevance and value with existing administration and operations
    - Research and solicit buy-in
  - Build on and integrate with existing administration, operations and services
    - Policies and processes
    - Systemwide committees and workgroups
Sustainability at UPMC

• Approach continued:
  – Plan-do-act-assess-change
    • Define application contexts, identify internal/external outcome goals and progress objectives
    • Be realistic about stakeholders, process complexity, change rates and how change may actually occur
  – Performance monitoring
    • Data capturing
    • Data analysis and interpretation
    • Reporting: internal performance reports vs external industry and general accountability reports
      – Making information public
Sustainability at UPMC

• Approach continued:
  – Acknowledge challenges/setbacks => opportunities for innovation?
    • Regulatory
    • Regional support
    • Industry
    • Science
Evaluation for sustainability alignment

- **Aligns with organizational mission and vision**
- **Demonstrate accountability across E3:**
  - Maintain community committees associated with each E3 initiative to inform administrative decisions
- **Able to measure and evaluate KPI of each section of E3**
  - External performance assessments and public reports
    - Sarbanes-Oxley compliance
    - IRS Form 990-H report
    - Community benefit report
    - Diversity, Inclusion, and Engagement scorecard
    - Practice Greenhealth annual benchmark
    - DOE’s Better Building Challenge
    - Pittsburgh 2030 District
    - Pittsburgh Climate Action Program
    - Sustainable Business Compact
    - ....GRI
• therefore, what …
  – 1) addresses all three definitions and their implications?
  – 2) demonstrates awareness of the indicated industry red flags?
  – 3) aligns with the industry responses to materiality survey?
  – 4) MOST IMPORTANTLY reflects the industry mission and organizational vision, value, and operation?
The sustainability aspects most important to UPMC’s core business activities are:

- Achievement of the most basic goal of providing continuous healthcare service and facilitating access to healthcare service
- Engagement in diversified and innovative quality healthcare service that meets defined needs of communities served
- Demonstration of high performance among the healthcare industry and as an anchor institution of communities served
Contact and resources

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• Resources:
  – http://www.upmc.com/about/community-commitment/Pages/default.aspx