UNLOCKING THE VALUE OF SASB STANDARDS

Medtronic is a global medical device company with more than 86,000 employees serving more than 70 million patients each year in more than 150 countries around the world. In fiscal year 2018, the company generated revenues of $30 billion, treating nearly 40 medical conditions with a range of solutions, including cardiac and vascular devices, minimally invasive therapies, restorative therapies, and diabetes management products and services. Medtronic is listed on the New York Stock Exchange (NYSE) and is a component company of the S&P 100.

Health care is a business in which the value of a company is clearly and inherently tied to its positive social impact. However, in recent years, a convergence of macroeconomic trends and social and regulatory pressures has sparked a crucial transition in the sector. In the face of rapid population growth and technological innovation, companies across the health care spectrum are pursuing disruptive product and process innovations to adapt to the implications of these unique 21st century challenges.

For example, due to issues of access and affordability, modern medical technologies are now out of reach for millions of people in both developed and developing countries. In an effort to extend its therapies to more people in more places than ever before, Medtronic focuses on product and process innovations that allow it to improve patient outcomes and reduce costs at the same time. For example, the company works with health care systems around the world and shares technologies, services, resources, and expertise to remove barriers to affordable treatment. The company views this effort not as philanthropy or "corporate social responsibility," but rather as a natural expression of its fundamental mission to alleviate pain, restore health, and extend life. And, indeed, 71 million people—an all-time high—benefited from Medtronic solutions in 2018. As CEO Omar Ishrak has said, "Sustainability is critical to our business performance, helping us mitigate risk, enhance quality, increase efficiency, and drive innovation."

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> Chairman and CEO, Medtronic

WHY SASB?

Medtronic isn't new to sustainability reporting, but the company continues to adapt as issues and understanding evolve and best practices emerge. Medtronic produced its first sustainability report in 2008 in response to a shareholder resolution that was withdrawn when the company committed not only to develop a report, but also to work constructively with shareholders and continuously improve its reporting over time.

That improvement took one of many significant steps forward a few years later, when Medtronic began to explore the SASB standards. Given that the firm's sustainability reporting efforts had been sparked by shareholders, SASB's investor-centered approach seemed like a perfect fit, said Ginny Cassidy, Director of Medtronic's Enterprise Sustainability Program. Furthermore, SASB's focus on financial materiality was well-aligned with Medtronic's strategic approach to sustainability. "I kept my eye on SASB over the years," Cassidy said. "When the first [key performance indicators] were released for our industry, we looked at them and had some internal conversations."

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What those conversations revealed was eye-opening. In 2013, the company had performed its first sustainability-focused materiality assessment to identify the environmental, social, and governance (ESG) factors most critical to its financial and operating performance. "Twelve issues came up," said Cassidy, "but we had an internal subset of stakeholders help us define five to focus on." As it turned out, those five issues—access to care, product quality, product stewardship, responsible supply management, and ethics in sales and marketing—were very closely aligned with the SASB disclosure topics and accounting metrics for the Medical Equipment & Supplies industry. "That was validation for us," Cassidy said, "that this was the direction we needed to be moving in."

In 2015, the company began incorporating the provisional SASB standards into its annual reporting efforts. Medtronic started by issuing a table to indicate where each SASB metric is contained in its integrated report, which also follows the guidelines of the Global Reporting Initiative (GRI). For each of its first three years using the SASB standards, Medtronic determined that it reported fully or partially on all seven of the SASB disclosure topics and 16 of the 17 performance metrics. This year, the company performed a gap analysis to determine where and why its reporting is incomplete and plans to use the findings of the analysis to improve future efforts.

The trajectory of Medtronic's reporting reflects its commitment to continuous improvement driven by rapidly growing ESG momentum within the investor community. Although no other companies in Medtronic's industry were reporting using the SASB standards when it became an early adopter in 2015, the firm could see where the market was headed. "It's about assessing the landscape and being prepared to fulfill changing expectations," Cassidy said. When investor-focused sustainability reporting inevitably becomes the norm, the company figured, "we would already be on the journey," Cassidy said.

AHEAD OF THE CURVE

At Medtronic, implementing the SASB standards was a relatively straightforward process for a simple reason: "We had fairly mature programs already in place because they were natural fits for our business," said Cassidy. As a result, the project was less about building a sustainability program from the ground up and more an exercise in facilitating effective communication about various efforts at the firm. Cassidy said her main task in driving SASB reporting forward was to interface with leadership across different functions to explore and understand the differences—if any—between what the company was doing and what investors were asking for. "I've been a bridge between external expectations and internal management," she said.

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Producing an integrated report—which draws on information prepared in accordance with GRI, SASB, CDP, and other reporting efforts—has not only strengthened communications with external parties, but also facilitated key conversations among internal stakeholders. For example, some of Medtronic's sustainability management and reporting efforts began in different departments with function-specific objectives—such as the Environmental, Health, Safety (EHS) department addressing greenhouse gas emissions and CDP reporting. Cassidy said Medtronic has benefited from taking a more holistic approach and "bringing together what we were already doing across the company…under the sustainability umbrella."

This enterprise-level view of ESG factors has also prompted discussions with Medtronic's enterprise risk management (ERM) about incorporating financially material sustainability risks and opportunities. By viewing these issues through the SASB lens, the company can more effectively manage its environmental and social impacts by focusing on their microeconomic drivers. Again, effective communication plays a key role. "It's about understanding the risks identified and who owns them," Cassidy said, "so we can start having conversations with the right stakeholders."

Medtronic's focus on financial materiality carries through to its reporting efforts—both internally and externally. "We look at questions and indicators associated with a lot of disclosure frameworks and ask internal subject matter experts, 'What is pertinent to our business?'," Cassidy said. "We don't find all of them to add value." Where they do, however, Medtronic implements new measures or makes appropriate changes to existing ones, including through its ongoing gap analysis.

LESSONS LEARNED

Medtronic's experience offers several important takeaways for other companies considering the implementation of SASB standards:

- **Strategic alignment.** Because SASB standards are focused on the small subset of ESG factors likely to have financially material impacts, companies may find that—like Medtronic—they already have robust programs in place to address the SASB disclosure topics. Such programs may even include use of the SASB metrics, which are aligned with commonly used approaches wherever possible. For example, Medtronic was already tracking the amount of its products diverted from landfills (in 2017, for instance, its Nellcor business collected and recycled more than 2,700 metric tons of used medical sensors), which helped it address a key SASB metric related to Product Design & Lifecycle Management. In such cases, integrating ESG information into external reporting is almost like starting on third base. Cassidy said the strategic alignment between the SASB standards and Medtronic's business has helped reveal clear links between certain sustainability efforts and the bottom line. "I have seen a convergence of things that people used to think were 'nice-to-haves' and they now realize there are real financial impacts," she said. When it comes to making the business case for ESG, "that convergence is helpful."

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- **Monitor the landscape.** Cassidy said a key for Medtronic has been engaging with investors to listen to their performance concerns and better understand their information needs. For example, Cassidy said, "We're still curious to see where the investor community is going to shake out" on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which, like the SASB standards, are focused on financially material impacts. One Medtronic investor recently articulated to the firm that "ESG, in his world, has to be financially material and that SASB is the best framework," Cassidy said. "Again, it's underlying validation that goes back to our original impetus for doing non-financial reporting, which came from investors." Although the company will continue to consider all relevant stakeholders in its reporting, it recognizes that shareholders are increasingly interested in financially material ESG factors and, Cassidy said, "That is definitely what we're going to emphasize."

- **Start early...but be patient.** Because Medtronic was ahead of most of its peers in thinking critically about key ESG factors, it has achieved notable innovations. For example, to address access and affordability concerns, the company established Medtronic Labs in 2017 to develop locally appropriate and financially sustainable businesses that will expand access and reduce health inequality in emerging markets. However, Cassidy warned, it's unrealistic to expect major success overnight. "It's a lot of footwork," she said, "but that's what you should do. She suggests starting with "reaching out to Investor Relations to understand the concerns and needs of the company's shareholders," performing a materiality assessment to identify business-critical ESG issues, and then exploring how those factors are currently measured and managed within the company. "Take time to identify different subject matter experts and start a dialogue," Cassidy said. "This has been a several-year process for us." Through a constructive back-and-forth among key functions, Medtronic has been able to more effectively refine its approach. "What's been really key for me is understanding what's important, what [internal stakeholders] are already doing, what business pressures they're feeling, and where there's alignment with investor expectations," Cassidy said.

- **Executive buy-in.** Medtronic's effective integration of sustainability performance and business strategy is, at least in part, a function of buy-in among key executives. In addition to Ishrak's support, CFO Karen Parkhill leads the company's 10-member, cross-departmental Sustainability Steering Committee (SSC) as its executive champion, guiding oversight and strategic planning related to sustainability performance, risk, engagement, and disclosure. The involvement of C-level leadership "sets the tone at the top" for Medtronic, signaling to employees throughout the company that certain sustainability factors are essential to the company's business.
- **Embedded ownership.** In Medtronic's day-to-day operations, key sustainability issues are managed within functional groups rather than by a centralized team. This arrangement introduces a level of personal accountability and "ownership" of the company's ESG footprint and helps to further embed priority issues in the firm's core operations rather than treating sustainability as a separate, add-on activity.

As Cassidy notes, "There's a groundswell of acknowledgement that certain environmental and social factors are financially material"—not only among investors but also within companies. "Having a framework like SASB gives companies a starting point to determine what they should be thinking about and what they should be disclosing." By leveraging the SASB standards, Medtronic has brought its sustainability programs into closer alignment with its business objectives, helping the company improve operational efficiency, strengthen customer relationships, spur new business development, and enhance core communications with investors.