

The Business Case for Corporate Social Responsibility Reflections on Research and Experience

***An Industry Sector Approach to the Business Case
In-depth analysis of the Pharmaceutical Sector***

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Corporate Social Responsibility (CSR) (1)

- CSR refers to the responsibility of a company for the social, ecological and economic impacts of its operations. Some sector-specific critical CSR issues are outlined below.
- **Clinical trials.**
 - This includes adequate protection of volunteers, also in poor countries, and disclosure of test results.
- **Drug safety.**
 - This is heavily regulated and official manufacturing standards apply.
- **Drug promotion.**
 - Drugs are sometimes promoted in irresponsible ways, e.g. misrepresenting drug safety. Related to this, some companies have bribed doctors to prescribe more of their products. Market access activities.
- **Tax payments.**
 - Several companies have recently been charged with underpaying more than \$1 billion of taxes.
- **Workplace health, safety and environment.**
 - These are very important because of the processing of chemical compounds.

Corporate Social Responsibility (CSR) (2)

- **Access to medicines for poor people** is also highly important. **Intellectual property rights**, which protect a drug against generic competition, can be an obstacle to access to medicines.
 - Access to medicines can be enhanced by setting **preferential prices**, far below the retail prices in the US or EU, for supplies to poor countries.
- **R&D for drugs and vaccines of special importance to poor countries** is also a central issue.
 - Because of the poor target populations, the returns on such research are relatively low. As a consequence, only 10% of R&D investment goes to developing countries' diseases and some companies continue to neglect this area.

Corporate Social Responsibility (CSR) (3)

□ **Global Public-Private Initiatives (GPPIs)**

- GPPIs bring together different partners to address health problems in poor countries. They serve to bring together complementary expertise and to bring in additional funding.
- Different types of GPPIs include partnerships to increase R&D for a specific disease, to deliver drugs at low prices or for free, to strengthen local healthcare systems and to coordinate the efforts of various partners.
- Depending on the approach, some GPPIs are closely related to the core business of a company (e.g. R&D) while others are mere charity (e.g. donations).

Agenda/key results

- 1 — Pharmaceutical companies do not address the prevailing, strategic sustainability issues comprehensively enough to prevent risks
- 2 — The industry's challenge is developing appropriate sustainability strategies and implementing them on the basis of a changed corporate culture and appropriate process management
- 3 — Pharmaceutical companies do not exploit the potential of the business case for sustainability
- 4 — The pharmaco's can achieve substantial progress on CSM and the respective business case by applying certain techniques and choosing a more structured approach

Business Case for Corporate ~~Social~~ Responsibility (CR) in Pharmaceutical Industry

Basis / resources for the following Status-Quo of the Business Case for CSR in the Pharmaceutical Industry was / is the research and / or consulting collaboration with 15 research-based pharmaceutical companies and 1 Bio-Tech company:



More than 100 extensive research interviews and / or consulting consultations

- Joining the IMD research project on CSR as responsible researcher for Pharmaceuticals
- 85 in-depth, personal interviews of an average of ~2 hours with sustainability officers and executive managers from other functions with very high seniority
- More than 15 extensive interviews with stakeholder institutions such as investors, governments, NGOs and experts
- Research and consulting data accompanied by 2 surveys conducted with sustainability officers and general managers
- On-going management consultancy / projects for some of the leading pharmaco

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How can purely EHS (environmental, health and safety assessments) related issues change into critical social issue?

Major incidents in the pharmaceutical / Chemical industry raised awareness for CSR:

- 10.07.1976: Roche/ICMESA Explosion in Seveso
- 03.12.1984: Union Carbide: Toxic gas catastrophe in Bhopal
- 01.11.1986: Sandoz: Contamination of river Rhine in Basel

This resulted in a successful reduction of risk and pollution:

- Separation into the chemical industry (bulk chemicals) and pharmaceutical industry (fine chemicals)
- Today the pharmaceutical industry is very well on track concerning EHS issues
- No NGO is loudly / publicly accusing and criticizing the pharmaceutical industry for EHS violations / issues

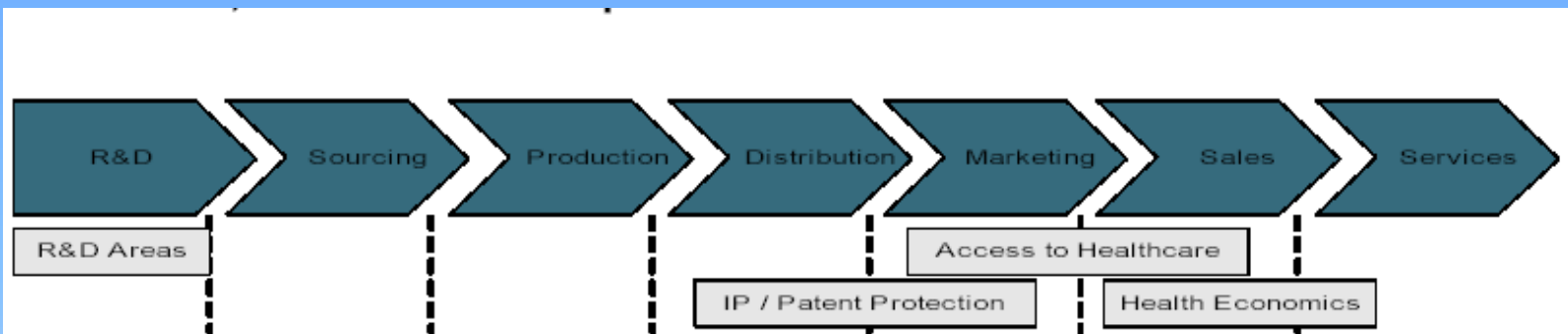
Successfully solved issues:

- e.g. animal testing
- Biotechnology / Genetic engineering

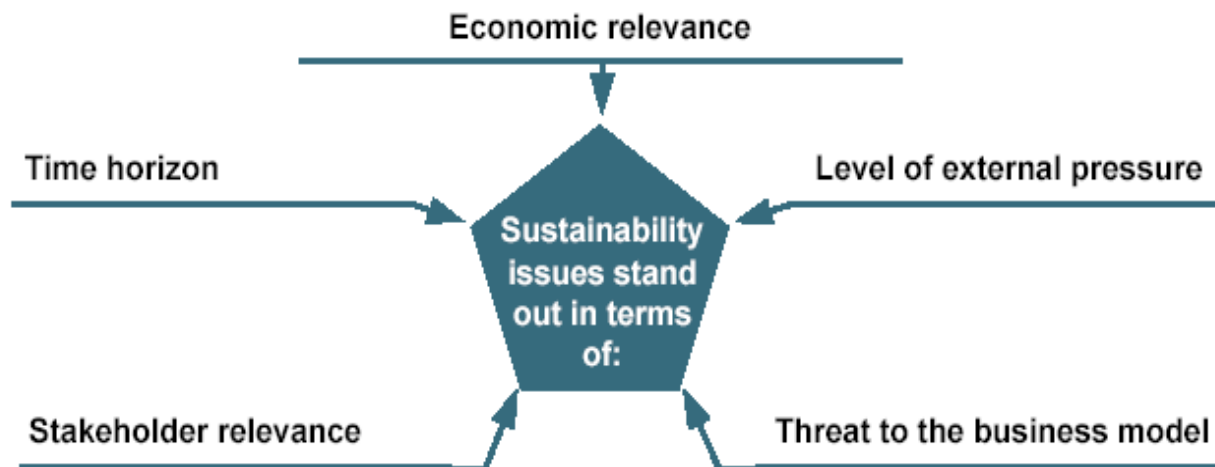
Today, the most pressing sustainability issues are all social responsibility related:

- Crucial issues differ highly between global and SME pharmaceutical companies
- Social issues differ in structure, required response and complexity strongly compared to EHS issues
- The management of EHS and social issues is completely in a different state. For EHS, management processes, procedures, quantification, BCS are in place / calculable
- Since pharmaceutical industry is already confronted with social issues (compared to other industries), the industry might serve in the upcoming years as a role-model of how to manage social issues / responsibility (or how NOT to manage social issues)

4 strategic sustainability issues stand out in terms of economic relevance, level of external pressure and stakeholder relevance



Systematization of Sustainability Issues along the Value Chain



Access to healthcare is a key strategic sustainability issue for research-based pharmaceutical companies

Huge imbalance of access to drugs

(affordable prices / rational selection and use / sustainable financing / reliable supply systems):

- In 2002, 92% of global drugs sales to North America, Europe & Japan, 8% to the „rest of the world“ (roughly 85% of the world population)
- WHO estimates that 1/3 of the world's population lacks access to even the most essential drugs

Economic Relevance

- ‚Access to healthcare‘ increases the risk exposure of companies and the industry
- The revenue relevance of ‚Access to healthcare‘ is perspicuous
- A further loss of reputation threatens the pharmaco's global standpoint

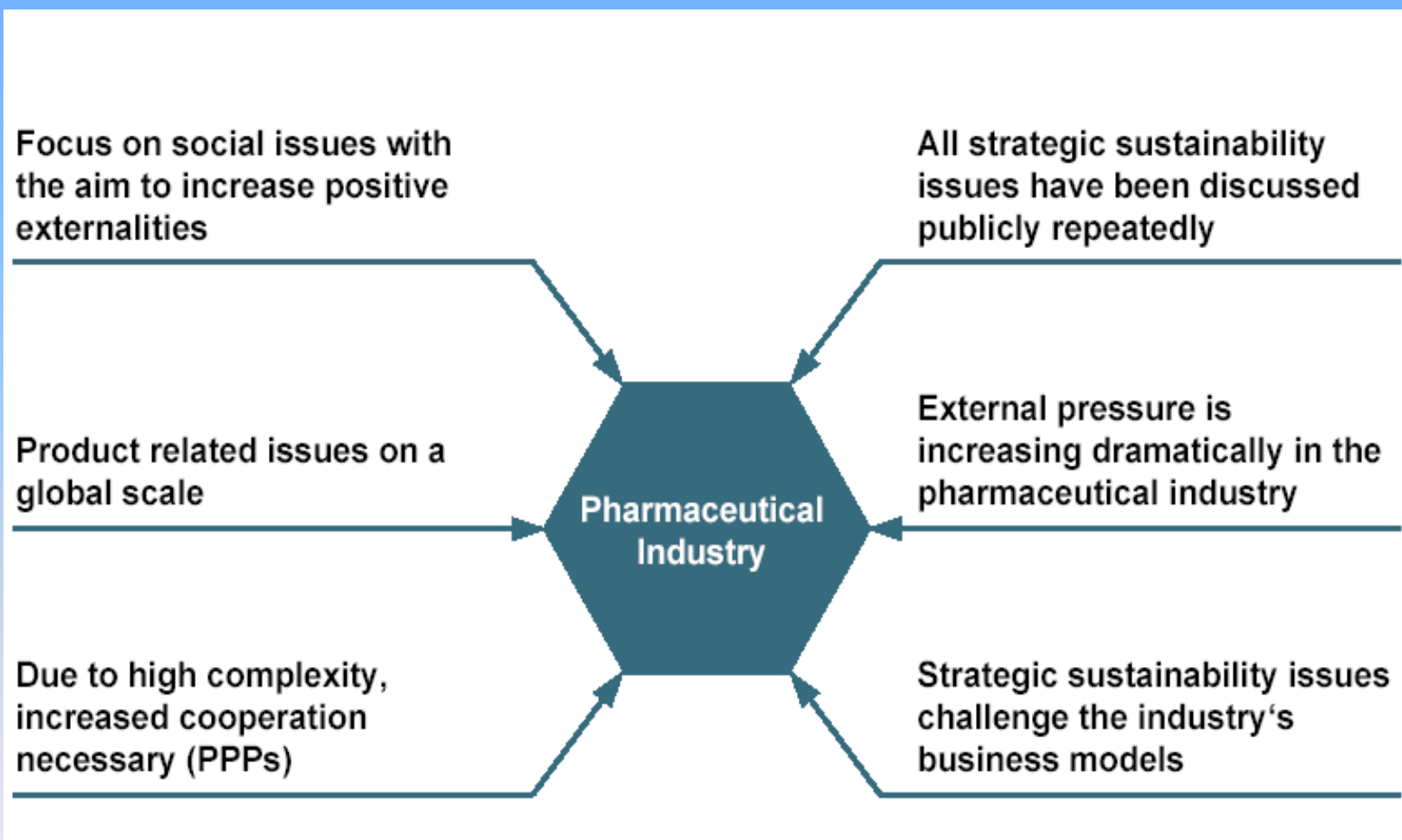
Industry's reaction

- The industry does not address the access to healthcare issue comprehensively
- External pressure will increase further, requiring an ad hoc reaction now and a well-thought-out, proactive approach in the years to come if pharmaco's do not want to be left alone

Stakeholder reaction

- NGO are calling for a global approach to tiered pricing, which would incorporate “pro-poor” policies, segregate the world's markets and bring reduced prices to all developing countries
- NGOs oppose companies on drug access but are not always consistent with their desired outcome

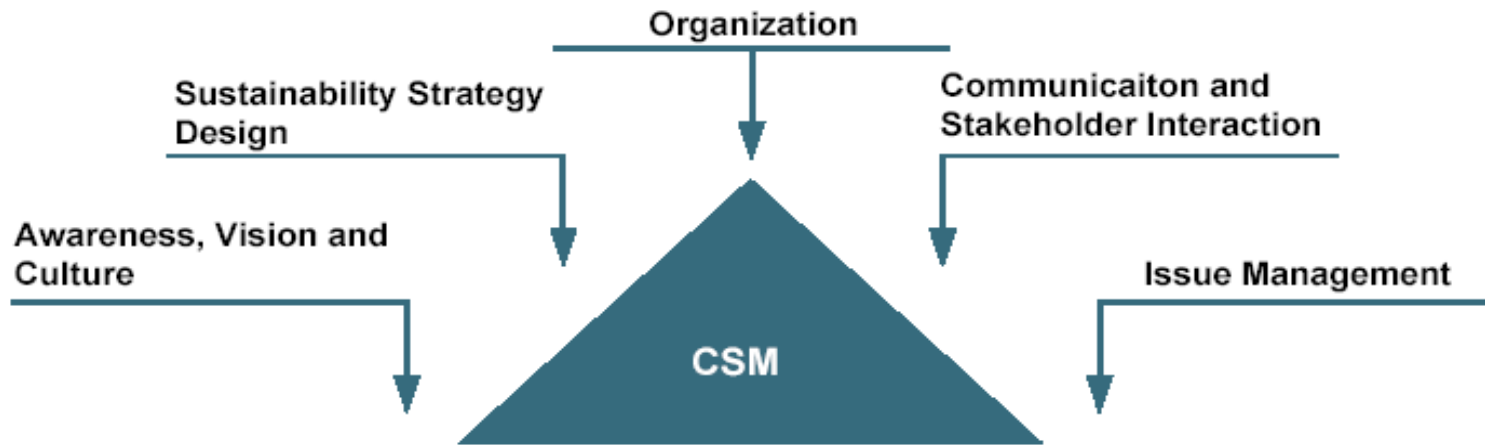
The focal points in sustainable development for the industry are currently changing dramatically



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CSM in the Pharmaceutical Industry is rather a muddling-through approach and incomprehensive and lagging behind other industries



- Awareness is seen as crucial and is driven middle-up, top-down
- Sustainability strategy is in the industry still a rarely defined issue
- Sustainability responsibilities located differently, with similar prevailing tasks and barriers
- “Selling the BCS” as main internal communications task with tailored audiences
- The pharmaco’s are crisis managing the crucial issues to not loose any further reputation
- Further progress in pharmaceutical CSM needs to focus on sustainability strategies, organizational and cultural change as well as an improved issue management
- Since the industry came under pressure later than other industries (the South Africa court trial on HIV/AIDS IP was the wakening call), the industry is lagging behind other industries
- Many pharmaco’s are currently revising their approach to CSM

CSM = Corporate Social Management; BCS = Business Case for Sustainability

Pharmaceutical companies have identified external and internal barriers to CSM as well as promoting factors

Barriers impeding the progress of CSM

Opposition or lack of interest from investors

Lack of interest from customers

Lack of appropriate tools and processes

Lack of economic reasoning

Managers's mindsets and lack of knowledge/expertise



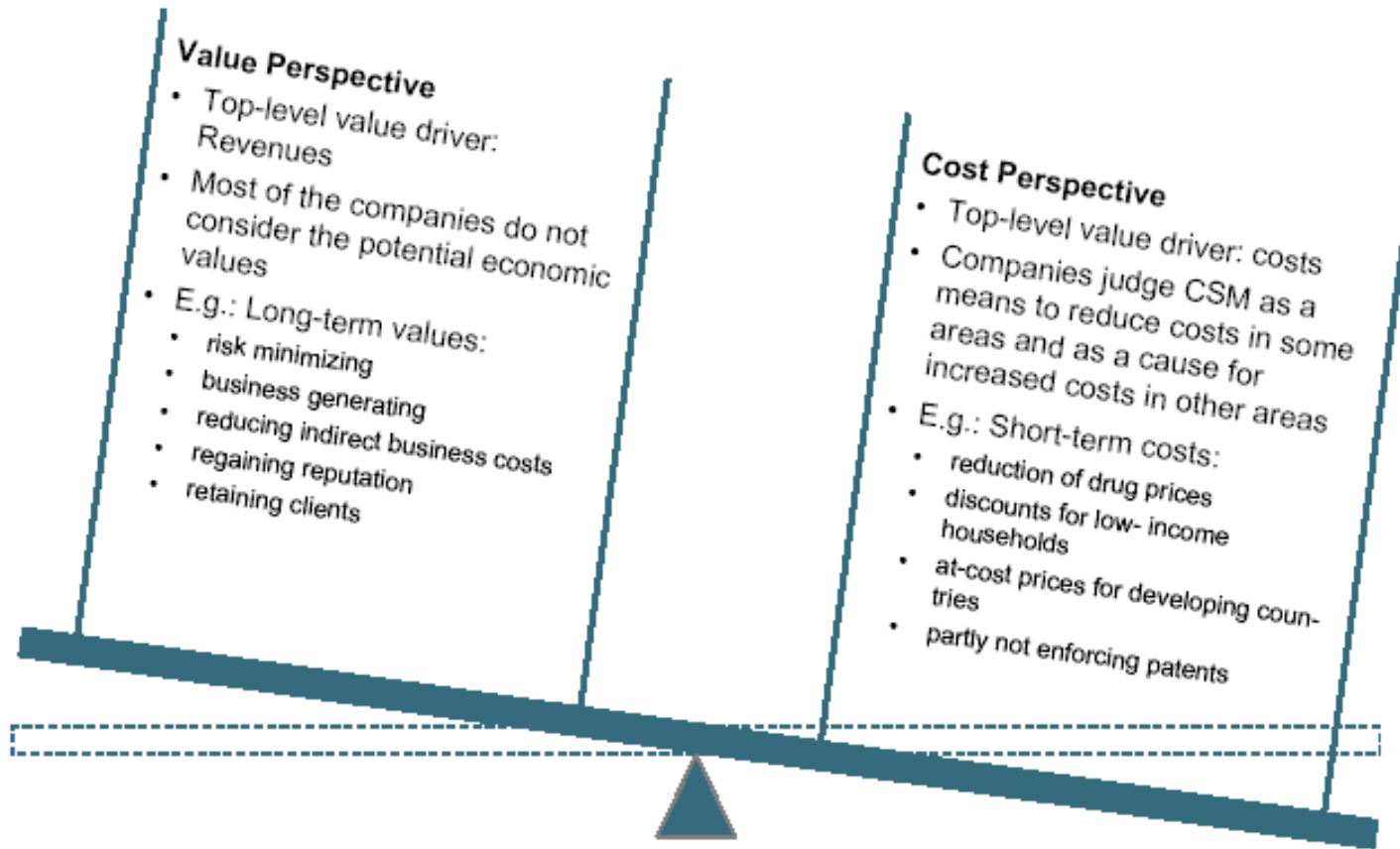
Factors promoting the progress of CSM



Agenda/key results

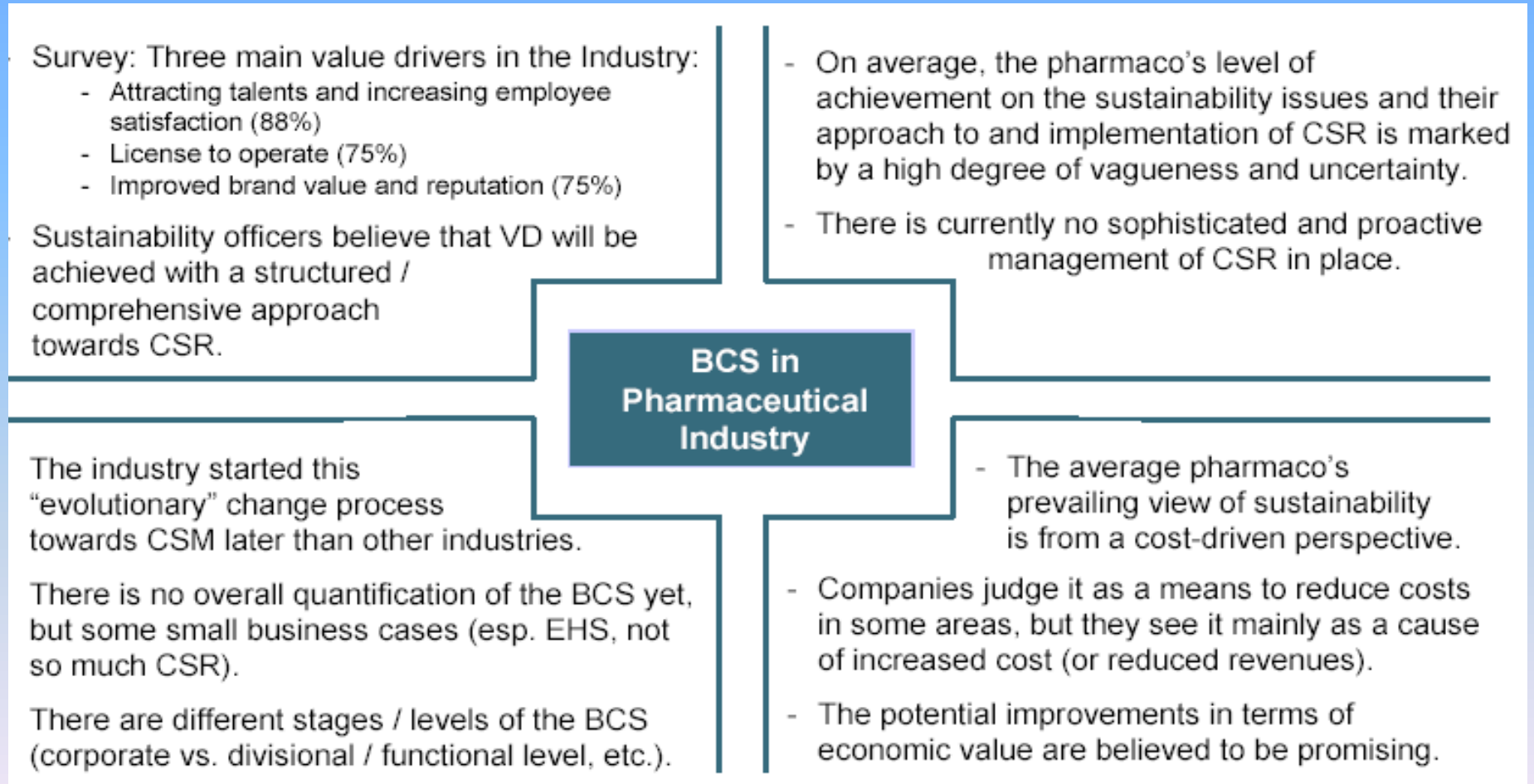
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Two different points of view and beliefs about social and ecological responsibilities: a cost perspective and a value perspective

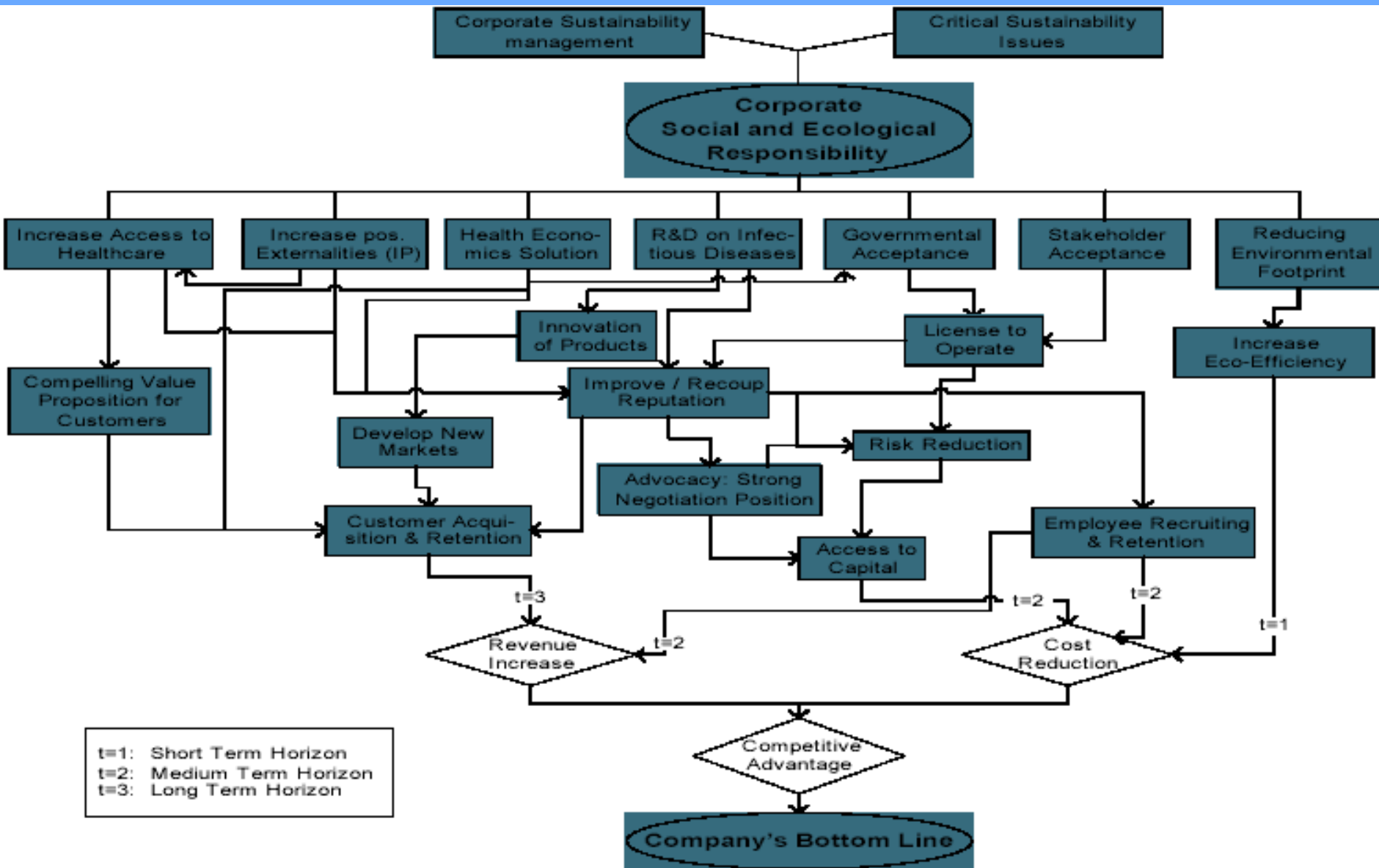


Today, pharmaceutical companies limit themselves to a cost perspective, leading to an only incremental exploitation of the business case potential

The business case for sustainability is only to a minor extent already exploited in the pharmaceutical industry



Pharmaceutical companies can create economic value by increasing their social and ecological performances



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Summing up:

What do we already know about the Pharmaceutical Industry?

Industry's sustainability impact and achievements

- Large social impact on stakeholders and society, with low to moderate achievements in terms of stakeholders needs
- Low to moderate environmental impact on stakeholders and society with relatively high achievements in terms of stakeholders needs

Major sustainability issues (among others!)

- Access to healthcare
- R&D areas, especially infectious diseases
- IP, patent protection and TRIPS
- Health economics in the developed world

Corporate sustainability management

- Low to moderate achievement / progress
- Focus on cost-driver perspective

Business Case for Sustainability

- Strong evidence for BCS in the pharmaceutical industry
- Exploitation low to moderate overall
- No real quantification yet, in some companies not needed to foster further progress

Roadmap for the Pharmaceutical Industry

Improve communication and dissemination

- Internal communication: Selling “the BCS” with a tailored two-way communication process to upper management and to everyone else
- External communication: Engage in stakeholder interactions through an improved sustainability reporting and stakeholder dialogue

Need for knowledge

- Decide on the question: Who needs to be aware of what?
- Increase knowledge especially in Finance / Marketing / Sales and Strategy departments

Towards an action plan

- Foster the change management process by deciding responsibilities
- Switch from a muddling-through approach to a more structured approach as first step towards an action plan
- BCS on corporate level not always needed: Smaller BCs and personal belief needed and enough for change

Prevailing challenges

- Develop and implement a comprehensive approach to CSM
- Take CSM and Sustainability from an „ad-on“ to the business of the industry to an integral part of the business and the way the industry is doing its business
- Achieve progress on major critical sustainability issues through joint initiatives such as PPP
- Change perspective to a value-driver perspective and further exploit the BCS to gain competitive advantage and obtain future license to operate

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