

The Corporate Social Responsibility of the Pharmaceutical Industry: Idealism Without Illusion and Realism Without Resignation

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What Exactly are We Talking About?

To make an informed judgment about the social responsibility of the pharmaceutical industry is a rather difficult endeavor. One of the many reasons for the difficulties is a wide pluralism of values resulting in a multitude of definitions of corporate social responsibility.¹ In principle the term describes the idea of a “social contract” consisting of a collection of “paragraphs” about labor standards and environmental responsibilities, and increasingly on human rights. While – at least in my perception – there are not too many complaints about the pharmaceutical industry’s performance with regard to labor standards and environmental care, the “access to medicine” performance seems to be a different ball game. The immense poverty related health problems of the worlds destitute have become a challenging frame of reference for a new corporate social responsibility debate for the research-based pharmaceutical industry.

People expect more from a “responsible corporate citizen” today than they did in the fifties or sixties. The increased depth and breadth of expectations is the consequence of changed social and economic realities predominantly in the industrial and some emerging countries. With the increases in prosperity in the industrial countries the importance of immaterial values has risen – and social responsibility belongs into that basket. Parallel to this, a widespread sense of disquiet has developed over the fact that in quite a few places on this planet many people are eking out an existence in dire poverty, far removed from any increase in freedom or growing opportunity for choice. While it may remain a theoretical challenge to define who is “poor”, there is little doubt that those 1.3 billion people who live in households below the threshold of a total household consumption of 1 Dollar a day per member have very practical problems with more than just income poverty.² Ill health, illiteracy, gender inequality and environmental degradation keep them in a vicious circle of poverty and sickness that is historically well known from our own

¹ Searching for “social responsibility” on a search machine such as “GOOGLE” you find more than 9 million entries, looking for “Corporate Social Responsibility” yields 1.6 million results – searching within these results for the pharmaceutical industry still points to 127’000 sites (November 2003). Several organizations make it their business to help corporations to do the right things, e.g., <http://www.bsr.org/>, <http://www.csreurope.org/>, <http://www.crsforum.com>, <http://www.worldcsr.com>, <http://www.globalreporting.org>, <http://www.conference-board.org> for a corporate site see <http://www.novartis.com/corporatecitizen/en/index.shtml>.

² IMF / World Bank Development Committee (Ed.): Comprehensive Development Framework (CDF), Washington D.C., April 19th 1999, p.2, see also See e.g. Narayan D et alia: Voices of the Poor. Can Anyone Hear Us? Oxford University Press / World Bank, Washington D.C. 2000, also UNDP: Poverty Report 2000. Overcoming Human Poverty. New York 2000, and World Bank: World Development Report 2004 – Making Services work for Poor People. Washington D.C. / New York, Oxford University Press 2003.

past: “Men and women were sick because they were poor, they became poorer because they were sick, and sicker because they were poorer.”³

What has that to do with a pharmaceutical corporation’s social responsibility? Fact is, that we are not simply uninvolved onlookers—neither as corporate citizens nor as individual actors. Every one of us is constantly facing the question of who can contribute what in the way to overcome states of affairs that we perceive as problematic. Our answers differ according to our personal values, our social affiliations, and our view of the world. And since there are important differences among these values, affiliations and views, different constituencies often differ in their answers to the core question—*to whom, for what, and to what extent is a pharmaceutical corporation responsible?* The least common denominator of the “social contract” thinking is that business enterprises have a responsibility not just to their shareholders but also to other stakeholders—individuals, groups, and society as a whole, including future generations.⁴ Given the global poverty problems and the increasing social and economic disparities “society as a whole” is likely to be defined by most development-related stakeholders more comprehensively than just the “local” or the “national” society in which a corporation has its headquarters.

One of the greatest intellectual challenges when coming up with a fair definition of “corporate social responsibility” is to define and justify the obligations underlying the term. Companies alone cannot define this for themselves with any claim to universal validity; legitimization arises through a consensus that is influenced by the shared values of given society. Hence, an enlightened way for a corporation to define its social responsibility is doing so *after* engaging in an intensive dialogue with its relevant stakeholders—groups and individuals that affect or are affected by the company’s activities. As different actors want many different things, it is obvious that not all stakeholder demands per se do already constitute a reasonable corporate duty.⁵ But only if a corporation knows the whole spectrum of stakeholder demands and is sensitive to the specificities under which they arise, is it able to make informed choices, know the arising dilemmas and explain what it considers to be a *reasonable* demand and why.⁶

³ See Winslow C.-E.A.: *The Cost of Sickness and the Price of Health*. Geneva (WHO) 1951, p.9.

⁴ See e.g. Donaldson Th. / Dunfee Th. E.: *Ties that Bind. A Social Contracts Approach to Business Ethics*. Harvard Business School Press, Boston, Mass 1999, also Houck J.W., Williams O.F. (eds.): *Is the Good Corporation Dead? Social Responsibility in a Global Economy*, Rowman & Littlefield Publishers, Inc. Lanham 1996; see also United Nations: *The Social Responsibility of Transnational Corporations*, New York, Geneva 1999.

⁵ See Kapstein E.B.: *The Corporate Ethics Crusade*. *Foreign Affairs*. Vol. 80 (2001), pp. 105–19.

⁶ See Donaldson Th. / Dunfee Th. E.: *Ties that Bind. A Social Contracts Approach to Business Ethics*. Harvard Business School Press, Boston, Mass 1999, pp.235ff.

In the context of the HIV/AIDS crisis, large pharmaceutical corporations have come under special pressure to give up intellectual property rights, to reduce prices to be compatible with the low purchasing power of patients living in absolute poverty or pressures to reallocate research capacities to neglected tropical diseases. All of these demands are discussed today under the “social responsibility” heading. Failure to give in to such pressures resulted in negative public perceptions about the pharmaceutical industry’s willingness to meet its responsibilities towards society.

Deficits in the Social Responsibility of “Big Pharma”: Perception or Reality?

Today large international enterprises – including the research-based pharmaceutical industry - have a serious reputational problem to solve: When people in industrial countries were asked between 1999 and 2001 in which institutions they trusted to work in the best interest of society, they put multinational companies in seventh position—behind governments, unions, and the media. In first place were non-governmental organizations (NGOs), followed by religious organizations. Somewhere in between lay large national companies.⁷ I do not know of any more recent surveys that specifically addressed the public image of the pharmaceutical industry. But given that various influential stakeholders in health care hold the research-based pharmaceutical industry to be co-responsible for the deaths of millions of people living in poverty because the companies keep their prices for life-saving medicines high out of sheer greed for profits, I am not altogether optimistic.⁸

Whatever the boards and management teams of the pharmaceutical giants might think of themselves, their self-image fails to match with their public image. When it is a question of protecting the “common good” – a significant proportion of people in industrial societies believe that “multinational corporations” are more likely part of the problem than part of the solution.⁹ “Big Pharma” is seen in the same way. One of the reasons the pharmaceutical industry is the focus of public uneasiness is the perception that the prices for live-saving drugs are much too high under conditions of collective and individual poverty. Companies, so the criticism, put corporate profits before

⁷ See Environics: The Millennium Poll, New York 1999; and Edelman Public Relations World Wide (Poll, November 2001).

⁸ See, e.g., Médecins Sans Frontière: Campaign for Access to Essential Medicines, “Access to Drugs Denied: How Politics is Failing the Dying,” Paris 2002; see also Oxfam: Generic Competition, Price and Access to Medicines. The Case of Antiretrovirals in Uganda (Oxfam Briefing Paper No. 26), Oxford, July 2002; Oxfam, Save the Children, VSO: Beyond Philanthropy: The Pharmaceutical Industry, Corporate Social Responsibility and the Developing World, Oxford 2002; WHO: Globalization, TRIPS and Access to Pharmaceuticals (WHO Policy Perspectives on Medicines, No. 3), Geneva, March 2001.

⁹ See, e.g., Enderle G., Peters G.: A Strange Affair. The Emerging Relationship Between NGOs and Transnational Corporations (PriceWaterhouse), London 1998.

human life. In a world where the differences in infant, child, and maternal mortality represent the most obscene aspect of the North-South conflict, most people in modern societies expect the pharmaceutical industry to do their share in creating better access to “medical care,” including improving the access to medicines.

Since the research-based pharmaceutical industry is highly regulated and thus ultimately dependent on the goodwill of political institutions – that is, of institutions whose ear is attuned to public opinion, if only because of their lively interest in being re-elected – failures in the marketplace for public acceptance and reputations are likely to lead to problems in the marketplace for products. What then constitutes responsible behavior of a pharmaceutical company towards society? Before this question can be answered we must - in view of the dimension of today’s poverty related health problems - answer a more fundamental question:

What is a “Fair” Societal Division of Labor?

Those of us who live in a village know that we can expect different goods and services from the mayor, the doctor, the policeman, the shopkeeper or the teacher. Village people are used to and accept a certain division of labor and respective responsibilities. Modern societies are much more complex systems within which the responsibility of specific actors - or better, boundaries of it - seems to be less clear. And yet, in modern societies it should be even less difficult to assign and set limits to responsibility than in informal systems where neighborly help and reciprocal loyalties are common features. The system “society” as a whole can be thought of a composite of relatively independent subsystems with various players and sets of rules. All subsystems or societal groups are expected to perform certain functions and contribute toward a society’s development.

Due to the peculiarities of the different subsystems each one has developed its own “best practices” to deal with the tasks it has to take care of. The result is certain subsystem-specific laws, principles of action, and rules of behavior. These are distinct from those of other societal subsystems. There is, however, cooperation between the various subsystems – for example, the polity and government system, the system of law, the education system, science, or art and culture. The more “win-win”-situations we have, the less frictions there are and the higher is the synergy. The systemic whole becomes more than just the sum of its parts.

This is, however, not “new”: The importance of an appropriate division of labor is underlined in the very first sentence of the first chapter of Adam Smith's great *Wealth of Nations*, published in 1776: "The greatest improvement in the productive powers of labor, and the greater part of the skill, dexterity,

and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labor." No single actor has all the rights, and none is bound by every single obligation - but all are better off if they cooperate.

Companies—like all other actors in society—have an interest in society prospering, and they have the duty to contribute to this goal. The concept of *duties* implies that there are certain obligations we are bound to respect, and certain rules of action we are bound to follow, at all times. Most of these rules of action have been determined in advance by human experience, thought, and tradition. They act as guides, as touchstones, relieving us from the necessity of making elaborate calculations of the probable consequences of this decision or that in every new situation that confronts us.

Over time and with rising prosperity, perception of what ought to be expected from different societal subsystems changes. As a consequence of the recent rethinking of the role of the state, more and different responsibilities have been assigned to other societal actors, including corporations.¹⁰ Problems arise when the contributions that are demanded from one sector (private sector or state) are detached from a fair understanding of a division of duties within the system as a whole, or when too high a burden is put on one particular side. All the interests of a society's actors must dovetail in order to obtain the highest possible development of that society—in other words, there must be an appropriate division of labor in society. To ensure that this is organized as efficiently - and with regard to the common good as beneficially - as possible, the subsystems of religion or the state, for example, have functions and responsibilities completely different from those of the economic or cultural sector. It also is obvious that there has to be a fair balance of duties *and rights* for all subsystems. This is obviously easier said than done as any change in allocation of duties or rights on one subsystem has direct implications on the vested rights of others.

Guiding principles, such as sharing with the needy out of a sense of solidarity or unconditional charity, are highly desirable in terms of the system as a whole, but - if they were perceived to be a main duty of business - they would not be very suitable for the functioning and effectiveness of that subsystem known. Although profitable corporations are often engaged in significant philanthropic activities¹¹, social redistribution policies or transfer of services in the name of charity are among major obligations of other subsystems. Corporate philanthropy keeps its place in the context of good corporate citizenship but realistically only as a "nice-to-have" as long as the results of the normal business activities allow for it. The economic subsystem and its

¹⁰ See e.g. World Bank: World Development Report 1997 - The State in a Changing World. Washington D.C. / New York, Oxford University Press 1997.

¹¹ See e.g. www.novartisfoundation.com

individual and corporate actors acts on markets and through them—a compassionate anti-economy could not be maintained for long as a result of constraints inherent to the system. Any strategy to profile corporate philanthropy differently is at best wishful thinking, at worst it could be criticized as an attempt to misguide a compassionate public.

The conclusion that each of us has special duties, in brief, peculiar to his vocation, relation, or circumstances, must have as its corollary the conclusion that the duty of each of us has certain definite limits. The sense of responsibility is weakened as much by overextending the range of a person's responsibilities as by freeing them from the actual consequences of their actions. To be effective, responsibility must be both definite and limited, adapted to the capacities of our mind, our compassion - and our resources. It is quite as destructive to any sense of responsibility to be taught that one is responsible for everything as to be taught that one cannot be responsible for anything. To be constantly reminded of our "social" responsibilities to all the needy or unfortunate in our community, in our country, or in the world, has the effect of weakening the strength of our feelings until the distinctions between those responsibilities which call for our action and those which do not disappear. In the context of e.g. absolute poverty in Sub-Saharan Africa, failing states and deficits in good governance a very practical problem arises: When those who are first in the line of responsibility fail, for any reason, to perform their specific duty, *who is next in charge? Whose duty is it to substitute?*

In the context of poverty reduction and sustainable health improvements, two actors in particular have major roles to play. The two actors concerned are the governments of poor countries and the institutions in industrial countries that are responsible for development cooperation. Without the appropriate political will both in the South and in the North, the gap between North and South in terms of life expectancy will widen dramatically. If it, however, is possible to mobilize the political will to do what we know has to be done, immense returns on investments in health - and general development - are to be expected.¹²

Today, there are still far too many developing countries whose governments spend much more of their scarce resources on weapons and other luxury goods than they do on health and education.¹³ And there are far too many countries that, rather than applying the familiar "best practices" in health care propagated by WHO, let them be driven by political vanity or corruption to adopt poorer practices and waste scarce resources through the misallocation

¹² See Commission on Macroeconomics and Health: *Macroeconomics and Health: Investing in Health for Economic Development*, WHO, Geneva, December 2001. (Chairperson: Jeffrey Sachs)

¹³ Abbasi K.: Healthcare Strategy. *British Medical Journal*, 3 April 1999, pp. 933-1006; Gwatkin D.: The Burden of Disease Among Global Poor. *Lancet*, 23 October 1999, pp. 586ff.

of funds.¹⁴ Without substantial improvements by the South in the area of “good governance,” all interventions from outside will remain little more than symptom control to ease the conscience of the North.¹⁵

At the same time, however, it is scandalous how little financial and other resources are made available by the rich nations to promote economic and social development. We have not seen any peace dividend, which became possible with the end of the Cold War, in the form of new resources on the scale needed for development cooperation. Nor have we seen an application of the fair trading conditions for developing countries, such as through the elimination of protectionism in agriculture or the textile industry, that would make sense and be necessary if only out of self-interest.¹⁶ It is not possible on a finite globe for a small minority of prosperous people on a few islands of wealth to live in happiness and security in the midst of a sea of poverty.

Despite substantially reduced prices or differential pricing for treatment of poverty-related diseases and HIV/AIDS, providing treatment for all patients will continue to be beyond the means of governments in developing countries, given the scale of the disease burden. Substantially expanding access to essential medicines, including anti-retrovirals, will require additional domestic and international financing to buy the drugs as well as to build effective health and supply systems. Without the infrastructure and capacity building necessary to administer the HIV/AIDS drug regimens adequately and effectively – and without ensuring a minimum of patient’s compliance –, there is not only the danger of sub-optimal therapeutic success but also the risk of resistance to anti-retrovirals and important antibiotics. Increased development assistance plus increased funding for The Global Fund to Fight HIV/AIDS, TB, and Malaria plus specific corporate endeavors will be necessary to help improve access to the information, goods, and services that sick people so urgently need. The strength of the “chain” between the pharmaceutical corporation producing the medicines and the rural patient living in absolute poverty is as strong as the weakest link.

Correct though these observations are, drawing attention to deficits on the part of other actors will not save the life of a single child – and drawing attention to the mistakes of others also does not release people from their own responsibilities. But what concrete responsibilities must the research-based pharmaceutical industry face up to in order to make a legitimate claim for

¹⁴ WHO: *The World Health Report 2000. Health Systems: Improving Performance*, Geneva 2000.

¹⁵ Jha P. et al.: Improving the Health of the Global Poor. *Science*, 15 March 2002, pp. 2035ff; Filmer D. et al.: *Health Policy in Poor Countries: Weak Links in the Chain?* (Policy Research Working Paper No. 1874, World Bank), Washington D.C. 1998; *Weak Links in the Chain II: A Prescription for Health Policy in Poor Countries. The World Bank Research Observer*, Vol. 17, No. 1 (2002), pp. 47–66.

¹⁶ see e.g. <http://www.caa.org.au/campaigns/trade/wto/agriculture.html>

social acceptance? The first and foremost responsibility for any pharmaceutical company is to inform itself about its impact on the various society's needs and goals and to be sensitive to the demands of the relevant stakeholders. Having done this, the definition of the specific social responsibility of a company becomes a matter of corporate values and enlightened leadership.

Within a Fair Societal Division of Labor, What is an Enlightened Definition of "Corporate Social Responsibility"?

"Social" responsibility is understood here in the sense of "societal" responsibility—that is, a responsibility towards society in general. Social corporate responsibility in the pharmaceutical industry as in other sectors encompasses responsibilities with differing degrees of obligation. A distinction can be drawn among what is:

- **required of business by society—the "must do" dimension** of social responsibility, which by societal consensus goes without saying, such as the provision of products or services in good quality and at a fair price, compliance with laws and regulation, employment at fair wages and in decent working conditions, profit-making, and wise strategic decisions; compliance with the "must" dimension is the minimum standard necessary for a corporation's sustainable existence;
- **expected of business by society—the "ought to do" dimension** of social responsibility, which is less binding than those covered by the "must" dimension but which most people in modern societies (and serious enterprises) still regard as "good corporate citizenship"; this dimension comprises extra-legal obligations like avoiding questionable practices and being fair, and responsive to legitimate concerns of relevant stakeholders as well as working legitimately beyond legal requirements where local legal conditions do not meet enlightened standards, e.g. with regard to social and environmental conduct. A concise catalogue of this dimension of social responsibility is the 9 principles of the United Nations Global Compact.¹⁷ Last but not least there is a scope of corporate action that is
- **desired of business by society—the "can do" dimension** of social responsibility, the fulfillment of which deserves public praise, although a company not delivering in this area would not have to fear public blame—examples of the can dimension include "corporate philanthropy", community and neighborhood programs, volunteerism and donations.

¹⁷ www.unglobalcompact.org

Given the social problems of world in the 21st century and taking into consideration the what can be done by the private sector if it is possible to mobilize the necessary corporate political will, enterprises with enlightened leadership should do more than the *minima moralia* described by the “must” dimension. A sober analysis of today’s poverty and health problems in sub-Saharan Africa and other poverty-ridden regions suggests that sustainable solutions can only be expected if *all actors of the global civil society* show goodwill and accept a level of responsibility that extends beyond narrow definitions of their specific social responsibility. What is needed in a corporate context is *leadership* in relation to creative and innovative ways of opening up new avenues with corporate social responsibility. After working for almost 30 years in the pharmaceutical industry, my position is one shaped by realism without resignation and by idealism without illusion.

The “must do” Dimension of Social Responsibility

When asked “What are the responsibilities of large companies?” more than two thirds of a global sample of 20,000 citizens across 20 countries gave an interesting though not surprising collective answer:¹⁸

Protect health/safety of workers	79%
Treat all employees equally	77%
No bribery or corruption	75%
Protect the environment	73%
No child labor	72%
Make profits, pay taxes	68%
Provide secure Jobs	64%
Apply the same high standards all over the world	60%

Environics: The Millenium Poll 1999

Forty-five percent of those interviewed mentioned the responsibility to “respond to public views and concerns”, 40% expected “help solve social problems” and 38% wanted the “support charities and community projects”. These are the non-negotiable responsibilities also of the pharmaceutical industry – and they are not different today than in the past: To provide goods and services that effectively meet customer demands and that can be sold at prices that are competitive and in the best interest of the corporation. If this is achieved in compliance with local law as well as in harmony with workers’ rights, with minimal impacts and unintended externalities a corporations conduct is likely to be judge as responsible. Yes, if all goes well, such a

¹⁸ see Environics: The Millenium Poll 1999

company will also achieve profits that are high in relation to the industry average. But as we are not dealing with a zero-sum game in which whatever is gained by one side has to be lost by others, profits are not pursued to the detriment of the common good:

Pharmaceutical corporations, even when taking on responsibility only in the context of delivering non-negotiable essentials nevertheless contribute to the common good:

- The goods and services can provide society with different kinds of value added. The societal effects of the existence of modern medicines, for example, and the access that people have to them allowed the death rate to be reduced and diseases that were susceptible to drug therapy to be prevented or even cured. Being a successful pharmaceutical corporation therefore means not only being profitable, but also raising the quality of life of sick people, avoiding costly hospitalization, and allowing people to go back to normal working lives instead of being bedridden. The financial success of the company arises here as a result of market successes of the research, manufacture, and distribution of medicines of high social benefit.
- Profits ensure the preservation of productive jobs, the payment of fair salaries and social benefits, contributions toward pension and insurance systems, and the development of new (and, for global sustainable development for a growing world population, much needed¹⁹) technical solutions. Moreover, through the resources they provide in taxes, profits make an important contribution to financing the functions of the state. Under positive political and social conditions (“good governance”), these corporate contributions are of major instrumental value for improvement of the common good. Therefore – and this tends to get lost sometimes in the debate – profits are not only necessary from a business point of view, they are also relevant in terms of societal welfare.

While not subscribing fully to Milton Friedman’s famous view that the business of business is business *only*, and that a corporation has no further obligations as long as it obeys the law,²⁰ I share Friedman’s concern that bringing human and social values into decisions of the economic subsystem

¹⁹ See Leisinger K.M. / Schmitt K. / Pandya-Lorch R.: Six Billion and Counting. Population Growth and Food Security in the 21st Century. IFPRI / Johns Hopkins University Press, Washington D.C. 2002.

²⁰ Friedman M.: The Social Responsibility of Business is to Increase its Profits. New York Times Magazine, 13 September 1970; also Friedman M.: The Social Responsibility of Business. In Beauchamp T.L., Bowie N.E. (eds.): Ethical Theory and Business. Prentice-Hall, N. J. 1983, pp. 81–83.

will lead ultimately to a shift from market mechanisms to political mechanisms. At times when the judgment of a fair societal division of labor seems to be so blurred, a wake-up call to reality by speaking of the boundaries of corporate obligations is a political necessity; it creates transparency about what can be expected on a sustainable basis. But the understanding of the role of the state has changed over the past two decades, and modern societies today assign to actors in the economic subsystem a relatively wide-ranging portfolio of obligations.²¹ This is not least a consequence of decades of criticism regarding effects extraneous to the economic subsystem, whether it be damage to the natural balance of ecosystems, exploitative and unhealthy labor conditions in developing countries, the concentration of global economic power in a few western industrial countries, or cases in which the autonomy of political decision makers is compromised by economic power. Corporations that strive to be successful in terms of a “triple bottom line” therefore are willing to deliver more than just essentials.

The “ought to do” Dimension of Social Responsibility

Most people in modern societies expect that responsible companies avoid questionable practices and respond to the “spirit” of law rather than a narrow interpretation of the letter of law, such as by paying “living wages” and protecting the environment in countries where this is not legally required – corporate behavior as, for example, demanded by the UN Global Compact: Convinced that weaving universal values into the fabric of global markets and corporate practices would help advance broad social goals while securing open markets, UN Secretary-General Kofi Annan challenged world business leaders to make globalization work for all the world’s people. To this end, companies are asked to act, in their own corporate domains, on nine principles drawn from the Universal Declaration of Human Rights, the International Labor Organization’s Fundamental Principles on Rights at Work, and the Rio Principles on Environment and Development.

²¹ See Environics: Millennium Poll, New York 1999.

The UN Global Compact Principles

Human Rights

The Secretary-General asked the world business community to

Principle 1:

Support and respect the protection of the international human rights within their sphere of influence;

Principle 2:

Make sure their own corporations are not complicit in human rights abuses;

Labor Standards

The Secretary-General asked the world business community to uphold

Principle 3:

Freedom of association and the effective recognition of the right to collective bargaining;

Principle 4:

The elimination of all forms of forced and compulsory labor

Principle 5:

The effective abolition of child labor; and

Principle 6:

The elimination of discrimination in respect of employment and occupation

Environment

The Secretary-General asked the world business community to

Principle 7:

Support a precautionary approach to environmental challenges;

Principle 8:

Under take initiatives to promote greater environmental responsibility, and

Principle 9:

Encourage the development and diffusion of environmentally friendly technologies;

As transnational corporations are seen to be the principal drivers of globalization and also its primary beneficiaries, they are increasingly expected to fulfill obligations that go beyond what national laws require and certainly beyond the satisfaction of short-term shareholder interests. The “ought to do” dimension of social responsibility is to carefully analyze the corporate state of affairs, look for potential vulnerabilities and correct them in the spirit of good corporate citizenship and make sure that management and compliance processes are in place to prevent performance deficits.²²

²² For the Novartis example see Leisinger K.M.: Towards Globalization with a Human Face: Implementation of the UN Global Compact Initiative at Novartis. In: Journal of Ethics and Globalization. See the online version on <http://www.parallaxonline.org/peglobalhuman5.html>; January / February 2003.

Of course, also in the context of the UN Global Compact, different stakeholders have different definitions of ambiguous terms (e.g. “sphere of influence” or “precautionary principle”) – hence the company must be clear that it is understood what the corporate understanding is. This is especially important in the context of the human rights principles. As large companies are sometimes seen as being able to influence outcomes even in the political arena, they are called on by some constituencies to use their bargaining power “to rectify offensive conditions even in countries in which a firm has played no causal role in their creation,” as the United Nations put it.²³ Bearing in mind the uneasiness of past discussions about political interference of multinational corporations,²⁴ such demands have to be handled with great care.

For research-based pharmaceutical companies, a number of other dimensions become relevant, two of which are of special importance: flexibility for negotiated, differential pricing on a case by case basis and according to specific needs and demands, and the readiness to help out with donations in cases of acute emergency.

While donations in the case of emergencies are relatively easy to determine, and misuse is less frequent, differential pricing for different markets needs some additional measures to prevent an exploitation of goodwill. Control over trade is required to avoid re-exportation or leakage of the low-priced drugs to the markets of industrial countries. It also requires an appropriate political environment, including a readiness on the part of consumers in high-priced markets to accept sustained price differences.²⁵ Moreover, it may also require undertakings from industrial countries not to use differential prices intended only for poor countries as benchmarks for their own price regulation systems or policies.

²³ United Nations: *The Social Responsibility of Transnational Corporations*, New York, Geneva 1999, p. 19.

²⁴ See Oxfam: *TRIPS and Public Health* (Oxfam Briefing Paper No. 15), Oxford, March 2002, but also the debate about the role of multinational corporations in the political affairs of Chile in the early Seventies.

²⁵ This argument is made on the understanding that governments in developed countries (OECD) are – as one of their good governance duty - providing the necessary social safety nets to prevent that their poor and / or uninsured citizens have access to essential medical care incl. the essential medicines.

“Can do” Norms

The “desirable” actions comprise a dimension of social responsibility that is neither required by law nor standard industry practice. Delivery on the “can do” norms of social responsibility will not protect a company whose actual operations do not comply with the law or other aspects of the “must do” dimension. And yet, it can nevertheless offer people substantial social or other advantages.

Desired actions are, for example, social benefits through subsidiaries situated in poor countries, such as free or heavily subsidized meals for workers and employees, nursery schools for single mothers, free training opportunities using company infrastructure, or scholarship programs for the children of employees in low-income groups. The extras may also take the form of providing free or heavily subsidized facilities for diagnosis, treatment, and psychosocial care for employees with HIV/AIDS or other poverty-related diseases such as TB or malaria. Corporate philanthropy, defined as expenditure beyond a company’s actual business activities without any specific association with direct corporate advantages and without any financially measurable rewards in return, is regarded by some stakeholders with skepticism, because these are benefits that are voluntary and can also be cut back again—for example, when the climate in the business environment gets harsher.²⁶

Given widespread poverty and the major human suffering associated with it, even if a company does nothing more than act purely as a financial sponsor for humanitarian purposes, this should be acknowledged as laudable. Normally, however, in addition to their financial resources, companies also have a wealth of knowledge and experience at their disposal that they can put to great use by investing in projects and programs of development cooperation and humanitarian aid to increase effectiveness, efficiency, and significance.²⁷ As part of such projects, a company may donate medicines—just as Novartis, for example, has done by signing a memorandum of understanding with WHO to provide free treatment for all leprosy patients in the world until the disease has been eliminated from every country—but also may invest in social development programs to enhance the absorptive and institutional capacity of the recipients. Experience shows, that it is relatively easy to make a donation to a government or an international organization, but the mere availability of a drug at the central medical stores in a poor country’s capital does not necessarily mean that it will be available and accessible to rural or urban communities in need. It can be extremely difficult to make sure

²⁶ Oxfam, Save the Children, VSO, op. cit. note 7.

²⁷ See, for example, the Report of the Novartis Foundation for Sustainable Development, Basel 2003 (Postfach, CH-4002 Basel, Switzerland) or www.novartisfoundation.com.

the donated medicine is accessible to the destitute patients in the rural areas of a least developed country – at the right time, in the right dosage and with the necessary patient’s compliance.²⁸

Companies that become engaged in such a comprehensive way create the opportunity to acquire a social competence regarding problems of poverty and become familiar with poverty-related realities – experiences that do not otherwise form part of the normal cosmos of a company. It is the kind of competence for a company that is described by Nobel laureate Amartya Sen made for “competent human beings” :

As competent human beings, we cannot shirk the task of judging how things are and what to needs to be done. As reflective creatures, we have the ability to contemplate the lives of others. Our sense of responsibility need not relate only to the afflictions that our own behavior may have caused..., but can also relate more generally to the miseries that we see around us and that lie within our power to help remedy. That responsibility is not, of course, the only consideration that can claim our attention, but to deny the relevance of that general claim would be to miss something central about our social existence. It is not so much a matter of having exact rules about how precisely we ought to behave, as of recognizing the relevance of our shared humanity in making the choices we face.²⁹

Such a company’s understanding grows with regard to completely different viewpoints on complex social issues, such a company goes on a learning process that is structurally different from any kind of “do gooder-ism” triggered by public pressure in a given critical situation.

Contributions from the *research efforts* of the pharmaceutical industry also fall into the category of “can do” norms of social responsibility. This may, on the one hand, follow the approach of the Novartis Institute for Tropical Diseases in Singapore³⁰, where – in collaboration with others as a joint public-private initiative – *pro bono* research is conducted into the diseases of poverty such as tuberculosis and dengue fever. If more companies would engage in similar ventures, the creation of a *Consultative Group on International Health Research* could bring about new synergies. In some cases pharmaceutical companies decide not to spend the resources that are necessary to develop a patented chemical compound into a drug due to a different focus of their product portfolio. If under such conditions compounds that offer justified hope for pharmacological effects on neglected tropical diseases would be passed on for

²⁸ <http://www.foundation.novartis.com/leprosy/index.htm>

²⁹ Sen A.: *Development as Freedom*. Oxford University Press, Oxford 1999, p. 283.

³⁰ www.nitd.novartis.com

development to a *Consultative Group*. The resources for further research and development could then be provided by other actors in civil society, whether in the form of national or multilateral development aid or through NGOs.

And this brings me to my final point, the need for collaboration between partners who have the necessary expertise and goodwill.

Enlightened Coalitions for Better Health of the World's Poor

Among all the actors of good intention in society, I perceive a normative consensus that every individual human being who dies under conditions of individual and collective poverty because he or she has no access to adequate medical care is an indictment against those who could prevent it but who – for whatever reasons – fail to do so. My life experience does not teach me that managers would think differently in this respect than any other professional group – I can also not make out a different “moral Gauss distribution” (bell-shaped curve) between managers and other professional groups. In view of the complexity and dimension of the health problems faced by the 3 billion people whose income amounts to less than \$2 a day, it is a truism to state that poverty and ill health have multiple sources, and hence that sustainable solutions call for a multipronged approach. Given this, it is obvious that a package of the complementary means of different actors that reinforce each other is needed. For effective and successful solutions, an enlightened willingness to cooperate and come to an understanding is required on the part of all those who have something to contribute. Without explicit and coherent efforts to build up health infrastructure, educate patients and improve health services, much of what governments, NGOs, or the private sector have to offer will be absorbed by those who have early and better information, better access, and more political power. Under such conditions, the (relatively) non-poor are likely to benefit disproportional and those who live in absolute poverty will remain underserved.³¹

While the individual actors – governments, donors, NGOs, and the private sector – may be very effective and efficient in achieving their specific goals, no single actor can solve every issue of common concern. Different actors in civil society have different concepts, skills, techniques, experiences, and resources. They are also driven by different motives. Although there is a rational and natural division of labor and responsibility, synergies through the cooperation of different actors for unorthodox purposes are feasible. As a result of different backgrounds and experiences, different actors are likely to analyze the issues and appraise both the problems and the opportunities differently. Modified or altogether different solutions become probable under

³¹ Important work in this context is done by Davidson R. Gwatkin, e.g. *Health Inequalities and the Health of the Poor: What do we know? What can we do?* In: *Bulletin of the World Health Organization*, Vol. 78 (2000), No.1, pp.3 -18.

such circumstances. Collaboration and coordination among the different actors can lead to synergies and a dimension of solutions not available from any individual actor.

Social corporate responsibility therefore not only comprehends competing with integrity³², and a high degree of sensitivity with regard to stakeholder concerns but is also expressed by the willingness to cooperate with other civil society actors of good intentions. Before cooperation on specific projects can begin, however, a consensus needs to be reached among those who want to cooperate on the definition of the basic problems – and consequently on the appropriateness of the means and techniques being used to solve them. One example to explain this rationale could be the “Access to Medicines” deficits in the rural parts of Sub-Saharan Africa:

If a stakeholder perceives the basic or even exclusive problem for the lack of access of poor rural patients to be the existence of Intellectual Property Rights of the pharmaceutical industry it would be most difficult to find a common denominator for sustainable solutions of this problem. The reason for this is not of an ideological nature but the fact that most infectious diseases – which account for 45% of the causes of death and 63% of the child mortality in low-income countries – can be controlled with available and affordable medicines and tools, all of which are off-patent³³ – and nevertheless not available where they are needed:

- Tuberculosis medicines are 95% effective in curing TB and cost US\$10 for a six-month course of treatment.
- Oral rehydration therapy (ORT) is highly effective in treating dehydration caused by diarrheal diseases, for 33 US cents per treatment.
- Antibiotics for pneumonia are 90% effective, for 27 US cents.
- Antimalarials are 95% effective, with costs as low as 12 US cents.
- Vaccines are 85% effective in preventing measles, for as little as 26 US cents per dose.

Estimates made at the Washington conference on “Intellectual Property and the Economics of International Public Health” in October 2003 suggest that up to 99% of the essential drugs needed for the Sub-Saharan African poor patients are either expired or non-patented drugs. Other effective tools available at low prices are insecticide-treated bed nets against vector-

³² See De George R.T.: *Competing with Integrity in International Business*. New York / Oxford, Oxford University Press 1993;

³³ WHO: *Health a Key to Prosperity. Success Stories in Developing Countries*. Geneva (WHO) 2000, p.10.

transmitted diseases (e.g., malaria) for as little as US\$4. One in four child deaths from malaria could be prevented if children at risk slept under bed nets to avoid mosquito bites. Last but not least, latex condoms for the prevention of sexually transmitted diseases, including HIV/AIDS, are available for US\$14 for a year's supply.

The issue of "access to medicines" cannot be discussed in isolation from the overall deficits in development policies, health care systems, health infrastructure and implementation processes. As a rule, the combination of appropriate development policy, sound and effective health policy, a rational use of drugs, and adequately funded health services can handle most of the health problems of any country. This complexity calls for a multi-stakeholder approach and hence for partnerships in good faith. The multi-stakeholder approach allows for an exchange of resources, a combination of competencies, and the coordination of activity in a new way. Partnerships can, for example, combine the power of government to create a supporting environment, the exceptional ability of NGOs to tap in-depth grassroots knowledge and expertise, the ability of multilateral and bilateral donors to provide access to funds, and the resources of the private sector to make the necessary pharmaceutical goods and services available.

A last a word of caution: Although the differences between different actors are a source of strength in any partnership, they also pose a certain challenge. Bringing together organizations with diverse goals, values, and perspectives means there is plenty of scope for disputes and conflicts. So creating partnerships and new institutional structures to improve basic health requires building organizations, skills, and processes that can use the differences to encourage exchange and creativity.

Where Do We Go from Here?

Social issues and development gaps are and will remain formidable challenges for billions of people now trapped in poverty. If a pharmaceutical corporation wants to go on record as a visible part of sustainable solutions, it must define its corporate social responsibility in a comprehensive and inspired way, and therefore must transcend the "must do" dimension to apply ambitious "good corporate citizenship". Anything less would not only be regrettable but would also, sooner rather than later, result in a public perception of being indifferent to the biggest social problem of our time. Ultimately, "society" is nothing else but the totality of actual or potential "customers" – and their judgments about a company being "socially responsible" helps determine their choice of products. But it is not only "consumers" on the product and services markets but also on the "reputation markets" – those who are perceived to be part of the problem and not part of the solution will eventually face not only problems with their societal acceptance but also a more difficult political environment and more stringent

regulation. This again would be counterproductive for the urgently needed successes in pharmaceutical research. As the worst performance of the weakest member of the industry is having a disproportionate influence on the image of the whole industry, more “social marketing” for Corporate Social responsibility within the pharmaceutical sector would benefit all corporations.

An enlightened way of looking at corporate social responsibility from a corporate point of view is to see it as in the long-term interest of a corporation to fulfill societal expectations as much as possible and by this cultivate public goodwill. A chairman’s statement in this regard will send the right signal through an organization and into the wider society. It goes without saying that if a company wants its social responsibility credentials to be widely known and appreciated, it will have to report on those achievements in a convincing and easily accessible manner and to give concrete examples—at best in its annual report.³⁴

Sustained corporate success depends, in addition to all other factors that successful managers are so well aware of, on the courage and imagination to respond to the needs and welfare of relevant stakeholders. A “*New Social Contract for Globalization with a Human Face*” is an idea whose time has come. A credible commitment to enlightened corporate social responsibility will become one of the most important areas of future corporate leadership and success.

³⁴ See Hoop Associates: *All Mouth, No Trousers? Best Practices in Reporting Corporate Responsibility*, London 2002; for a good example in this context see the corporate citizenship chapter in the Novartis Annual Report 2002. (http://www.novartis.intra/corporatecitizen/downloads/pdf/cc_annualreport_2002.pdf)