Intellectual Property Rights vs. Access to Medicines

The impact on the CSR Strategy of Pharmaceutical Companies

The Case of GlaxoSmithKline

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Abstract

Thesis Title: Intellectual Property Rights vs. Access to Medicines
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The aim of this dissertation is to study how Corporate Social Responsibility (CSR) is integrated in companies, with a special focus on the pharmaceutical industry. The problem statement relies on understanding how has the tension between the accessibility of essential medicines in developing countries and Intellectual Property Rights (IPRs) influenced the CSR strategy of multinational companies in the pharmaceutical industry over the last years. In order to act in accordance with this objective, a teaching case was developed, based on GlaxoSmithKline (GSK), a British multinational pharmaceutical that is the world's second largest pharmaceutical company and world leader in the provision of drugs to treat the three most critical diseases in the developing world: HIV/AIDS, malaria and tuberculosis. GSK was the first company from the industry to approach the access to medicines issue as a strategic consideration, by incorporating it not only in its CSR strategy but also in the company's overall strategy. The challenge faced translates how CSR practices, when adopted strategically, can simultaneously create economic and social value.

Key Words: Pharmaceutical Industry, Strategic CSR, Access to Medicines, Intellectual Property Rights, Developing Countries

Resumo

Título da Tese: Direitos de Propriedade Intelectual vs. Acesso a Medicamentos
Subtítulo da Tese: O Impacto na Estratégia de Responsabilidade Social das Empresas **Farmacêuticas** – O Caso da GlaxoSmithKline
Autora: Rita Torres

O principal objectivo desta dissertação é estudar a forma como a Responsabilidade Social é integrada nas empresas, com um foco especial na indústria farmacêutica. O problema a investigar baseia-se na compreensão da tensão entre o acesso a medicamentos essencias em países em desenvolvimento e os direitos de propriedade intellectual, e a sua influência na estratégia de Responsabilidade Social de empresas multinacionais da indústria farmacêutica nos últimos anos. Com este objectivo, foi desenvolvido um estudo de caso, baseado na GlaxoSmithKline (GSK), uma empresa farmacêutica multinacional britânica, considerada a segunda maior do mundo e líder mundial no fornecimento de medicamentos para tratar as três doenças mais críticas nos países em desenvolvimento: HIV/SIDA, malária e tuberculose. A GSK foi a primeira empresa da indústria a considerar o acesso a medicamentos essenciais um assunto estratégico, tendo-o incorporado não só na estratégia de Responsabilidade Social da empresa mas também na estratégia global. O desafio enfrentado exemplifica como as práticas de responsabilidade social, quando encaradas de uma forma estratégica, podem simultaneamente criar valor económico e social.

Palavras – Chave: Indústria Farmacêutica, Responsabilidade Social Estratégica, Acesso a Medicamentos, Direitos de Propriedade Intelectual, Países em Desenvolvimento

Preface

Addressing the way companies interact with society and contribute for welfare creation through CSR became a research topic of my interest during my master exchange semester in The Netherlands, where I studied subjects related to Global Business & Stakeholder Management. Hence, I kept asking myself: Why do companies do so: is it purely altruistic, or do they expect some sort of benefit? How do they align social issues with current business practices? One of the issues we discussed once in class was related with the pharmaceutical industry and the topic of access to medicines vs. IPRs. As in my family there has always been a strong connection to the health sector, this theme immediately captured my attention and created in me a desire to study it in greater depth.

Once I had the main topic in mind, all I needed was a successful story of a company from the pharmaceutical industry through which I could demonstrate the importance of strategic CSR in our times. Thanks to the suggestion of my advisor, Professor Susana Frazão Pinheiro , and my seminar colleagues, I had the honour to study GlaxoSmithKline, a company that has always integrated social responsibility values and that was the first from the industry to approach the access to medicines issue as a strategic consideration.

Bearing in mind that the final result would not be possible without the help and support of several interveners, I may now address my gratitude to all the persons that made this achievable. Firstly, I would like to thank my academic advisor, Professor Susana Frazão Pinheiro, for the availability and support addressed to the dissertation. Secondly, I would like to express my gratitude to GlaxoSmithKline, in particular to Dr. Maria João Poole da Costa, and to Bayer Health Care, namely Dr. Andreas Fibig, and his staff, Mr. Rong Yang, Ms.Ulrike Schröder and Mr.Ulrich-Dietmar Madeja, for the accessibility and openness throughout the research process. Moreover, I would like to thank my family for all the support and patience, and for being a caring source of trust. Finally, I would like to thank my friends for keeping me believing.

Table of Contents

List of Exhibits and Appendices

Exhibits

Appendices

List of Acronyms

AIDS – Acquired Immune Deficiency Syndrome

ART – Antiretroviral

AV - Antiviral

CFP – Corporate Financial Performance

CSP – Corporate Social Performance

CSR – Corporate Social Responsibility

DJSGI – Dow Jones Sustainability Group Index

GDP – Gross Domestic Product

FTSE – Financial Times Stock Exchange

GSK – GlaxoSmithKline

HIV – Human Immunodeficiency Virus

IMF – International Monetary Fund

IP – Intellectual Property

IPRs – Intellectual Property Rights

IRPs – International Reference Prices

MDGs – Millennium Development Goals

NGOs – Nongovernmental Organizations

OECD – Organization for Economic Cooperation and Development

R&D – Research & Development

TRIPS – Trade-Related Aspects of Intellectual Property Rights

UN – United Nations

UNAIDS – Joint United Nations Programme on HIV/AIDS

WHO – World Health Organization

WTO – World Trade Organization

Chapter 1 - Introduction

Globalization, a process that can be defined as the intensification of cross-border social interactions, due to declining costs of connecting distant locations through communication and the transfer of capital, goods, and people (Scherer & Palazzo 2011), facilitates instantaneous communication across borders, trade in goods and services, and the availability of scientific information around the world (Balcius & Novotny 2011). This phenomenon, besides having increased opportunities and risks for corporations and intensified competition, has led to a transnational interdependence of economic, political and social actors. In particular, the debate about multinational companies' role in the globalizing world has been intensified.

In developing countries, despite substantial advancements regarding access to essential medicines and treatments to fight HIV/AIDS, malaria and tuberculosis, access to essential medicines is still not adequate. Mainly rooted in poverty, there are several significant barriers to access. The WHO has identified four major factors affecting access to medicines (WHO 2010):

- Rational selection of medicines, for example via the WHO Model List of Essential Medicines;
- Affordable Pricing;
- Sustainable Financing;
- Reliable medicines supply systems.

In September 2000, world leaders gathered at the Millennium Summit of the United Nations (UN), at its headquarters in New York City, and adopted the UN Millennium Declaration, with the purpose of committing their nations to a novel global partnership to reduce extreme poverty in its many dimensions – income poverty, hunger, disease, lack of appropriate shelter, and exclusion – while, at the same time, boosting gender equality, education and environmental sustainability. Eight time-bound targets were established, named the Millennium Development Goals (MDGs), having as a deadline the year of 2015 (Millennium Project 2006). Three out of eight MDGs, eight out of sixteen MDG targets and eighteen out of forty-eight MDG are health-related. Most health targets cannot be achieved without medicines (annex 1), and a target in particular acknowledges the need to improve the availability of affordable medicines for the world's poor in cooperation with pharmaceutical companies (United Nations

Millennium Goals 2012). The level of seriousness of the issue has therefore achieved global recognition.

Focusing on the pharmaceutical industry, there does not seem to exist much criticism about its functioning with regard to labor standards and environmental care. However, the "access to medicines" performance does not follow the same path (Leisinger 2005), as the industry has enjoyed high profit margins for many years now and the public is becoming aware of this fact. There is a perception that the industry has been greedy, especially with regards to patent protection and resistance to generic challenges (Oxfam 2007). Patent protection gives exclusive rights to patent holder and the patented product cannot be used (produced, marketed) without his consent during a certain period of time. This leads to drug prices increase, especially in developing and least developed countries, creating negative impacts on access for the poorest (Cohen-Kohler et al 2008).

As a consequence of the increased perception of the fact that there exist different social and economic realities, particularly in developing and emerging countries, and of the transnational interdependence of economic, political and social actors, people expect more from a "responsible corporate citizen" nowadays than they did twenty years ago, and so do governments, activists, and the media, which have become skillful at holding companies accountable for the social consequences of their activities. Today there is a growing wave of demands being placed upon the pharmaceutical industry to contribute to improved access to medicines for poor patients in the developing world (Leisinger 2008). These challenges have captured my attention and interest, and **motivated me to develop the following research question:**

How has the tension between the Accessibility of Essential Medication in developing countries and Intellectual Property Rights influenced the CSR strategy of multinational companies in the pharmaceutical industry over the last years?

GlaxoSmithKline, a company that has been a pioneer in this area and has a long-term commitment with its access to medicines strategy, is used as a case study to better understand what sustains the adoption of strategic CSR. The topic of CSR is among the most heatedly debated globalization topics, and the urgency to give greater attention to it comes not only from the realization that the criticism of business can reach higher proportions than ever before due to globalization, affecting a corporation's image and

reputation, but also from the growing recognition that governments fail to solve many social problems. What seems to have happened nowadays is that the debate about CSR has switched from *whether* to make commitments to CSR to *how* (Smith 2003).

The topic investigated has been gaining importance, as corporations are more and more challenged to meet social problems within changing environments. The approach adopted included not only the analysis of the issue of access to medicines in South Africa, but also its impact on the overall CSR strategy of GSK throughout the years, which, as far as we know, has not been done before. The case developed can be used as a learning and reflexion instrument.

Chapter 2 – Methodology

Having in mind the research question presented in the introduction chapter, it was important to collect the data. For the selection of appropriate research methods, advices and limitations of previous papers in the field were reviewed. The dissertation uses a cross-sectional, retrospective, exploratory approach (Myers 2009), based mainly on secondary sources, namely academic articles, books, newspapers and a large variety of websites, being the only primary source an interview made to the company. In general, an interpretative research perspective is adopted, with an access to reality through social construction, considering the context and people during the research (Myers 2009).

Firstly, a literature review is conducted making use of academic databases and search engines such as Google Scholar, Science Direct, EBSCO and Business Source Premier. Relevant articles from journals such as the *Harvard Business Review*, *California Management Review*, *Journal of Business Ethics Education*, *Academy of Management Review*, *Journal of Management Studies, Business and Society Review,* and others were used. Furthermore, a large variety of quality newspapers as well as publicly available information about organizations were utilized. Secondly, a case study is conducted based on information gathered from an interview, the company's website and annual reports, and information from internet sources namely articles and magazines in order to add an independent view about the company. Regarding the qualitative data collected, the **interview** with Dr. Maria João Poole da Costa, External Affairs Director of GSK Portugal, was fundamental to gather detailed and reliable information about the specific topic of GSK's strategic CSR and access to medicines. An interview with the CEO of Bayer Pharma AG, Dr. Andreas Fibig, and his staff, Mr. Rong Yang, Ms.Ulrike Schröder and Mr.Ulrich-Dietmar Madeja, was also conducted in order to promote a broader discussion in the teaching notes section, allowing the teacher to focus not only on GSK but also on another companies from the industry. It can also be useful for future research in this field, as the company is also dealing with this issue. Finally, all the information gathered was fundamental to elaborate the teaching notes chapter that aims to analyze the exposed case by combining the result of a deep study about the case with the research about this topic.

Chapter 3 - Literature Review

Corporate Social Responsibility

Defining CSR

Steven L. Wartick promoted the idea of moving from the study of *business and society* to the study of *business in societies,* which can be seen as the defining paradigm for the field of corporate citizenship (Wettstein 2005).

The topic of CSR is among the most hotly debated globalization topics. Nevertheless, to make an informed judgment about the social responsibility of a company is a rather difficult attempt, as there are a multitude of definitions of CSR (Leisinger 2007), falling into two general schools of thought: those that argue that business is obliged only to maximize profits within the boundaries of the law and minimal ethical constraints (Friedman 1970; Levitt 1958); and those that have suggested a broader range of obligations towards society (Andrews 1973; Carroll 1979; Davis & Blomstrom 1975; Epstein 1987; McGuire 1963). An important attempt to bridge the gap between economic and other expectations, and one of the most important conceptualizations of CSR, was offered by Archie Carroll (1979), who proposed a definition of corporate social responsibility where four levels of social responsibility are embraced:

- Economic – responsibility to produce goods and services that society wants and to sell them at a profit;
- Legal – responsibility of fulfilling its economic mission with the framework of legal requirements;
- Ethical – society expects businesses to carry out ethical obligations;
- Discretionary – society expects businesses to assume social roles over and above those described above.

First in importance, and on the bottom of the pyramid (annex 2), are the economic responsibilities, followed by the legal ones. Next on the pyramid come the ethical responsibilities and lastly, and weighted lowest in importance, come the discretionary (i.e., voluntary) responsibilities, where philanthropy fits in; it is a voluntary activity that is neither required nor expected. Therefore, it is possible to say that the social responsibility of businesses embraces the economic, legal, ethical and discretionary expectations that society has of organizations at a certain point of time.

Approaches to CSR

Four approaches to CSR (inactive, reactive, active, and pro-/interactive), which are neither mutually exclusive nor represent "best" practice models, have developed over the years, and are characterized by different procedural attributes, as shown in the table below (van Tulder & van der Zwart 2006):

Table 1. Approaches to CSR

Inactive	Reactive	Active	Pro-/interactive
'Corporate-Self-Responsibility'	'Corporate-Social-Responsiveness'	'Corporate Social Responsibility'	'Corporate Societal Responsibility'
Inside-in	Outside-in	Inside-out	In/outside-in/out
'Doing things right'	'Don't do things wrong'	'Doing the right things'	'Doing the right things right'
'Doing Well'	'Doing well and doing good'	'Doing good'	'Doing well by doing good'

Source: van Tulder & van der Zwart 2006

The *inactive* approach brings back Friedman's idea that the only "social responsibility of business" is to "increase its profits". According to his book, *Capitalism and Freedom,* "the corporation is an instrument of the stockholders who own it. If the corporation makes a contribution, it prevents the individual stockholder from himself deciding how he should dispose of his funds" (Porter & Kramer 2002). This is mainly an inward-looking (inside-in) approach, aimed at efficiency and competitiveness, where the company focuses on "doing things right", where no fundamental or ethical questions are raised about what they are doing.

The *reactive* approach, which focuses also on efficiency, has a particular concern on "not doing things wrong". It is characterized as an outside-in approach because the company is socially responsive and responds to specific actions of external actors that could damage its reputation. Corporate Philanthropy, when not applied strategically, can be a practical manifestation of social responsiveness (Post, Lawrence & Weber 2002), since most corporate giving programs have no connection with the company's strategy. Its purpose is primarily to generate goodwill and positive publicity, and to boost employee morale (Porter & Kramer 2002). These two approaches to CSR, which are heavily wealth oriented, focus mostly on output indicators such as short-term returns and productivity.

An *active* approach to CSR is inspired by ethical values and virtues on the basis of which the company's aims are elaborated (van Tulder & van der Zwart 2006). This is considered an inside-out approach since the company is outward-oriented, and is focused on "doing the right things". Nevertheless, ethical practices can result in "doing the right things wrong" and competitive market-oriented business practices can lead to "doing the wrong things right". Therefore, a new approach to CSR, where the tension between ethics and efficiency is involved within a socially responsible manner, is required: the *pro-/interactive* approach.

When adopting a proactive approach, a company takes on activities aimed at external stakeholders right from the start of an issue life cycle. By doing so, it allows the company to act quickly and to take advantage of the occasion by positioning itself at the forefront of an issue that may become of major public interest. Therefore, there is an incentive to act proactively so as to gain a first-mover advantage (Falck & Heblich 2007). It is also interactive because there are "outside in" and "inside out" approaches, which complement each other. Actors keep a constant dialogue with the purpose of talking over norms to which everyone could agree, with the attempt of "doing the right things right". This approach, which adds a welfare orientation to the company's intents, implies a medium-term profitability and longer-term sustainability, and is linked to strategic CSR, which will be developed further below.

Increasing Importance of CSR

As previously mentioned in the approaches to CSR, corporate attention to CSR can come from a desire to do good (the "normative" case), an enlightened self-interest (the "business" case), or a mixture of these two motivations (Smith 2003). According to Porter & Kramer (2006), the four prevailing justifications/corporate motives for CSR are:

- Moral obligation – duty to be good corporate citizens and to "do the right thing";
- Sustainability – operate in ways that secure long-term economic performance by avoiding short-term behaviours that are socially detrimental or environmentally wasteful;
- License to operate – permission to do business from governments, communities and other stakeholders;
- Reputation – CSR initiatives improve a company's image, tones up its brand, among others.

Increased attention to CSR by corporations has not been fully voluntary (the "business" case): a significant number of companies only realized its importance when surprised by public responses to issues they had not previously considered part of their business responsibilities (Porter & Kramer 2006). The urgency to give greater attention to CSR comes not only from the realization that the criticism of business can reach higher proportions than ever before due to globalization, as firms now operate in countries with significantly different and generally much lower standards of living than the ones of their domestic base, but also from the growing recognition that governments fail to solve many social problems.

Zooming into the pharmaceutical industry in particular, while there does not seem to exist much criticism about its functioning with regard to labor standards and environmental care, the "access to medicines" performance does not follow the same path (Leisinger 2005), as these corporations found out, for example, that they were expected to respond to the AIDS pandemic in Africa even though it didn't belong to their primary product lines and markets. People expect more from a "responsible corporate citizen" nowadays than they did twenty years ago, as a consequence of different social and economic realities, particularly in developing and emerging countries.

In addition, governments, activists, and the media have become skillful at holding companies to account for the social consequences of their activities: government regulation, more and more, requires social responsibility reporting; activists have become much more aggressive and effective in conveying public pressure to bear on corporations; and more extensive media reach, conjugated with advances in information technology, has led to a fast and widespread exposure of corporate abuses in even the most distant places in the world (Porter & Kramer 2006). Furthermore, organizations that rank companies on the performance of their CSR, which attract significant publicity, have emerged, such as the Access to Medicine Index. This Index uses a framework that evaluates the activities of a company in seven technical areas, considered to be key to enhance access to medicine in developing countries, including: R&D activities, pricing schemes, and patents & licensing policies; and across four important aspects of action, or strategic pillars: commitments, transparency, performance and innovation (annex 5). It aims to stimulate pharmaceutical companies to increase their efforts to improve access to medicine worldwide, by publicly providing a picture of the companies' access to medicine activities. Today, the Access to Medicine Foundation receives financial

support from donors including the Bill & Melinda Gates Foundation, and the UK and Dutch Governments (Access to Medicine Index 2013).

As referred before, a vital consideration for many firms is reputational risk in consumer, capital and labor markets. Today, large international enterprises – including the research-based pharmaceutical industry – have a significant reputational problem to solve: a study conducted between 1999 and 2001[1], where people were asked which institutions they trusted to work in the best interest of society, ranked NGOs in the first place, followed by religious organizations. Multinational companies were in the seventh position, behind governments, unions and the media (Leisinger 2005). The self-image of pharmaceutical companies in particular goes wrong with its public image since a considerable number of people of industrial societies, when considering the protection of the "common good", conceive multinational corporations as more likely part of the problem than part of the solution (Enderle & Peters 1998). These pressures can become a potentially large financial risk for pharmaceutical companies since the research-based pharmaceutical industry is highly regulated and hence ultimately depend on the goodwill of political institutions.

The most powerful argument Friedman had against CSR was that it was not in the best interest of shareholders. However, Martin (2002) has noticed that firms frequently engage in CSR "precisely because it enhances shareholder value" and some CSR activities "create goodwill among consumers in excess of their price tag". It has been found that, from the nearly 100 studies done over the last 30 years about the relationship between corporate social performance (CSP) and corporate financial performance (CFP), most found a positive relationship between CSP and CFP (Margolis & Walsh 2001).

Nowadays, most large corporations embrace a commitment to CSR and, in some situations, their initiatives go afar from corporate philanthropy and corporate communications that endeavor to defend the firm's societal impacts (SustainAbility 2002). What seems to have happened nowadays is that the debate about CSR has switched from *whether* to make commitments to CSR to *how* (Smith 2003).

[1] No more recent studies that included the public image of the pharmaceutical industry were found.

Strategic CSR

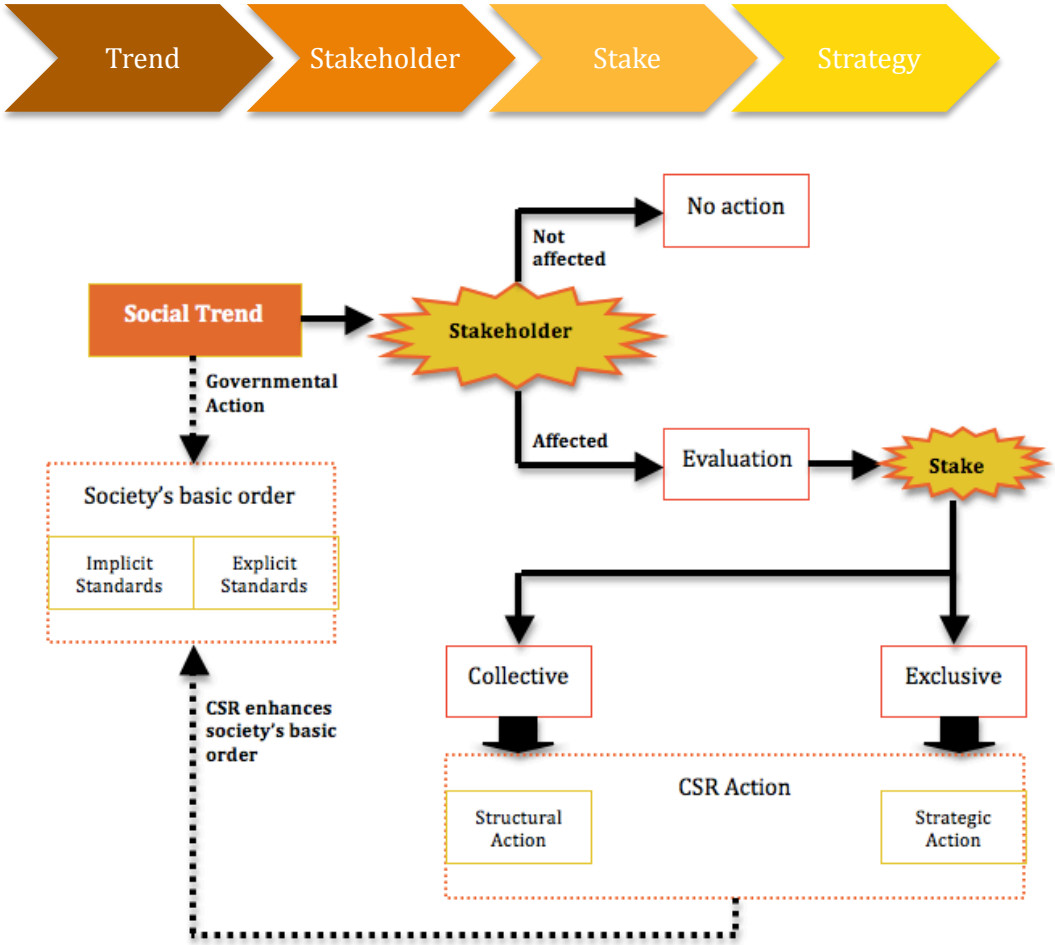
Successful corporations need a healthy society and, at the same time, a healthy society needs successful corporations. The interdependence of these two spheres comes from the fact that education, health care and equal opportunity are essential to a productive workforce but, at the same time, no social program can compete with the business sector in regards of creating the jobs, wealth, and innovation that ameliorate standards of living and social conditions (Porter & Kramer 2006).

Today, the most common approach to CSR is neither strategic nor operational, but decorative, with published annual CSR reports that lack a coherent framework for CSR activities and that describe philanthropic initiatives in terms of numbers: dollars spent, hours spent, among others; and most of the relations between corporations and civil society are characterized by friction rather than cooperation. In order to develop the right CSR strategy, understanding a company's mission, values and core business activities is fundamental to comprehend what differentiates it from the other organizations, in order to choose a unique position (Smith 2003). Porter & Kramer (2006) state that if corporations, applying the frameworks that guide their core business choices, analyzed their prospects for social responsibility, they would come to the conclusion that CSR can be much more than a cost, a constraint or a charitable need – it can be a source of opportunity, innovation, and competitive advantage, since the business puts in practice resources, expertise and insights to activities that benefit society. These two spheres are interdependent, which connotes that decisions made from both sides must follow the principle of shared value: choices must benefit both. Furthermore, effective CSR is normally a long-term position: since it is an investment in the company's future, it requires planning, supervision and evaluation on a regular basis (Falck & Heblich 2007). In order to do so, corporations have to incorporate a social perspective into the core model that is exercised to comprehend competition and guide its business strategy in key five steps (Porter & Kramer 2006):

1. **Identify the points of intersection between society and the corporation**

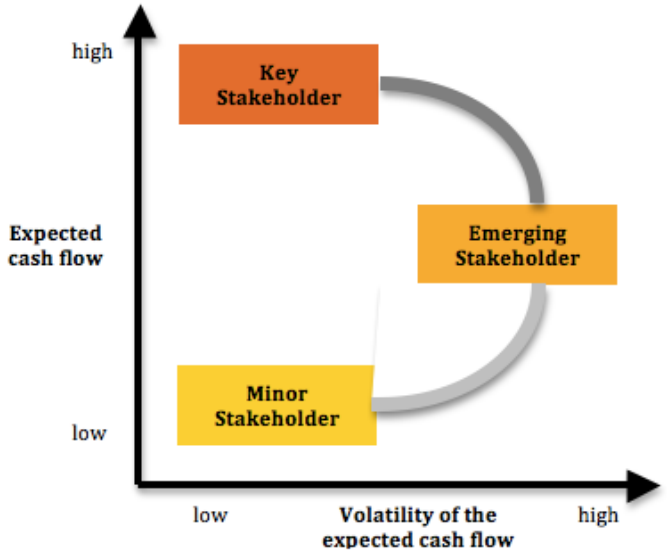
2. **Choose which social issues to address** – Falck & Heblich (2007) developed a framework to decide which stakeholders should be considered and how much is at stake, which is presented in the figure below:

Figure 1. Falck & Heblich (2007) Framework



The decision making process is started by a social trend, which has to be evaluated by the company (the first step of strategic planning) in order to see if it can achieve significant dimensions. If it is a claim of a marginal group and is liable to disappear quickly, then no action should be taken. On the other hand, if it can become a claim with significant dimensions and if stakeholders are involved or interested, the claim can affect the company. Nevertheless, the decision of stepping in should be based on an evaluation of the opportunities and threats implied, what is at stake. Once again, Falck & Heblich (2007) propose a cost-benefit analysis to calculate the expected net present value of the future cash flow:

Figure 2. Falck & Heblich (2007) Cost-Benefit Analysis



The priority given to the trend should be based on the interested stakeholder's importance, which is based on its impact on the company's cash flow. Key stakeholders, such as the most important suppliers and key clients, have a direct link to the company and can influence the current and expected cash flow, with low volatility. As so, they are the ones to be considered when calculating the expected net present value of the CSR action. Emerging stakeholders, like suppliers with some influence, NGOs working with sensitive issues and politicians that can change the institutional framework, do not have a linear linkage with the corporation's cash flow and do not influence the expected net present value. However, emerging stakeholders can become key stakeholders all of a sudden. The volatility of their expected cash flow is high and therefore this group must be monitored regularly. Lastly come the minor stakeholders, that are not able to create a damaging impact and that don't need much attention. The expected cash flow volatility is low.

The decision criteria is the expected net present value of the social investment, which can be an individual or a collective commitment. A strategic action of an individual commitment type should be chosen if the claim can be done with no risk of opportunistic behaviour (exclusive take), which grants the company a first-mover advantage, which can improve reputation among customers and thus increase market share. On the other hand, if the issue is a collective problem, a single enterprise's individual commitment is a risky investment, which will only be successful if it does not take the company to a competitive disadvantage in the long run. There should be

required a collective commitment, and a structural action: as all competitors are linked to this code, there are no distortions of competition.

3. **Create a corporate social agenda –** To look beyond expectations, to create opportunities to reach social and economic benefits at the same time. It must be responsive to stakeholders but, most important, it must focus on strategic CSR, since is through it that the most significant social impact and business benefits are achieved. Initiatives consider clear and measurable goals and track results over time. Also, the company should define *how much is enough,* by defining, in the case of a pharmaceutical company for example, how far should the company assist in drug distribution and administration, how much should be developed in R&D to develop medicines for tropical diseases, among others.

4. **Integrate inside-out and outside-in practices –** It is all about the pro-/interactive approach to CSR developed above. Here is where the opportunities to create shared value truly exist.

5. **Create a social dimension to the value proposition –** The most strategic CSR happens when companies incorporate a social dimension to its value proposition, making social impact part of the overall strategy.

Corporate Philanthropy, which, as previously mentioned, belongs to the fourth level of social responsibility embraced by companies according to Carroll (1979), can also give companies a powerful competitive edge, if developed strategically (Smith 1994). According to Porter & Kramer (2002), the majority of corporate contribution programs are diffuse and unfocused, reflecting the personal beliefs and values of executives or employees. "Strategic philanthropy" generally means that there is a connection between the charitable contribution and the company's business, a context-focused approach: corporations can use their charitable efforts to meliorate their competitive context. Still, in order to do so, corporations need to rethink both *where* they focus their philanthropy and *how* they go about their giving. The more a social improvement relates to a company's business, the more it leads to economic benefits as well, meaning that, in the long run, social and economic goals are integrally connected.

Strategic CSR is a very selective process, since companies are called to address an enormous amount of social issues, but only a few symbolize real opportunities to make a difference to society or to achieve competitive advantage. Nevertheless, as nowadays

competitiveness has increased and more and more companies meet the quality requirements of the market, consumers will differentiate companies through the way the company behind the product or service stands for in society and CSR might make a significant difference at the margin of many firms (Smith 2003). The pharmaceutical industry is not an exception, and the way companies have been dealing with the issue of access to medicines *vs.* IPRs, which will be further developed below, can make a significant difference at the margin of many of them.

The Issue – Access to Medicines vs. Intellectual Property Rights

Access to Medicines

According to the WHO, "essential medicines are those that satisfy the priority health care needs of the population" and "are intended to be available within the context of functioning health systems at all times in adequate amounts, in the appropriate dosage forms, with assured quality, and at a price the individual and the community can afford" (WHO 2013). The human right to essential medicines is a derivative right from the rights to health and life (Marks 2009) since, as reported by the WHO, more than 10.5 million lives would be saved by 2015 if the access to existing interventions, namely medicines for infectious diseases, maternal and child health, and noncommunicable diseases increased (WHO 2004). In particular, and as a result of the AIDS pandemic, the critical need for treatment of HIV conduced to the recognition that access to essential medicines, including antiretroviral treatments (ARTs), is a human right.

Recent data[2] exhibits that essential medicines remain unaffordable and insufficiently accessible to the poor (annex 3) (MDG Gap Task Force Report 2012). Regarding the median prices for drugs (annex 4), in developing countries prices were on average 2.6 times higher in the public sector in comparison to International Reference Prices (IRPs), a project internationally accepted, created with the purpose of developing a standardized survey methodology for measuring medicine prices, availability, affordability and price components (WHO 2013). However, because the public sector in developing countries frequently fails to provide affordable medicines reliably, often the poorest people are the ones paying the highest out-of-pocket expenses for medicines (Leach, Munderi & Paluzzi 2005). In these countries, in the private sector, patients pay five times more than the IRPs (MDG Gap Task Force Report 2012).

[2]During the period 2007-2011, medicine price and availability data from 17 national and subnational surveys in low- and middle-income countries were undertaken using the World Health Organization/Health Action International (WHO/HAI) methodology.

Intellectual Property Rights

Intellectual property rights refer to the general term for the assignment of property rights through patents, copyrights, and trademarks. The aim of IPRs is to restrict imitation and duplication: ideas and knowledge are an increasingly important part of trade and most of the value of new medicines and other high technology products lies in the amount of invention, innovation, research, design and testing involved (WTO 2012).

The extent of protection and enforcement of IPRs varied widely around the world and, as intellectual property became more important in trade, these differences became a source of tension in international economic relations (Maskus & Fink 2005). New internationally-agreed trade rules for intellectual property rights were seen as a way to introduce more order and predictability, and for disputes to be settled more systematically (WTO 2012). The Trade-Related Aspects of Intellectual Property Rights (TRIPS), negotiated in the 1986-94 Uruguay Round, introduced intellectual property rules into the multilateral trading system for the first time (WTO 2012). Prior to its establishment, pharmaceutical products had no patent protection in many developing countries.

In terms of effect on price and access to medicines, it has been proven that TRIPS has a negative consequence for drug costs, given the impact of generic competition on reducing price (Cohen-Kohler et al 2008). Several scholars (Kremer & Glennerster 2004; Lanjouw 2005) argue that the harmonization of patents is both unworkable and costly for several reasons, particularly for poor countries. They include extreme differences in the technological effort of countries, differences in the costs and benefits of IP protection and the difficulty in enforcement. Widespread criticism of patent rights continues not only in the developing world but also from many scholars in the developed world (Stiglitz 2003). The issue of whether the current patent system serves as a guide to an effective public policy is by no means settled (Lanjouw 2005).

Regarding literature on the topic of protection of IPR, it has been proven that stronger protection of IPR increases bilateral trade flows of manufactured non-fuel imports (Braga and Fink 1999). In regards of the relationship between IPR protection and innovation, research showcased a positive relationship (Chen & Puttitanun 2005). However, the evidence is stronger for developed countries than for developing countries. In addition, it has been concluded that different patent-policy instruments have different effects on R&D and growth. The optimal level of IPR protection should

trade-off the social benefits of enhanced innovation against the social costs of multiple distortions and income inequality. Theory on the topic of IPR protection is context bound and, regarding the measurement of the issue, different positions have been taken which has lead to contradictory results (Chu 2009).

Pharmaceutical Industry in transition on the topic of R&D

The pharmaceutical industry is, at this time, facing a period of very significant transformation, as the key for success no longer relies exclusively upon new drugs development (Blanchard & Spada 2003). Participants in the industry face vivid competition not only because margins for non-patented products decreased (generic competition has already dented Big Pharmaceuticals' revenues) but also due to the fact that the number of generic drug manufacturers increased, which, opposite to the research-oriented pharmaceutical companies, spend minimum resources on R&D and therefore sell the products at a significantly lower price. Pressure comes also from new players, especially in Asia (Drost & Hain 2010).

Zooming into structural changes, the majority of pharmaceutical companies bring forth high returns, benefiting from excess cash for further rapid growth (Pharma 2020 2011). In order to diversify the drugs portfolio and gain stability in the long term, and taking into account that the development process of drugs takes many years and requires significant investments that don't have a clear and guaranteed outcome, top companies in the industry have been active participants of mergers and acquisitions, strategic alliances with their competitors, collaborations with generic companies, new joint ventures and spin-offs of non-core businesses (Davidson & Greblov 2005).

Increasing Role of Governments in Developing Countries

In many developing economies, governments are looking for means to amplify their limited health service coverage. Some of the main objectives acknowledge extending basic coverage, widening the health services covered and reducing the amount of health costs supported directly by patients (MacKenzie & Webb 2011). A reliable public health care is critical for sustainable development (Connolly & Goguen 2012) as it is reported that emerging nations expanding their public-sector health care are associated with stronger economic growth as well as quality of life improvement (MacKenzie & Webb 2011). A study based on databases of WHO and IMF shows that in all developing countries there was a substantial increase in public financing for health from domestic sources—nearly 100% (IMF 120%, WHO 88%) from 1995 to 2006, having this overall increase been the product of rising GDP, slight decreases in the share of GDP spent by

government, and increases in the share of government spending on health (Lu et al. 2010).

Nevertheless, the primary duty bearers – states and their authorities – cannot be dismissed from their responsibilities. According to Leisinger (2009), those in power must insure that policy reforms, good governance and institution-building efforts resolve the systemic deficits and political inadequacies that are so frequently at the origin of health problems, since economic growth is a necessary, but not sufficient, precondition for sustainable development. Although international assistance and cooperation for health development must be part of the required effort to realize the right to health, no external resource can replace necessary internal reforms to satisfy the basic health needs. Support from external sources – development agencies, NGOs, or corporations – will only be as effective as the domestic political and social constraints on health systems will allow.

Increasing Role of Civil Society

Civil Society organizations, most commonly known as NGOs, have the function of organizing society. Operating at two interfaces, between the state and civil society and between the market and civil society, NGOs act in advocacy roles for particular concerns, such as the access to medicines issue (Balcius & Novotny 2011). The first interface is the most traditional, as many NGOs appeal to government to obtain extra funding for projects they carry out on behalf of civil society. It has been revealed that poor people often consider the role of governments ineffective and even harmful, due mainly to corruption, whereas NGOs score highly for responsiveness and trust (Leisinger 2009). It is, however, the second interface in particular, market vs. civil society, that is undergoing change. Since the beginning of the 1990s, NGOs have been claiming companies to account for their social responsibilities. Elkington & Fennell (1998) classify four different types of positions NGOs can adopt in order to do so: (1) sharks, (2) orcas, (3) sea lions and (4) dolphins. Sharks and orcas are inclined towards polarization and confrontation, and act more (sharks) or less (orcas) instinctively and strategically. On the other hand, sea lions and dolphins are more inclined towards cooperation. Sea lions will accept sponsorship from companies, while dolphins recognize that companies can create important preconditions to achieve desired change but prefer to keep their independence. Many NGOs start out as sharks, but the categories of orcas and dolphins have gained importance and appeal throughout the years. Sweeping claims about globalization and empowerment are made not only with regard to the role of

multinational companies, but also with regard to international civil society. Employment in the non-profit sector is an estimation of the direct economic significance of civil society (Hupe & Meijs 2000), having increased since the late 1980s.

Pharmaceutical Industry Position

The industry considers that "the case is nothing to do with blocking access to medicines or price fixing. It's about patents. Patents do not block medicines, they stimulate research and development" (The Guardian 2001). According to GSK (2011), "developing an innovative pharmaceutical product or vaccine is costly and risky, since it requires the discovery of active substances suitable for treating or preventing the medical condition; developing them into formulations suitable for administration to patients; and satisfying the regulatory authorities in all countries where the product is to be sold that the product is safe and effective". 1.2 billion dollars is the estimated average cost of taking a new pharmaceutical product to the market, including the cost of failure, and only one in three drugs brought to market is profitable. In addition, companies would not incur the risk and cost of innovative R&D if they knew that, in a short period of time, a competitor who had the competitive advantage of not having to incur in developing costs provided a cheaper copy. Therefore, a period of time free from competition is required to stimulate innovation and reward for innovation. Without proper IPR protection, the medicines that are needed in the developing world are less likely to be developed.

New approaches to Global Health Governance: The Evolution to Partnerships

Globalization has come together with a reassessment of the strengths and weaknesses of public/governmental, private/commercial, and civil society institutions in dealing with the world problems. In the health area in particular, it has been realized that the most difficult to manage problems need new ways of working together, in addition to better coordination of traditional roles, so to reach a combination of the strengths, resources and expertise of the different sectors (Widdus 2001). When very different types of organizations work together, the probability of clashes of goals, objectives, values, cultures, strategies, management styles, and operating approaches is high. Notwithstanding, some of these relationships may prosper and turn into close, mutually beneficial long-term partnerships designed to achieve strategic goals for the parts involved (Berger, Cunningham & Drumwright 2004).

A collaborative partnership is an alliance between people and organizations from multiple sectors, with the aim of achieving a common purpose. In the case of health in particular, the goal is to improve conditions and well being of society. According to

published literature, collaborative partnerships have become an increasingly popular, and several assumptions underlie this strategy (Roussos & Fawcett 2000):

1. The goal cannot be reached by an individual or group working alone;
2. Participants should include a variety of individuals or groups who represent the concern and/or geographic area;
3. Shared interests generate consensus among the prospective partners possible.

This consensus spawned the need for new collaborative thinking, economic commitment and governance structure. Examples of public-private partnerships that have already been successful are numerous and research and development partnerships are also emerging. The breaking down of geopolitical barriers has matched the breaking down of traditional public vs. private lines in health development (Balcius & Novotny 2011).

Chapter 4 - Case Study

Issue Overview

In developing countries, despite substantial advancements regarding access to essential medicines and treatments to fight HIV/AIDS, malaria and tuberculosis, access to essential medicines is still not adequate. There exist several significant barriers to access in the developing world. Rooted in poverty, the problem results in an inability to pay for even the cheapest medicines, including generics. Limited availability in the public sector is frequently due to a lack of resources, under-budgeting, inaccurate demand forecasting or inefficient procurement and distribution[3]. Although the average availability is higher in private facilities, in most low and lower-middle income countries the poor rely on the public sector to obtain medicines, as they are free of charge or the prices are significantly lower than in the private sector, the latter offering mostly higher-priced originator brands because of higher manufacturers' prices, taxes and tariffs, and high mark-ups in the supply-chain. Zooming into HIV in particular, in 2010, worldwide, about 34 million people were living with HIV. The number of people dying from AIDS-related causes in 2010 was 1.8 million, 0.4 million less than in 2005[4]. This decline is explained, besides greater efforts at prevention and behavioural change, by a significant increase in access to ARV treatment: 18% in low and middle-income countries in 2010, being most of the facilities from the public sector[5].

Intellectual property rights refer to the general term for the assignment of property rights through patents, copyrights, and trademarks. These property rights allow the holder to exercise a monopoly on the use of the item for a specified period[6]. In both rich and poor countries, nowhere is the tension between markets and public policy greater than in the global pharmaceutical industry[7]. At the centre of this tension is the need to preserve incentives for innovation by granting patents, while at the same time keeping the price of prescription drugs affordable in order to improve the access to medicines. The WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), negotiated in the 1986-94 Uruguay Round, introduced intellectual property rules into the multilateral trading system for the first time[8]. The TRIPS agreement required

[3] MDG Gap Task Force Report 2011
[4] UNAIDS 2011
[5] MDG Gap Task Force Report 2012
[6] OECD 2012
[7] Ghauri & Yamin 2008
[8] WTO 2012

member nations to be in compliance with the minimum standards for IPR protection by the year 2006, which include, amongst others, that patents be given for a minimum of 20 years; that patents may be given both for products and processes; and that pharmaceutical test data can be protected against "unfair commercial use". Furthermore, in November 2001, the members of the WTO agreed the Doha Declaration on TRIPS and Public Health, which reaffirms IPRs but as well the ability to introduce flexibilities in regulations – exempted the least developed countries from complying with TRIPS until the 1st of January 2016. Society benefits in the long term as intellectual property protection encourages creation and invention but governments are allowed to reduce any short-term costs through various exceptions, for example to tackle public health problems by means of granting a compulsory license, in light of their own social and economic conditions.

However, TRIPS implementation transition of less developed nations has resulted in a lower IPR enforcement level than envisioned. This has created friction between developing nations with lower IPR enforcement and the developed nations with higher IPR enforcement. As a consequence, many nations have entered into Free Trade Agreements to further raise the IPR enforcement standards that TRIPS laid out[9], and that was how TRIPS PLUS emerged, which implements even tougher or more restrictive conditions in their patent laws than are required by the TRIPS. International law does not oblige countries to engage in these conditions but some, such as Brazil and China, have no other option but to adopt it, since they have trade agreements with the United States and the European Union[10].

In developing economies and emerging economies in particular, governments have been adopting health strategies that are motivated by the belief that the right to health is more important than economic gain, such as health-related research and product innovation[11]. The engagement in this point of view means governments adopt a position where intellectual property rights should not hinder broad access to life-medicines: all countries should have access to information and innovative technologies to fight diseases and improve health, meaning it is not appropriate to use law enforcement mechanisms to protect patents at the expense of people's access to necessary medicines. Some governments, such as Brazil, Thailand, India and South Africa have done precisely

[9] Trainer 2008
[10] The Access Campaign 2011
[11] Bliss 2010

that. In addition to this, activists have become much more aggressive and effective in conveying public pressure to bear on corporations and, with the help of the extensive media reach, it has become easier to achieve a fast and widespread exposure of corporate abuses[12]. In the South African issue about pricing policies for patented drugs for example, which will be further developed below, the NGO Oxfam took advantage of the media attention and launched a campaign accusing the Western pharmaceutical Industry of carrying an "undeclared drug war" on poor countries. These organizations play a critical role in raising awareness, as they may act as watchdogs, denunciating interventions of various actors.

The pharmaceutical industry considers misleading and counter-productive to focus on patents in the access to medicines debate and considers that the current intellectual property regime does not constitute a serious barrier, believing that strict levels of intellectual property protection are indispensable to stimulate R&D, even in developing countries[13]. There are many significant barriers to access in the developing world, but the industry believes the most obvious and fundamental barriers to access to health care and medicines are poverty, which results in an inability to pay for even the cheapest medicines, and the under-investment on health infrastructures[14]. These issues can only be addressed if not only the pharmaceutical industry but all sectors of global society share responsibilities and work together. In addition to this challenge, the "blockbuster" model, which enabled companies to build their businesses around a selected number of products, is no longer sustainable[15], as the industry is facing reduced patent protection. Drug development is facing rising costs due to a decrease in R&D productivity and socio-political pressure for more affordable and available life saving drugs has increased.

About GSK

Established in 2000 by the merger of Glaxo Wellcome and SmithKline Beecham, GlaxoSmithKline is a British multinational pharmaceutical, headquartered in Brentford (UK) and with operations based in the US. This merger created the world's second largest pharmaceutical company and the world's leader in the provision of drugs to treat the three most critical diseases in the developing world: HIV/AIDS, malaria and tuberculosis. As a science-led global healthcare company, the three primary areas of business are pharmaceuticals (68% of the group), vaccines (13% of the group) and

[12] Porter & Kramer 2006
[13] Oxfam 2007
[14] IFPMA 2008
[15] Gilbert, Henske & Singh 2003

consumer healthcare (19% of the group)[16]. GSK's mission is to improve the quality of human life by enabling people to do more, feel better and live longer. With 99,488 employees, the geographic presence of the company covers more than 100 countries (exhibit 1). The shape of the business is shifting to capitalize on markets with high-growth potential, including those in Asia Pacific, Latin America and Japan. Territories outside the USA and Europe now account for 40% of the total sales of GSK. The company has a significant global manufacturing and R&D presence, with a network of 87 manufacturing sites and large R&D centers in the UK, USA, Spain, Belgium and China.

The South African Case

Nelson Mandela, elected president of South Africa in 1994 after the first democratic elections, had as a priority on the agenda of the post-apartheid government to make a health care reform, since many South Africans did not have access to health care at all. The most significant deficiencies were the lack of equity in access to essential drugs, the comparatively high prices for pharmaceuticals in the private sector and, due to poor security in the public sector, losses of drugs[17].

In 1997, Nelson Mandela signed the Medicines and Related Substance Act (exhibit 2), which allowed parallel importing and compulsory licensing in order to harness the HIV/AIDS pandemic in South Africa (exhibit 3), which further contributed to the magnitude of the health care problem. Parallel importing, such as importing pharmaceuticals from any origin, admitting generic manufacturers careless of whether the patent holders approved, would generate less expensive, generic drugs available to the citizens; and compulsory licensing would give the government the opportunity to grant local companies authorization to fabricate generics even when valid patents were held by foreign companies[18]. Between 1998 and 2001 the issue grew and gained significant international dimension.

GSK and other large pharmaceutical companies considered both provisions in the Act an assault on its IPR and, together with 38 pharmaceutical manufacturers and with the support of the USA and the European Commission, the company filed a lawsuit against the government of South Africa "alleging that the Medicines and Related Substances Control Act violated TRIPS and the South African constitution"[19]. The South African

[16] GSK Annual Report 2012
[17] Fisher & Rigamonti 2005
[18] Cipla: Capturing the Global AIDS Drugs Market 2004
[19] Pharmaceutical Shareowners Group 2004

government ended up not implementing Mandela's law at that time because the country aimed to become a significant global trading partner.

Nevertheless, international opinion changed early in 2001, when the case was brought to court, as society demanded cheaper drugs. The pressure on GSK increased mainly because CIPLA, the largest Indian drug manufacturer, had proposed to sell aggressively discounted copies of GSK's ARV medicines to NGOs. India, considered a developing country by the WTO, has an extension on putting TRIPS agreements and obligation into effect, meaning its producers, such as CIPLA, have the permission to produce copies of drugs that are patented and developed elsewhere. CIPLA gave for free its drug Duovir (a copy of GSK's Combivir) to Médecins Sans Frontières and also at a very low price to the South African government.

Media attention on pricing policies for patented drugs increased at that time and the NGO Oxfam took advantage of that by launching a campaign entitled "Cut the Cost". This campaign, which accused the Western pharmaceutical industry of waging an "undeclared drug war" on poor countries, required the industry to drop their lawsuits against countries that produce cheaper generic medicines and had as a specific target the world market leader GSK[20]. In February 2001, GSK decided to cut the price of HIV medicine and in May, as there was no support from home governments and increased international public pressure, pharmaceutical companies ended up agreeing on dropping the case against the South African government.

Meanwhile in the US, critical stakeholders also manifested themselves, demanding a change in the corporate behaviour of GSK. The South African court case and the access problem demonstrated an industry in crisis concerning the scope and meaning of social responsibility.

Lawsuit dropped, Issue resolved?

Despite the withdrawal from the South African case, the pharmaceutical industry kept being publicly criticized. At GSK's annual meeting in May 2001, activists dressed in white laboratory coats distributed leaflets challenging GSK to demonstrate leadership in the industry and take relevant steps to develop more affordable medicines for the poorest, by donating a percentage of drug revenues to the UN Secretary General's

[20] Oxfam 2007

"global health fund"[21]. In addition, Oxfam warned pharmaceutical companies they would lose public support if they kept in their patent strategies and, once again, challenged GSK to take the lead in this transformation process. In June, GSK extended the distribution of cheaper ARVs and announced a two-year price freeze on HIV/AIDS medicines. The table below summarizes GSK's societal interface management challenges.

Table 2. GSK Societal Interface Management Challenges

Public / Private	Profit / Non – Profit	Efficiency	Ethics / Equity
The production and distribution of ARVs requires doing business with governments in developing countries - Cooperate with governments even though they might be corrupt?	GSK's clients are civilians, governments and NGOs	Africa is the largest, but also the poorest, market for medicines	Is the right to accessible healthcare a universal human right?
Relationship with institutions like the UN, WHO, World Bank, WTO and Ministries of Development	Role of shareholders and institutional investors	GSK is market leader in HIV/AIDS	Should the absence of a functioning State imply a wider moral responsibility upon MNEs and their home states?
Dealing with IPRs and International Agreements - Patents and the role of the WTO		Different prices for different geographical markets?	HIV/AIDS has a great impact on the economies of developing countries
		Patents protect R&D investments efficiently	Transparency needed in regards to pricing of ARVs
			Free trade vs. the availability of medicines as a human right

Source: Adapted from van Tulder & van der Zwart 2005

GSK Indicators of Reputational Damage

In order to analyze the impact that patent strategies relating to ARV medicines had on the reputation of GSK, the consumer and capital markets were examined. The labor market wasn't analyzed because the relationship between reputation and effect on labor has proven difficult to be measured[22].

- Consumer Market

By looking at the total sales of GSK between 2000 and 2004, it does not seem that the issue peculiarly affected the company. The total sales grew steadily throughout the years (exhibit 4). In 2001 in particular, the year when the incidents with Oxfam

[21] Smith & Duncan 2009
[22] van Tulder & van der Zwart 2005

occurred and gained international dimension, the company's turnover increased markedly (around 11 percent)[23]. Nevertheless, it is important to bear in mind that, since GSK has a strong position in the market and there exists a dependency relationship between the "ill people" and the medicines, a decline was not really awaited. In addition, as GSK has a wide range of products, it is necessary to analyze the antiviral (AV) sales in particular. Still, profits in 2001 were significantly lower, which could result from the price-cuts the company actively started to implement in 2001.

The AV sales for HIV in the USA, Europe and Rest of the World increased along the years, by around 12-14 percent annually. Notwithstanding, the sales of antiviral drugs decreased in the USA in 2003, and the year of 2004 showed also some problems: the USA faced a decrease in HIV sales once again, in Europe the sales only grew 2 percent, in comparison to double digit numbers in the previous years, and GSK total sales of HIV drugs increased only by 4 percent, in relation to previous years.

Whether the variation of the sales figures can be connected to the HIV/AIDS patenting issues and lawsuits remains unclear, but probable.

- Capital Market

GSK's share price is analysed in relation to the FTSE index for some crucial dates of the HIV/AIDS pricing and patenting dispute.

To what concerns the South African dispute in particular, the announcement of the lawsuit by a group of pharmaceutical firms in March 2001 led to heavy drops in stock price averaging per day of GSK, as shown in the graph below:

[23] GSK Annual Reports: 2000, 2001, 2002, 2003, 2004

Graph 1. GSK's Stock Price between February and April 2001

Source: *Data retrieved from Bloomberg on May 10th 2013, Serie GSK US Equity*

During the first two weeks of the month of March, GSK's stock price suffered a notorious decrease. Whether the variation of the stock price can be connected to the announcement of the lawsuit by a group of pharmaceutical firms in March 2001 remains unclear, as there can be other factors that influenced the stock price, but probable. Regarding the announcements of GSK on price cuts, the table below shows that investors do not negatively correct low-pricing behaviour, because some announcements are met with a positive reaction and others with a negative one.

Table 3. GSK Stock Price

Announcement	GSK Stock Price climb(+)/drop(-)	Market
22nd February 2001 – Price cut of HIV medicine	+ 2.34%	+ 0.34%
11th June 2001 – Extension of the low pricing policy	- 0.61%	-1.36%
20th June 2002 – Two –year price freeze on HIV/Aids medicines	-0.14%	-1.50%
6th September 2002 – Another price cut	+1.34	+2.13

Source: UK Finance Yahoo FTSE index

Nevertheless, the Pharmaceutical Shareowners Group (PSG) expressed deep concern about the reaction of the pharmaceutical sector to the HIV/AIDS crisis (price cuts),

believing it will have a long-term effect in shareholder value[24]. In addition, concerns regarding CSR issues and reputation effects on staff morale and recruitment process arose. According to the PSG[25], the pharmaceutical industry is based on knowledge workers, which are characterized as being sensitive to criticisms from friends and family about "unethical companies", and due to that companies need to be proactive addressing the issues, otherwise they can have an impact on the company's labor market.

GSK Change in Strategy

The access to medicines issue has become a strategic consideration for every major pharmaceutical company. Bridging strategies, which consist of interaction patterns between the firm and stakeholders, reduce the opportunity for further attack by clearly explaining their actions and engaging in stakeholder dialogue to correct irresponsible behaviours. In the specific case of GSK, the CEO Jean-Pierre Garnier (exhibit 5), after the activists' manifestations during the company annual meeting in 2001, realized that the criticism could be turned around and acted in an unparallel way, suggesting the company's priority was public health, not simply shareholder value:

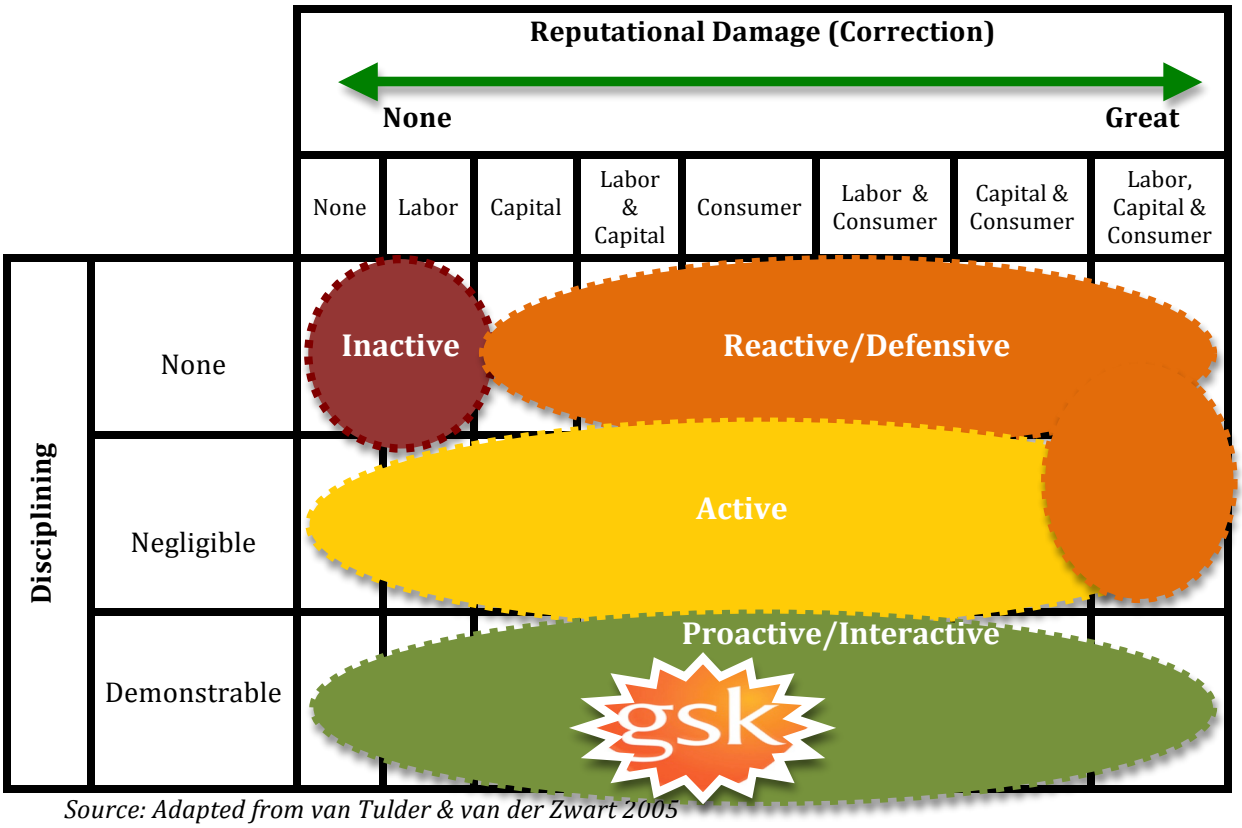
"*Some months ago, when the newly merged GlaxoSmithKline was formed, I said that I did not want to be head of a company that caters only to the rich. I made access to medicines in poorer countries a priority and take this opportunity to renew that pledge. We have 110,000 people who go to work every morning because they are pro-public health. We have to make a profit for our shareholders but the primary objective of any policy put forward in the industry is public health[26].*"

By suggesting that the company's priority was public health, the company **identified the points of intersection between society and the corporation**, as suggested by Porter & Kramer (2006). The expression of such a vision was uncharacteristic for a pharmaceutical industry executive and this quote suggests a **clear choice by the company of the social issue to address**, and a normative, moral basis response to the access issue. However, it can be argued that there were mixed motives (normative and business) for GSK's response to the issue, such as that this action was needed to make a profit for shareholders since, for example, it avoids a potential scenario where the industry's business model is changed and government regulation controls every action.

[24] Stancich 2004
[25] Pharmaceutical Shareowners Group 2004
[26] Smith & Duncan 2005

In addition, the company's innovative business models and flexible pricing help people get the vaccines and medicines they need while building the company's business – particularly in emerging markets – by increasing the overall volume of the products they sell. GSK, that at the beginning adopted a reactive and defensive approach ("don't do things wrong), had to discipline itself during the course of the conflict, **integrating inside-out and outside-in practices**. The company changed its strategy to a proactive/interactive approach to CSR, consisting on "doing the right things right". The company now engages in a in/outside-in/out business orientation, establishing a dialogue with stakeholders. Externally, GSK believes the company can create value by acting as catalyst or partner for other organizations - new and different perspectives that other groups can bring to the company's thinking are valued and GSK is open to working with research charities, academia, companies and non-governmental organizations. Internally, GSK firmly believes that it will gain the most from its people – and attract the best – by helping them thrive as individuals. The company aims to ensure they are valued, supported and empowered to be successful both personally and professionally, wanting them to feel proud of the work they do, the company they work for, and the difference they make. The table below shows GSK's CSR strategic positioning, according to its reputational damage and disciplining:

Table 4. Positioning the Reputation Mechanism - GSK



Source: Adapted from van Tulder & van der Zwart 2005

GSK believed that operating in a trustworthy and responsible way would underpin its business success: to conduct the corporate social responsibility policy to help address pressing global health problems in a way that is sustainable with the company's business and aligned with its values. Still, how a company develops a CSR strategy should demonstrate an understanding of whether and why greater attention to some specific issues is worth it.

Implementation of the Strategy – Corporate Social Agenda

Having formulated the CSR strategy, GSK's abstract visions of CSR had to become concrete, meaning the company had to **create a corporate social agenda.** In June 2001, the company published a document named *Facing the Challenge: Our Contribution to Improving Healthcare in the Developing World*[27], an access strategy focused on three main aspects:

- Specially reduced prices for least developed countries and sub-Saharan Africa;
- Investing in research and development of medicines for diseases that are specially dominant in the developing world;
- Adopting a leading role in community activities that promote effective healthcare.

Sixty-two countries were to be provided significantly discounted prices on HIV/AIDS and malaria drugs. Furthermore, the company offered them to not-for profit NGOs and international agencies, aid groups, churches and charities that had the conditions to adequately monitor and treat patients in least developed countries and Sub-Saharan Africa. African employers that supplied HIV/AIDS care straightaway to their staff through workplace clinics were also provided preferential prices on antiretroviral therapies[28]. Besides all of these provisions, GSK underlines some major challenges that can obstruct these actions in developing countries, such as the conditions of the facilities, logistic problems and culture, like traditional healers, herbal treatment and juju (exhibit 6).

In order to operationalize the policy and measure the progress, another team inside the company was created. Managers were demanded to report on a regular basis on the number of supply arrangements made under the access policy. During the regular meetings and conference calls, the progress on access was discussed and managers

[27] GSK 2001 – Facing the Challenge
[28] Duncan & Smith 2005

exchanged information on implementation difficulties. Still in 2001, the Global Fund for AIDS, Tuberculosis and Malaria (GFATM) was created. One year after the implementation of *Facing the Challenge,* GSK said[29] it has:

- Secured nearly a hundred arrangements to supply preferentially priced HIV/AIDS medicines to 31 countries and reached a ten-fold increase in shipments of preferentially priced Combivir to the developing world;
- Granted a voluntary license to Aspen Pharmacare, the largest drug company in Africa, for antiretrovirals in South Africa;
- Continued support for 35 clinical trials involving HIV medicines in developing countries of which 18 are new, and started the first human clinical trials of its HIV candidate vaccine;
- Dedicated its R&D facility at Tres Cantos in Spain to diseases of the developing world;
- Supported 21 international HIV education, care and community support programmes in 27 countries with 19 partners, through Positive Action, the Company's long-term partnership with HIV/AIDS communities worldwide and launched the African Malaria Partnership.

Commenting on the company's achievements, Glaxo's CEO Garnier said:

"*GSK has made significant progress towards the goal of increasing access to our HIV/AIDS medicines in developing countries, in partnership with the UN, the WHO, community groups, pharmaceutical companies and other organizations. Our efforts will continue as we apply lessons learned and look for opportunities to do more. We encourage other stakeholders to also play their part through embracing partnership, showing political will and, above all, committing significant new funding to address the long-term challenge of improving healthcare in the developing world".*[30]

The company was applauded for the initiatives by being ranked in various CSR indices: FTSE4 Good Global 100 index, which was created in 2001 to offer a series of transparent, rules-based and pre-screened benchmark and tradable indexes; and the global DJSGI, established in September 1999 to track the performance of the world's

[29] Evaluate 2002
[30] Evaluate 2002

largest companies that lead the field in terms of corporate sustainability. In 2004, it was even ranked in the top seven of the pharmaceutical sector in the DJSGI.

Also in 2001, a Corporate Social Responsibility Committee was established with the purpose of focusing on the social strategy of the company. The Committee meets four times a year and receives reports on progress in four areas – health for all; our behavior; our people; and our planet. GSK's Board constructively challenges and advices on the executive team's thinking and decisions as they seek to deliver the company's strategic priorities in a responsible way. The company then reports about it in the Corporate Social Responsibility Report. Until the year of 2002, the company referred to its social strategy on the Annual Report, with only four to five pages dedicated to it, mentioning vaguely that GSK has a research program to prevent and treat HIV/AIDS, malaria and tuberculosis, and talked about preferential pricing but lacked a coherent framework for the CSR activities. In addition, initiatives taken by the company regarding partnerships and programs were described mainly in terms of numbers (dollars spent, hours spent, among others), instead of describing the processes, its advancements and results achieved in terms of contribution to the improvement of people's lives.

Nowadays, the breadth of information provided demonstrates GSK's long-term commitment to addressing these issues, placing great importance on not only what they achieve but also how they achieve it. This includes reporting on sustainability in environmental health and safety, global community partnerships, improving healthcare in the developing world, and commitment to society and the environment. HIV/AIDS initiatives are given much attention, with "access to medicines" being one of the company's ten Corporate Responsibility Principles, adopted in 2003. There is a new business function as the single point of strategy and coordination of access to medicines is part of the market access strategy, with board-level oversight, quantitative targets, performance evaluation and engagement with numerous relevant stakeholders. GSK's actual CEO, Andrew Witty (exhibit 5), even said[31]:

"*We in big pharma should never take for granted our right to exist; our business model in not written in any country's constitution. (…) We are earning it by meeting the expectations of society. When you start to think like this, you see the world differently*."

[31] GSK Interview

CSR is an integral part of the business and **the company has incorporated a social dimension to its value proposition since the beginning of its existence**, making social impact part of the overall strategy: "We are dedicated to improving the quality of human life by enabling people to **do more**, **feel better** and **live longer" –** GSK's mission statement. There are also code of conducts in place for public lobbying, marketing and bribery and corruption, supported by monitoring and enforcement mechanisms applied to employees and third parties.

GSK has also numerous capability advancement projects in research and development, including four local scientific research partnerships; it has a large portfolio of innovative and adaptive research; and engaged in multiple relevant collaborations with the commitment that the drugs produced as a result of these partnerships will be available to disease endemic countries at an affordable price. The company also joined the UN's "Accelerated Access Initiative", which constitutes a partnership between UNAIDS, the WHO, UNICEF, the UN Population Fund, the World Bank and seven pharmaceutical companies, through which drugs are being provided at discounted prices in poor African countries. Furthermore, it has strengthened supply chain and quality management standards and is one among the few companies that work with local governments to improve pharmaco-vigilance[32].

In 2009, GSK and Pfizer created a joint venture by the merger of their HIV divisions, called ViiV Healthcare, with the purpose of improving the two companies' position in the HIV market by cutting costs, sharing research and combining sales operations[33]. The aim of ViiV is to focus deeper than any company has done before in HIV/AIDS and then take a new approach to deliver effective and new HIV medicines, as well as support communities affected by HIV[34]. The three strategic priorities of the company are innovation in R&D; delivering a business today that is built for the long term; and access and care.

When looking at the Access to Medicine Index, which emerged in 2008, on the three reports published (2008, 2010 and 2012), GSK has always ranked first, although now by a narrower margin (exhibits 7 and 8), since companies are becoming more organized in their approach and are increasingly viewing access as a strategic issue. According to the

[32] Access to Medicine Index Report 2012
[33] Aidsmap 2009
[34] ViiV Healthcare 2013

2012 Report, some of GSK's leading practices are the fact that the company discloses clinical research results earlier than other companies, following completion of studies, rather than following approval or termination of the medicine; has an open Innovation Strategy, aiming to stimulate research into diseases of the developing world; has a commitment to make no political contributions in developing countries; has a new Developing Countries and Market Access Unit business model driven equally by commercial and social objectives in 50 emerging markets through partnerships, investment and philanthropy; and invests more than any other company in targeting relevant diseases. The suggested improvements are to reveal more about marketing and promotional programmes; to increase the number of intellectual property sharing agreements; to be more transparent about drug recalls; to provide more details about the criteria for product registration in relevant countries and the status of marketing approvals for each relevant product; and to undertake technology transfer and use milestone-based agreements within non-exclusive voluntary licensing activity[35].

R&D Strategy

As GSK looks to discover and develop innovative new medicines and vaccines, the primary goal is do this safely and efficiently. Over the years, this research process has changed and regulations evolved and how the company approached this goal has also changed. In 2007, GSK took a hard look at how they were seeking out these new medicines so that they could enhance their ability to feed into a late stage pipeline, while improving the returns seen on the R&D investment.

As R&D is an investment opportunity, in 2007 GSK decided to forget about R&D having a fixed budget. This new approach means the company has more to invest in late-stage development of new treatments in patients. The early stages of R&D are an elective process: GSK trusts the talent it has to evaluate the scientific opportunities, as they exist. From that on, the company decides to invest in those areas where the science looks to be in the right place, where there is the most potential to find new medicines and improve treatments for patients. For GSK's discovery organizations, this means the company goes where the science tells it to go, where the science is right for discovering a new medicine and where there is a medical need because there are either no existing treatments, or because those that are available are not adequately controlling all symptoms or affecting the disease process. This means that sometimes it might only be a

[35] Access to Medicine Index Reports – 2008, 2010 and 2012

moderately important medicine in terms of potential income, but a significant improvement in the treatment of a less common medical condition.

A Global Response

GSK recognizes that access to medicines is a complex and multi-faceted issue with no simple answer[36], where the challenges can only be properly addressed through partnerships between developed and developing country governments, international organizations, the industry and charitable organizations. These partnerships and collaborations with different organizations are fundamental not only to address global health challenges, but also to develop the company's strategic priorities of growing a diversified, global business and delivering more valuable products. GSK has a lot to gain from the expertise from academia, governments, NGOs and other companies from the sector, but also believes that working with GSK has many advantages[37]:

- Therapeutic focus – GSK has small, agile groups of scientists, allowing greater intimacy in terms of knowledge, resources and expertise;
- Consumer leadership – GSK's brand management expertise is driven by consumer-insights;
- Global reach – GSK operates in 114 countries worldwide;
- Business excellence – GSK has the resources and expertise to enable successful approvals, launches and growth;
- Partnering performance – GSK's dedicated teams in business development manage the relationship from the signing of the deal through to delivery.

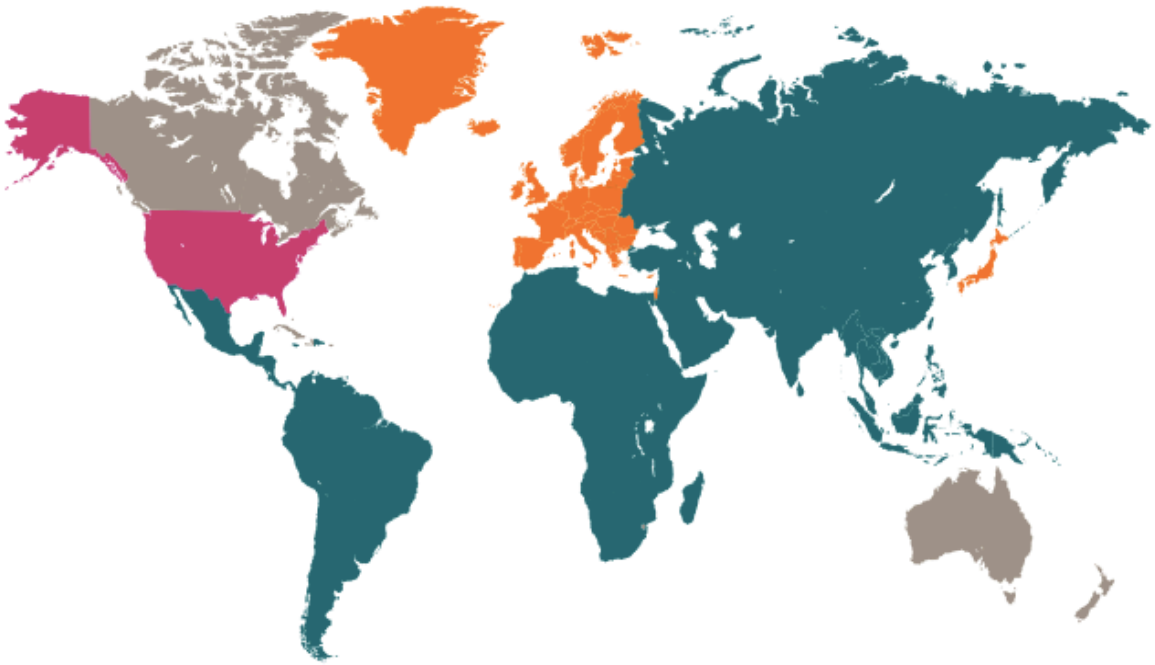
Some suggestions given by the company in order to overcome this issue are **increased funding** – developed world governments need to provide additional resources for healthcare in the developing world through bilateral arrangements and support of multilateral organizations; **retention of healthcare workers –** trained healthcare workers are a precious commodity; **price and product protection –** developed countries must not use the preferential prices offered to the developing world as benchmarks for their domestic drug prices; **greater political commitment –** developing world governments need to show political commitment by, for example, removing import tariffs that increase prices; **strategic guidance and support by**

[36] GSK 2011
[37] GSK Interview

international organizations – organizations like UNAIDS and the WHO have an important role to play in providing strategic guidance and providing technical assistance to countries, and NGOs play an important role in delivering healthcare to some of the poorest people; **an appropriate role for generics –** generic companies have a role in addressing the AIDS crisis but, as there is no cure yet, new medicines and vaccines are needed. Intellectual property protection is of critical importance to the R&D industry.

Exhibits

Exhibit 1 – GSK Global Reach



99,488

Employees

Employees by region

		No.
1	USA	17,201
2	Europe	38,788
3	EMAP	36,738
4	Japan	3,515
5	Other	3,246

Turnover by region

		£m
1	USA	8,446
2	Europe	7,320
3	EMAP	6,780
4	Japan	2,225
5	Other	1,660

Source: GSK Annual Report 2012

Exhibit 2 – South African Medicines and Related Substances Act of 1997

SOUTH AFRICAN MEDICINES AND RELATED SUBSTANCES CONTROL AMENDMENT ACT OF 1997

(excerpt from Section 10)

Measures to ensure supply of more affordable medicines

15C. The Minister may prescribe conditions for the supply of more affordable medicines in certain circumstances so as to protect the health of the public, and in particular may –

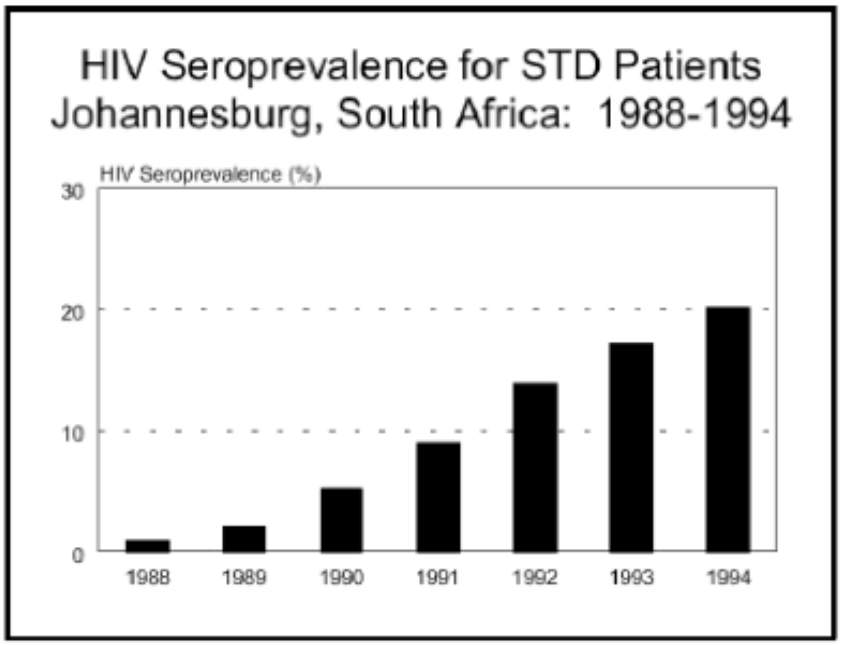
(a) notwithstanding anything to the contrary contained in the Patents Act, 1978 (Act No. 57 of 1978), determine that the rights with regard to any medicine under a patent granted in the Republic shall not extend to acts in respect of such medicine which has been put onto the market by the owner of the medicine, or with his or her consent;

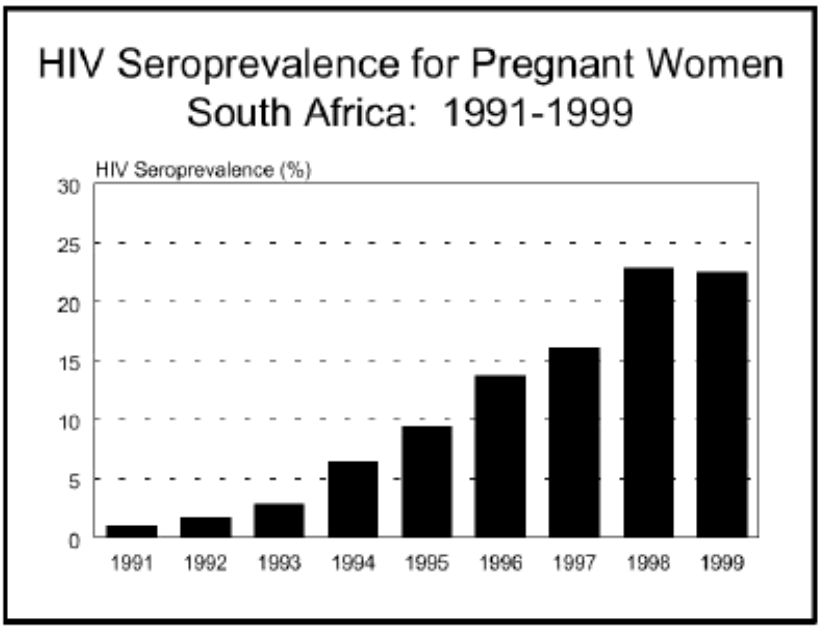
(b) prescribe the conditions on which any medicine which is identical in composition, meets the same quality standard and is intended to have the same proprietary name as that of another medicine already registered in the Republic, but which is imported by a person other than the person who is the holder of the registration certificate of the medicine already registered and which originates from any site of manufacture of the original manufacturer as approved by the council in the prescribed manner, may be imported;

(c) prescribe the registration procedure for, as well as the use of, the medicine referred to in paragraph (b).

Source: Fisher & Rigamonti 2005

Exhibit 3 – HIV Seroprevalence in South Africa





Source: International Programs Center, Population Division, US Census HIV/AIDS Surveillance Data Base, June 2000

Exhibit 4 - GSK Sales

GSK Total Sales

Year	2000	2001	2002	2003	2004
Total Sales (£)	18 079	20 489	21 212	21 441	20 359
Growth (CER%)		11,0	7,0	5,0	1,0

AntiVirals Sales Total

Year	2000	2001	2002	2003	2004
AV Total Sales (£)	1 899	2 128	2 299	2 349	2 360
Growth (CER%)		10,0	12,0	5,0	8,0
AV Sales – HIV (£)	1 145	1 347	1 465	1 508	1 463
Growth (CER%)		14,0	13,0	6,0	4,0

AntiVirals Sales USA

Year	2000	2001	2002	2003	2004
AV Total Sales (£)	917	1 071	1 213	1 159	1 165
Growth (CER%)		11,0	18,0	4,0	12,0
AV Sales – HIV (£)	686	794	857	798	747
Growth (CER%)		11,0	12,0	2,0	4,0

AntiVirals Sales
Europe

Year	2000	2001	2002	2003	2004
AV Total Sales (£)	531	589	636	726	725
Growth (CER%)		9,0	7,0	5,0	1,0
AV Sales – HIV (£)	345	405	462	555	559
Growth (CER%)		16,0	13,0	11,0	2,0

AntiVirals Sales
Rest of the World / International

Year	2000	2001	2002	2003	2004
AV Total Sales (£)	451	468	450	464	470
Growth (CER%)		8,0	6,0	7,0	7,0
AV Sales – HIV (£)	114	148	146	155	157
Growth (CER%)		31,0	16,0	12,0	8,0

Note: In order to illustrate underlying performance, it is the Group's practice to discuss its results in terms of constant exchange rate (CER) growth. This represents growth calculated as if the exchange rates used to determine the results of overseas companies in sterling had remained unchanged from those used in the previous year.

Source: GSK Annual Reports – 2000, 2001, 2002, 2003 and 2004

Exhibit 5- GSK CEOs

Jean-Pierre Garnier
2000 - 2008

Andrew Witty
2008 - today

Exhibit 6 - The Challenges in the Developing World

- Challenges in Facilities

There is a chronic under-investment in healthcare facilities, which has led to a lack of clinics and hospitals, low numbers of trained healthcare providers, and high levels of patient illiteracy.

- Challenges in Logistics

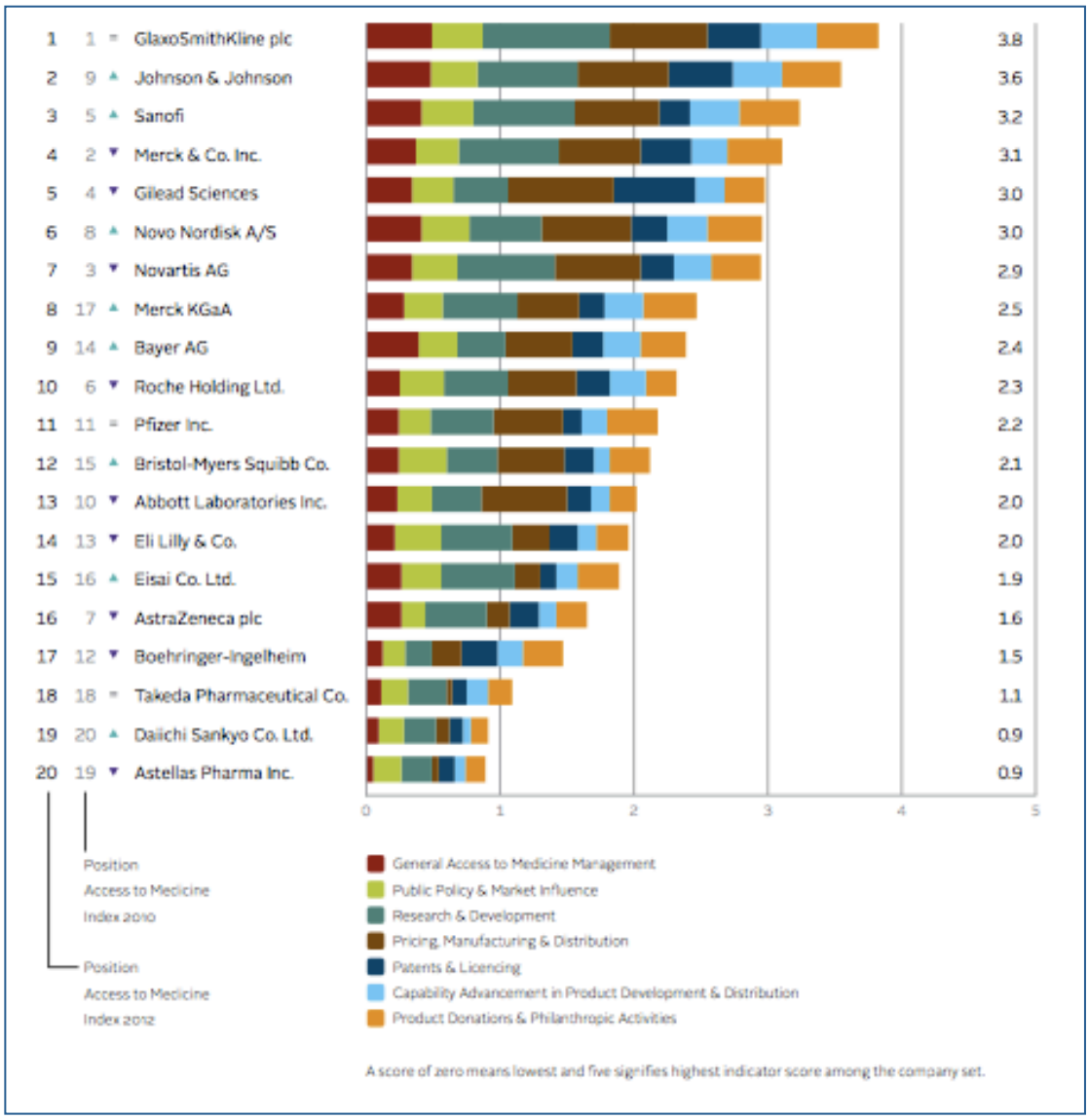
The distribution networks are very poor and the unavailability of medicines in particular can be caused by logistical supply and storage problems. In addition, the transportation phase of the supply chain needs to account for the robbery of the drugs.

- Challenges in Culture

Cultural factors such as traditional healers, herbal treatment, juju (an object used as a mean of protection), stigma and discrimination also limit access to medicines.

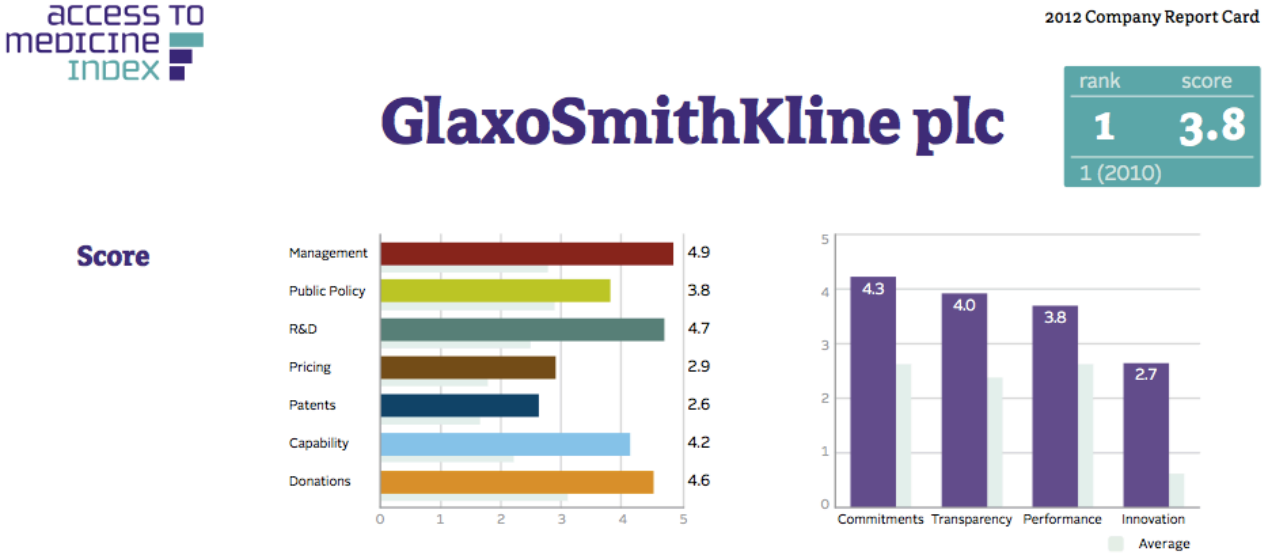
Source: Facing the Challenge 2001

Exhibit 7 – The Access to Medicine Index 2012 Overall Ranking



Source: Access to Medicine Index Report 2012

Exhibit 8 - The Access to Medicine Index 2012 GSK Ranking



Source: Access to Medicine Index Report 2012

Chapter 5 - Teaching Notes

Case Summary

Elected president of South Africa in 1994 after the first democratic elections, Nelson Mandela had as a priority on the agenda of the post-apartheid government to make a health care reform, since many South Africans did not have access to health care at all. As so, in 1997 signed the Medicines and Related Substance Act, which allowed parallel importing - such as importing pharmaceuticals from any origin, admitting generic manufacturers careless of whether the patent holders approved, generating less expensive, generic drugs available to the citizens - and compulsory licensing - gives the government the opportunity to grant local companies authorization to fabricate generics even when valid patents were held by foreign companies - in order to harness the HIV/AIDS pandemic in South Africa, which further contributed to the magnitude of the health care problem. GSK and other large pharmaceutical companies considered both provisions in the Act as an assault on its IPR and filed a lawsuit against the government of South Africa. Media attention and international public pressure on pricing policies for patented drugs increased at that time and pharmaceutical companies ended up agreeing on dropping the case against the South African government. Despite the withdrawal from the South African case, the pharmaceutical industry in general, and GSK in particular, kept being publicly criticized, with critical stakeholders demanding a change in the corporate behaviour of GSK. The South African court case and the access problem demonstrated an industry in crisis concerning the scope and meaning of social responsibility.

Learning Objectives

The case study was developed for students interested in the fields of strategy and development, or students attending courses related to strategy, which incorporate CSR as a teaching topic. The case gives the opportunity to learn important strategy lessons not only in general, but also in the pharmaceutical industry in particular.

The main goals of the teaching case are:

- To give students an increased awareness of Africa's HIV/AIDS, tuberculosis, malaria and neglected diseases problems, and some of its health systems' most challenging barriers: infrastructures, logistics and culture;

- To make students understand how compulsory licensing and parallel importing decisions made by governments in these countries can become challenging measures for the pharmaceutical industry in particular;
- To lead the discussion about CSR relevance and applicability and how it should be handled in order to create social and economic value at the same time;
- To comprehend corporate motives for CSR and to what extent can CSR be considered relevant as a strategic corporate driver and be aligned with current business practices and core objectives;
- To understand the importance of strategic partnerships while working in healthcare and in Africa.

Teaching Questions and Case Discussion

TQ1: What are the main sources of corporate motives for CSR that you can identify, according to Porter & Kramer (2006)? Do you consider "giving back to society" the only reason why GSK engages in CSR?

In agreement with Smith (2003), corporate attention to CSR can come from three different scenarios: the normative case, which comes from a desire to do good; the business case, where there is an enlightened self-interest; or a mixture of these two motivations. The four prevailing corporate motives for CSR, according to Porter & Kramer (2006) are: **moral obligation**, which comes from the duty to be a good corporate citizen and to "do the right things"; **sustainability**, that relates to environmental and community stewardship; **license to operate**, which refers to the permission to do business from governments, communities and other stakeholders; and **reputation,** since CSR initiatives improves a company's image, among other things. Although these justifications have advanced thinking in the field, it is important to underline that none offers sufficient guidance for the difficult choices corporate leaders must make.

Zooming into GSK in particular, during the company's annual meeting in 2001, the CEO Jean-Pierre Garnier stated that the company's priority was public health and not simply shareholder value. By simply looking at this statement, one could consider "giving back to society" the only reason why GSK engages in CSR. However, when analyzing the events the company went through regarding the access to medicines vs. IPR issue, it can be argued that there were mixed motives (normative and business) for GSK's engagement in CSR. Media attention on pricing polices for patented drugs increased at

the time of the South African lawsuit, NGOs took advantage of that and started to launch campaigns with great impact for drug giants to cut the costs, and in the US critical stakeholders also started to demand a change in the corporate behaviour of the company. In addition, despite the withdrawal from the South African case, the pharmaceutical industry in general and GSK in particular kept being publicly criticized. GSK's overall reputation was demonstrably damaged and a response by the company was needed to guarantee a profit for shareholders. Martin (2002) has noticed that firms frequently engage in CSR "precisely because it enhances shareholder value" and some CSR activities "create goodwill among consumers in excess of their price tag". As so, one can say GSK's attention to CSR came from an enlightened self-interest and a desire to do good.

TQ2: CSR can have a positive impact on profitability. Comment this statement and justify your answer with an example from GSK.

In this case, the Professor should start by remarking that there is no clear conclusion that CSR has a positive impact on a company's profitability but that studies point for companies that engage in CSR not to underperform. This could also be suggested as an academic challenge and possible theme for students interested in research in this field.
Regarding GSK's case, and concerning reputation, one can associate CSR, or the lack of it, with the reputational damage the company faced during and after the South African lawsuits, which could consequently lead to a negative impact on profitability. The change of CSR and overall market strategy from that time on can be associated with the company being ranked in various CSR indices for its initiatives: FTSE4 Good Global 100 index and the global DJSGI. In 2004, it was even ranked in the top seven of the pharmaceutical sector in the DJSGI. This association of the corporate image to social causes can have a positive impact on reputation and consumer loyalty. In terms of employee morale and loyalty, there is also the perception and the intention that this was enhanced as, for example, African employers that supplied HIV/AIDS care straightaway to their staff through workplace clinics were provided preferential prices on antiretroviral therapies by the company. Finally, it has strengthened supply chain and quality management standards and is one among the few companies that work with local governments to improve pharmaco-vigilance.

TQ3: In what sense do you consider that leadership in GSK influenced its CSR commitment?

This question includes some concepts about leadership that can be approached by the professor in class, mainly transformational leadership. Transformational leadership is a leadership style that leads to positive changes in those who follow, as people will follow a person who *inspires* them. The way to get things done is by injecting enthusiasm and energy and followers will also be "transformed" and learn from the process ("I care about your self accomplishment"). Transformational leadership consists of four dimensions: charisma – instilling pride and trust; inspiration – communicating high expectations, a vision; intellectual stimulation – promoting intelligence and careful problem solving; and individualized consideration – providing personal attention and coaching.

When Jean-Pierre Garnier became CEO of GSK in 2000, he had a rocky road ahead of him, as he had to reconcile two different corporate cultures, criticism from consumers, shareholders and civil society, and some of the worst drug pipelines in the pharmaceutical industry. Garnier adopted a corporate structure that combined traditional activities with innovative strategies, as he wanted to company to remain flexible enough to grasp new opportunities and remain competitive. Few CEOs can work with shareholders as effortlessly as Garnier, as he is the kind of person who dominates a room and is well aware of that, and rivals have copied many of his reforms. In November 2006, during an interview to the Financial Times, Garnier clearly demonstrated his profile of a transformational leader:

"*I don't see myself as a manager I see myself as a leader. I get people aligned with my views show them the passion I have and that they can be part of an exciting venture. It's very important that you state the goal in terms that are exciting. If you say " let's get another two points on the margin, they won't follow""*

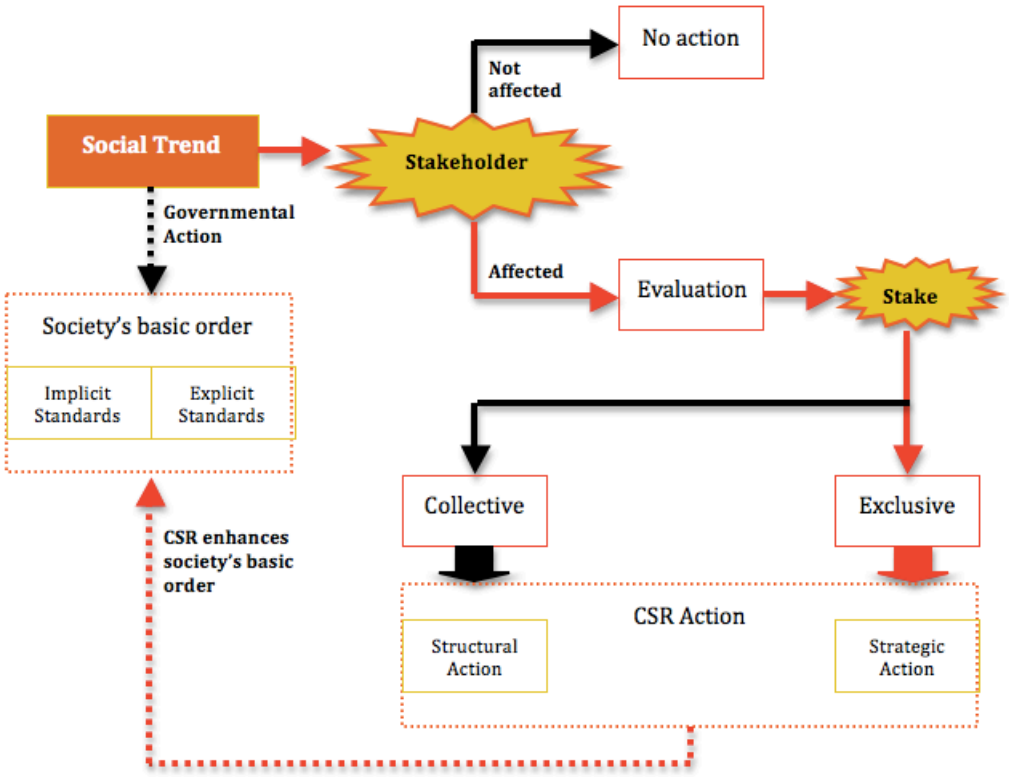
In the CSR field in particular, Garnier, through the application of the frameworks that guide the core business choices of the company, analysed the prospects for social responsibility and came to the conclusion that CSR could be much more than a cost, a constraint or a charitable need. He saw it as a source of opportunity, innovation and competitive advantage, since the business puts in practice resources, expertise and insights to activities that benefit society.

Among the enormous amount of social issues that the pharmaceutical industry is called to address, Garnier realized that developing an access to medicines strategy could symbolize a real opportunity to make a difference to society and to achieve competitive advantage, as nowadays competitiveness has increased and more and more companies meet the quality requirements of the market. Consumers will differentiate companies through the way the company behind the product or service stands for in society and CSR might make a significant difference at the margin of many firms. Garnier is in particular credited with forging a compromise over the row about the price of HIV medicines for African countries, as he helped forge agreement on the controversial issue, with GSK becoming the first big drugs company to offer not-for profit HIV drugs.

TQ4: Falck & Heblich (2007) developed a framework to decide which stakeholders should be considered and how much is at stake when considering an issue. Can you apply it to GSK and the access to medicines issue?

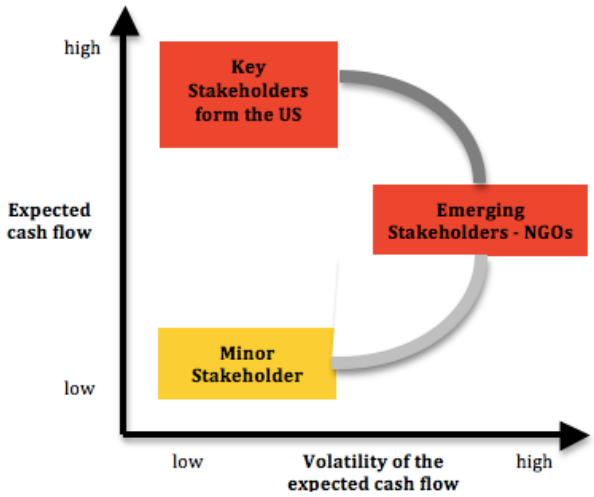
In order to answer this question, the Professor should present Falck & Heblich (2007) framework, as shown in the figure below, where GSK's path is described in red:

Figure 3. Falck & Heblich (2007) Framework adapted to GSK



The decision making process started by a social trend, the access to medicines issue, which was evaluated by the company (the first step of strategic planning) in order to see if it could achieve significant dimensions. As the claim came not only from NGOs, which are emerging stakeholders, but also from key stakeholders in the USA, as shown in red in the graph below, it could achieve significant dimensions and consequently affect the company.

Figure 4. Falck & Heblich (2007) cost-benefit analysis adapted to GSK



Applying Falck & Heblich (2007) cost-benefit analysis to calculate the expected net present value of the future cash flow, it was possible to conclude that key stakeholders, like customers and key suppliers, have a direct link to the company and can influence the current and expected cash flow with low volatility. As so, they were the ones to be considered when calculating the expected net present value of the CSR action. Emerging stakeholders, like Oxfam, do not have a linear linkage with the corporation's cash flow and do not influence the expected net present value. However, they can become key stakeholders all of a sudden, as happened during GSK's shareholders annual meeting in 2001. The volatility of their expected cash flow is high and therefore this group must be monitored regularly. As these two groups of stakeholders were involved in the claim, something needed to be done. At first, GSK opted for a strategic action of an individual commitment type, which granted the company a first-mover advantage, which improved the company's reputation among customers and other stakeholders. However, as this issue is a collective problem for the pharmaceutical industry and due to its increase in dimension, it became a collective commitment and a structural action was required: competitors are now linked to this code.

TQ5: In what areas do you consider that GSK has changed the way it addresses CSR, from reactive to proactive?

In this question the Professor can base the discussion in the *change in strategy* and *implementation* sections from the case study, where a detailed explanation of the way GSK changed its overall strategy and created also a CSR strategy was developed. It can also be discussed that, regarding CSR, the company adopted a long-term position, with planning, supervision and evaluation on a regular basis.

In order to do so, GSK, according to Porter & Kramer (2006), had to incorporate a social perspective into the core model that is exercised to comprehend competition and guide its business strategy, by identifying the points of intersection between society and the corporation, choosing which social issues to address, creating a social dimension to the value proposition and a corporate agenda, and integrating inside-out and outside-in practices. The table below indicates the focal points that should be discussed:

Table 5. GSK Before and After the South African Trade Dispute

	Before (Reactive)	After (Proactive)
Company's Priority	Shareholder value	Public health and shareholder value
Strategy	"Don't to things wrong" – outside-in approach because the company is socially responsive and responds to specific actions of external actors that could damage their reputation	"Do the right things right" – the company takes on activities aimed at external stakeholders right from the start of an issue life cycle, allowing the company to act quickly to take advantage of the occasion by positioning itself at the forefront of an issue that may become of major public interest. There is an incentive to act proactively so as to gain a first-mover advantage and it is also interactive because there are "outside in" and "inside out" approaches, which complement each other
CSR Report	Incorporated in the Annual Report with only a few pages dedicated to it, where the initiatives taken by the company were described mainly in terms of numbers instead of describing the processes, its advancements and results achieved in terms of contribution to the improvement of people's lives	Created a Corporate Social Responsibility Committee and reports about it in the Corporate Social Responsibility Report. HIV and AIDS initiatives are given much attention, with "access to medicines" being one of the company's ten Corporate Responsibility Principles, adopted in 2003

Access to Medicines Strategy	No specific strategy developed	The single point of strategy and coordination of access to medicines is part of the market access strategy, with board-level oversight, quantitative targets, performance evaluation and engagement with numerous relevant stakeholders. Developed *Facing the Challenge,* with a team to measure its progress, and all the things done from that time on

TQ6: What are GSK's and other pharmaceutical companies main challenges in the developing world, to what concerns increasing access to medicines?

Besides all of the provisions of medicines and support made in the developing world, GSK underlines some major challenges that can obstruct these actions in developing countries. First of all, poverty is the single biggest barrier to improving healthcare, as in many countries people do not have enough food or access to a clean water supply. Another key factor is a chronic under-investment in healthcare facilities, which has led to a lack of clinics and hospitals, poor distribution networks, low numbers of trained healthcare providers, and high levels of patient illiteracy. Unavailability in particular, can be caused by logistical supply and storage problems. Ensuring there are no interruptions in people's treatment demands a guaranteed supply of antiretroviral drugs from the factories where they are produced, to the treatment centers in perhaps remote areas of a country. Furthermore, laboratory supplies, testing kits and information also need to pass along the supply chain. The transportation phase of the supply chain requires delivery tracking and needs to account for potential customs barriers. In unstable regions in particular, the robbery of the drugs may be a concern and armed escorts and decoy trucks are known to protect expensive deliveries. Intermediate storage of the medication – such as in large regional warehouses – needs to be safe and secure and be able to efficiently process orders and distribute ARVs to health facilities. Similarly, local facilities should be able to safely and securely store medication at controlled temperatures. All of these requirements mean that the costs involved in distributing the drugs are higher than the antiretroviral drugs themselves.

Other factors that limit access to medicines are taxes and tariffs that raise prices unnecessarily, cultural factors such as stigma and discrimination, and high levels of corruption and bribery in governments.

TQ7: In the Health sector, it has been realized that the problems most difficult to manage, such as the access to medicines issue, need new ways of working together. How do you think partnerships can be part of the solution?

In order to answer this question, the professor can base the discussion on GSK's case study and interviews made to GSK and Bayer (appendices 6 and 7), where plenty of partnerships with governmental and non-governmental organizations are described. The challenge of answering pressing healthcare issues worldwide is a huge task that no aid organization, government, company or research institute can manage alone. New ways of working together, in addition to better coordination of the traditional roles, creates the opportunity to combine the strengths, resources and expertise of the different sectors: public, private and civil society. It is true that when very different types of organizations work together, the probability of clashes of goals, objectives, values, cultures, strategies, management styles, and operating approaches is high. Notwithstanding, some of these relationships may prosper and turn into close, mutually beneficial long-term partnerships designed to achieve strategic goals for the parts involved and may be able to make a real difference.

GSK has successfully worked in a diverse range of partnerships and collaborations over the years, and is always looking for new opportunities. For example, in 2013, the company has launched an ambitious global partnership with Save the Children to share its expertise and resources. The new partnership goes well beyond the traditional charity corporate fundraising model. It will touch many areas of GSK's business, in particular using its R&D capabilities to help save children's lives.

The GSK and Save the Children partnership will focus in particular on:

- Developing child-friendly medicines to reduce child mortality and new-born deaths;
- Widening vaccination coverage to reduce the number of child deaths in the hardest to reach communities;
- Researching new affordable nutritional products to help alleviate malnutrition in children;
- Increasing investment in the training, reach and scope of health workers in the poorest communities to help reduce child mortality.

Another example, now from Bayer Health Care, is the fight against neglected tropical diseases (NTDs), which threaten 1.4 billion people worldwide; the poorest of the poor in

developing and transition countries are particularly at risk. As in the case of Neglected and Tropical Diseases, the fight to defeat these diseases and improve people's living conditions particularly in poor endemic countries can only be won as part of a concerted, major international effort. In 2012, thirteen pharmaceutical companies, the governments of the United States, the UK, and the United Arab Emirates, the Bill & Melinda Gates Foundation, the World Bank and other global health organizations launched the biggest campaign to date in the fight against the neglected tropical diseases. The aim: to control or eradicate ten neglected tropical diseases in collaboration with the countries affected by 2020. The strength of the initiative is that renowned partners with global influence are using their respective expertise and organizational skills in a concerted action to achieve the agreed goals. For example, partners are extending programs to provide drugs, thus covering requirements up to 2020. They are also providing research knowledge, molecules and funds to develop new drugs and a system for distributing drugs faster. In the London Declaration on Neglected Tropical Diseases, the participants furthermore undertake to cooperate more closely and to document progress.

In the course of the initiative, Bayer is particularly active in projects fighting Chagas disease and African sleeping sickness. It is also making molecules available from its library of compounds for research and the development of new therapies.

Chapter 5 - Conclusion, Limitations and Future Research

Conclusion

This thesis main research question was to try to understand how has the tension between the accessibility of essential medication in developing countries and intellectual property rights influenced the CSR strategy of multinational companies in the pharmaceutical industry over the last years. The topic of CSR is among the most hotly debated globalization topics and, according to Carroll (1979), it is possible to say that the social responsibility of businesses embraces the economic, legal, ethical and discretionary expectations that society has of organizations at a certain point of time. Increased attention to CSR by corporations has not been fully voluntary, as significant number of companies only realized its importance when surprised by public responses to issues they had not previously considered part of their business responsibilities, such as GSK.

From the research developed it is possible to conclude that the moment relevant and emerging stakeholders, such as customers and NGOs, became involved in the access to medicines conflict, and reputational damage became a potential reality, ensured that a start was made in meeting the needs of HIV and AIDS victims in the developing world by the company. GSK, that at the beginning adopted a reactive and defensive approach ("don't do things wrong"), had to discipline itself during the course of the conflict, integrating inside-out and outside-in practices. The company changed its strategy to a proactive/interactive approach to CSR, consisting on "doing the right things right". As so, it is possible to conclude that GSK's approaches to CSR came from a desire to do good and an enlightened self-interest, and that the interest of the stakeholders has been acceded to most, looking at the GSK initiatives and price cuts.

Effective CSR is normally a long-term position, as it is an investment in the company's future, requiring planning, supervision and evaluation on a regular basis. According to Porter & Kramer (2006), corporations have to incorporate a social perspective into the core model that is exercised to comprehend competition and guide its business strategy, and that was precisely what GSK did. By suggesting that GSK's priority was public health, the company **identified the points of intersection between society and the corporation** and demonstrated a **clear choice of the social issues to address.** GSK **has incorporated a social dimension to its value proposition** since the beginning of

its existence, making social impact part of the overall strategy: "We are dedicated to improving the quality of human life by enabling people to do more, feel better and live longer". In addition, and as previously mentioned, the company started to **engage in a in/outside-in/out business orientation**, establishing a dialogue with stakeholders and promoting partnerships. GSK also **created a corporate social agenda,** to create opportunities to reach social and economic benefits at the same time, which focus on strategic CSR. It is through it that the most significant social impact and business benefits are achieved. A good illustration of this is the access strategy *Facing the Challenge: Our Contribution to Improving Healthcare in the Developing World,* launched in 2001, which considered clear and measurable goals and tracks results over time.

To conclude, the commotion surrounding the price of HIV/AIDS medicines persists. Disputes such as the South African Trade Dispute have kept arising and this has been viewed as a CSR issue – through patent policy, pharmaceutical companies are restricting access of ARV drugs to those most in need. A resolution to the issue is still forthcoming, and GSK indicates constantly that the company does not see itself able to resolve the problem surrounding prices on its own. The company recognizes that access to medicines is a complex and multi-faceted issue with no simple answer, where the challenges can only be properly addressed through partnerships between developed and developing country governments, international organizations, the industry and charitable organizations. While the conflict drags on, the acuteness of the clash has diminished somewhat thanks to the initiatives GSK has launched.

Limitations and Future Research

By combining the findings from the literature review and the case study, conclusions have been reached. However, the research conducted within this thesis is bound to several limitations. First of all, the most straightforward limitation is related with the fact that the methodology adopted was a case study, namely relying on one company only, and therefore, the context data and its availability are extremely conditioned to the company chosen – it might not be representative for the industry as a whole. However, the findings could hold for other pharmaceutical companies as well, and are a valuable resource for future researchers who may be interested in studying the company, mainly if one intends to focus on its CSR practices. In addition, the information gathered during research, upon which the dissertation was built, consisted mainly of secondary data, publicly available, and information provided by GSK. Primary data was only collected in the form of interviews to the company. The lack of other data collection sources, namely quantity research methods, as in the form of surveys or focus group, constitutes a

limitation to this dissertation. Limitations on the availability of exact figures from GSK on their sales per country limited the conclusions drawn from the findings, as some countries are grouped in regions, like the rest of the world/international region, where the least developed countries fit. Furthermore, in order to assess the impact of IPR vs. access to medicines issue on the reputation of the firm and consequently its strategy, sales figures and the capital market have been used as a mean to analyze the relationship. Though, an abundance of other factors such as pricing strategies, competition, patent lengths, legislation on healthcare and insurances have a significant impact on these figures as well and limit therefore the findings. Lastly, some limitations have to do with the research topic itself – CSR – as it is subject to different interpretations and definitions, which leads to different perspectives that, in turn, hold back further development in the area. In addition, there are not standardized ways of measuring the impact of CSR policies, maybe due to its qualitative nature and the lack of studies and standardized methodology.

This study gave insights on the topic of the effect of IPR vs. access to medicines on firm strategies. Future research on the topic of IPR and promoting access to medicines should adopt an industry wide perspective and statements made by companies should be investigated more thoroughly. Within this research a company perspective has been adopted. However, future research should as well adopt a perspective focused on either the role of governments, civil society organizations, tripartite institutions, ethics or the socio-economic environment. Efforts in order to investigate a specific set of countries more thoroughly should be pursued as well. Such research will provide more insights into the relationship and effect of a country's position on the topics of e.g. healthcare insurance, specific pricing mechanisms, national healthcare systems, since these factors have an impact on company strategies as well.

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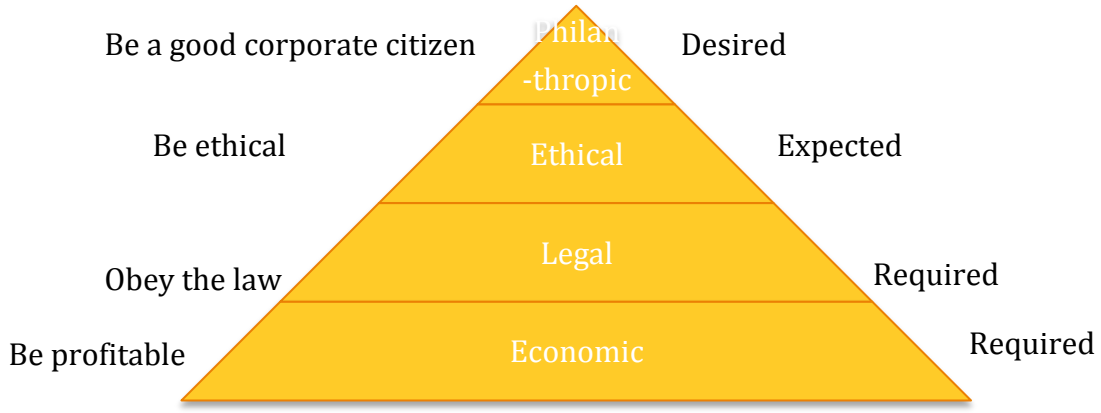
Appendices

Annex 1 – Medicine – related MDGs, health targets and indicators

Medicine-related MDGs	Medicine-related health targets	Medicine-related health Indicators
Goal 4: Reduce child mortality	Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	13. Under-five mortality rate 14. Infant mortality rate
Goal 5: Improve maternal health	Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	16. Maternal mortality ratio
Goal 6: Combat HIV/AIDS, malaria and other diseases	Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	18. HIV prevalence among pregnant women aged 15-24 years 19. Condom use rate of the contraceptive prevalence rate
	Target 8: Have halted by 2015 and have begun to reverse the incidence of malaria and other major diseases	21. Prevalence and death rates associated with malaria 22. Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures 23. Prevalence and death rates associated with tuberculosis 24. Proportion of tuberculosis cases detected and cured under DOTS
Goal 8: Develop a global partnership for development	Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system	
	Target 13: Address the special needs of the least developed countries	
	Target 17: In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries	46. Proportion of population with access to affordable essential drugs on a sustainable basis (as defined by WHO)

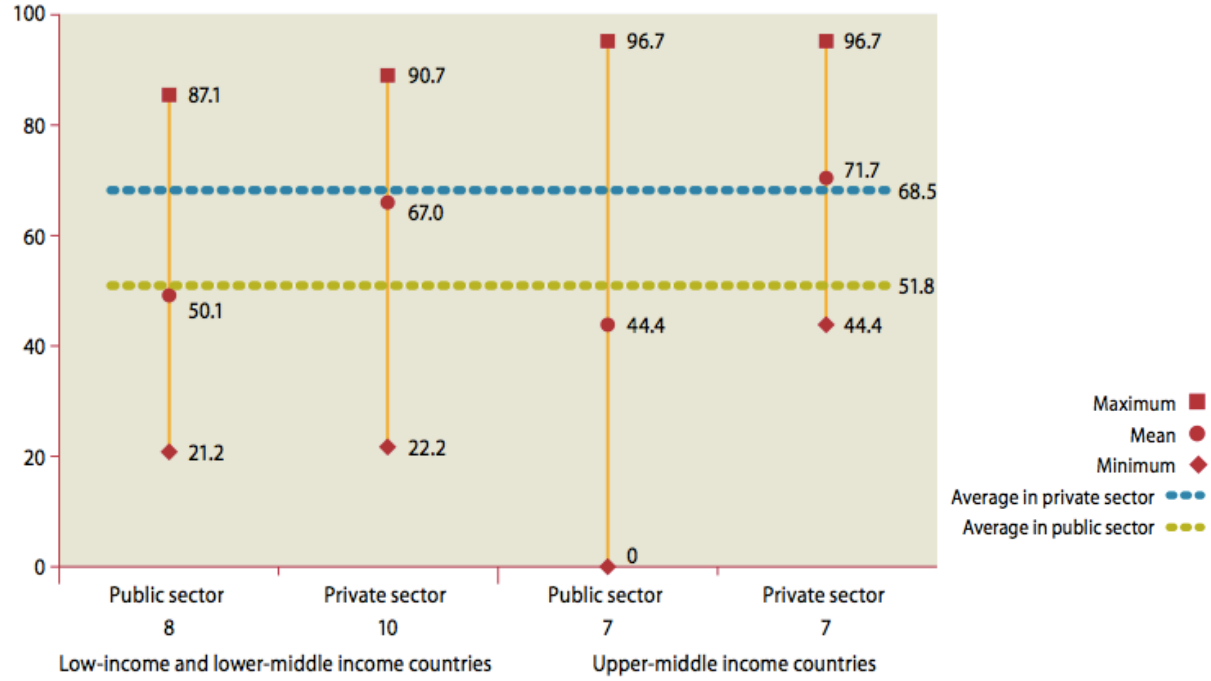
Source: WHO 2008 – WHO Medicines Strategy 2008-2013

Annex 2 – Carroll's (1991) Pyramid of Corporate Social Responsibility



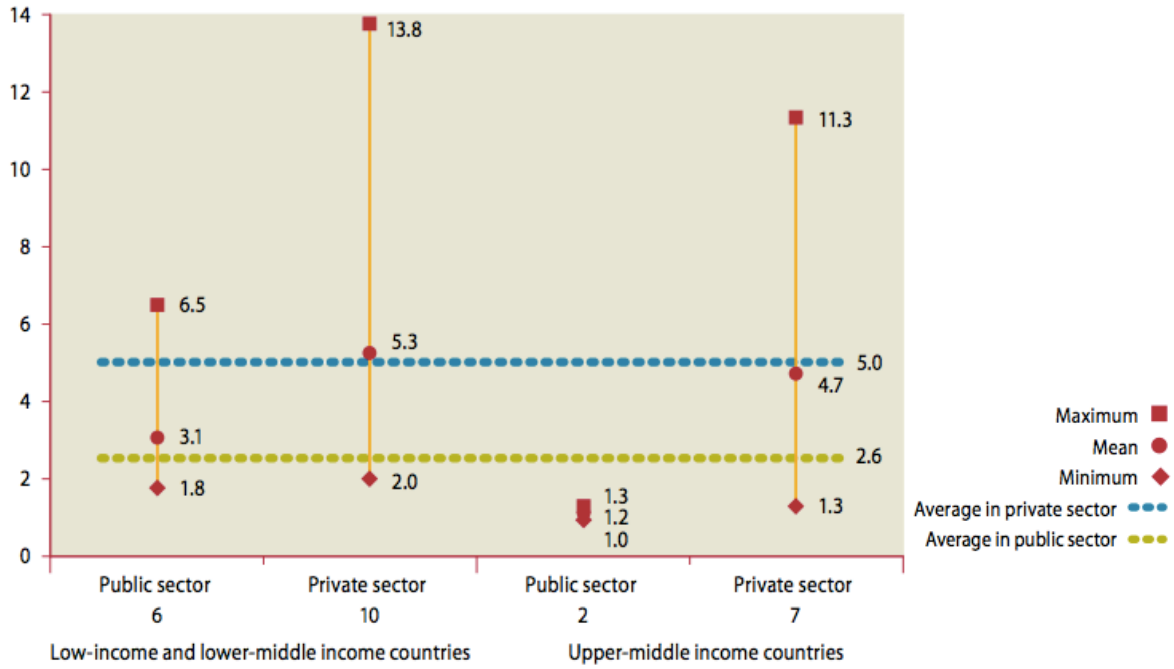
Source: Carroll 1979

Annex 3 - Median availability of selected generic medicines in public and private health facilities during the period 2007-2011 (percentage)



Note: The numbers above the group labels refer to the number of countries
Source: World Health Organization / Health Action International

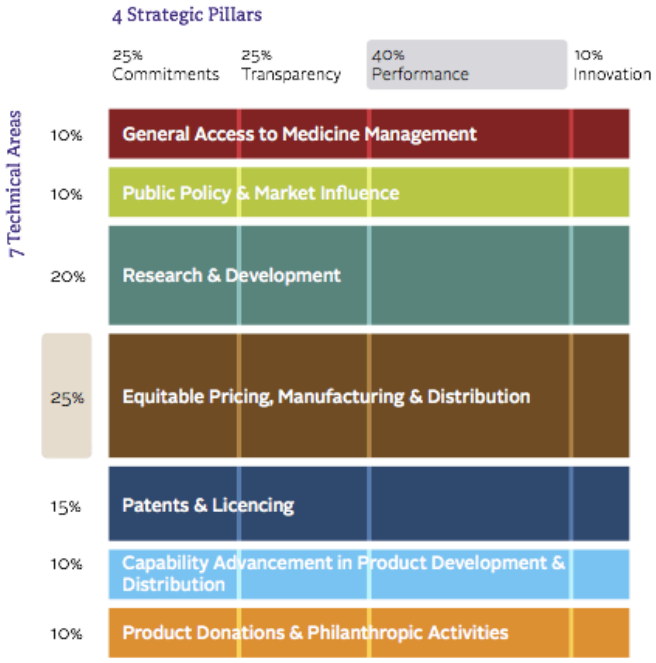
Annex 4 – Ratio of consumer prices to international reference prices for selected lowest-priced generic medicines in public and private facilities during the period 2007-2011



Note: The numbers above the group labels refer to the number of countries

Source: World Health Organization / Health Action International

Annex 5 - Access to Medicine Index Methodology Framework



The seven areas of activity cover:

- Overall organisation and management of access programmes
- The conduct of relationships with policy-makers, competitors, customers and the general public on matters that have an impact on access to medicine.
- Research and development aimed at producing relevant products
- Pricing policies and supply chains
- Policies and practices around patents and licencing
- Supporting developing countries to build capacities to develop and distribute their own drugs and to monitor drug effects.
- Product donation initiatives and philanthropic activities

Source: Access to Medicine Index Report 2012

Annex 6- Script for the interviews

1. Pharmaceutical companies adopted a fresh thinking about the world's neglected diseases, which affect so many people. Still, it comes at an interesting time, as it is well known from the business perspective that the pharmaceutical business model is challenged. Drug pipelines at many large companies are not as productive as they were, and there are also quite aggressive generic challengers. This creates a question about the incentives for investing in future innovation, what might be the business model. Can companies go beyond the blockbuster to a new kind of business model?

2. **GSK -** Your company has been rated number one on the access to medicine index since 2008, because of your efforts to expand access to medications in some less developed areas of the world. How do you continue to expand access to medicines by either discounting or donating them and, at the same time, maintain the profitability for the company?

Bayer - Your company has been rated number nine on the access to medicine index in 2012, because of your efforts to expand access to medications in some less developed

areas of the world. How do you continue to expand access to medicines by either discounting or donating them and, at the same time, maintain the profitability for the company?

3. Corporate Social Responsibility has never been more prominent on the corporate agenda. The debate about CSR has shifted: it is no longer about whether to make substantial commitments to CSR, but how. The challenge is developing CSR initiatives consistent with a strategic purpose. Would you agree with this?
How has your CSR strategy changed because of this fact and how has your corporate agenda been affected by CSR?

4. Is stakeholder engagement at the core, when figuring out a CSR strategy for your company?

5. At the same time of the commercial constraints described in question 1, we are also living at a time of tremendous challenges in global health. Not only HIV, TB and malaria, but also neglected diseases. The private sector is increasingly called upon to address social problems, also due to the growing recognition of the failure of governments to solve them. What is the capacity and responsibility of a global pharmaceutical company to help be a good corporate citizen when thinking about global health issues, and how much is enough?
Do you measure your social performance? If so, how?

6. Pharmaceutical companies are well known for their philanthropic activities, which include giving away large quantities of their products. Still, this did not prevent the industry's vilification over its response to the HIV/AIDs crisis in South Africa, for example. Accused of putting profits before people, the pharmaceutical industry stated, "The case is nothing to do with blocking access to medicines, or price fixing. It's about patents. Patents do not block medicines. They stimulate research and development". Can you comment the relation between access to medicines and patents?

7. In the Health sector, it has been realized that the problems most difficult to manage, such as the access to medicines issue, need new ways of working together, in addition to better coordination of traditional roles, to reach a combination of the strengths, resources and expertise of the different sectors (public sector, private sector and civil

society). Do you believe partnerships are the solution, if there is a solution at all? What is for you the best way to try to overcome this issue?

Annex 7. Bayer Health Care answers to the interview

1. Bayer HealthCare Pharmaceuticals has set itself an ambitious goal: we want to improve people's health and quality of life with innovative therapies. This is the basis of our current and future economic success. Our innovative medicines meet global medical needs focusing on diseases which carry a high burden for patients and healthcare systems. However, economic strength also means a great responsibility. We would like all people to share the fruits of medical progress, regardless of their origins or income. We support programs that provide access to innovative medicines and modern family planning, and take up the fight against neglected diseases. We work side-by-side with aid agencies, international bodies and policy makers.

2. All over the world, patients need access to quality drugs and health services. Aid organizations use donations to supply drugs free of charge to people who otherwise cannot afford them. Many people worldwide are without adequate access to medical care – and not only in very poor countries. Emerging industrial nations like China face the task of building up a nationwide health system, while simultaneously having to deal with a sharp increase in typical lifestyle diseases, as e.g. diabetes and cardiovascular diseases. In areas where government agencies cannot guarantee medical care, patients have to pay for expensive treatments ~~drugs~~ themselves. By offering Patient Assistance Programs, Bayer HealthCare, together with partners from local healthcare systems and NGOs, is helping to close such healthcare gaps. However, many poor countries also have a working middle class who would like to – and can – afford to buy medicines at a price that is affordable for them. In addition to donations and emergency aid we apply in developing countries various mechanisms like price differentiation by purchase power and affordability, according to market conditions, and other mechanisms as e.g. second-tier pricing. In collaboration with government agencies and NGOs, we run programs that supply the population groups affected in an economically viable way, thus ensuring that the programs remain sustainable.

Let me give you an example: the Contraceptive Security Initiative (CSI), the first project of its kind in sub-Saharan Africa, which has been launched by Bayer Healthcare and the U.S. Development Agency USAID. CSI helps to be able to guarantee the consistent availability of contraceptives in developing markets. It's an alternative to subsidizing

access to oral contraceptives, and one that is economically sustainable and therefore more reliable in the long run than subsidies. We have adjusted the price for an oral contraceptive to the financial resources of middle-income women. This offers an additional option to self-determined family planning which makes modern oral contraception affordable at the same time covers costs and supply chain margins - independently from obtaining free or subsidized contraceptives from aid organizations. Since wholesalers and pharmacy owners are involved in the supply chain, it creates income for the national economy that offers a way out of purely charitable support and contributes to sustainable development. For women this has an additional advantage: they not only avoid long waiting times in public hospitals' dispensaries, but also they steer clear of availability bottlenecks that may occur when products are distributed free. The contraceptive pill will be introduced in eleven sub-Saharan countries within the next five years under the agreement between Bayer and USAID. Since 2009, it has already been successfully launched in Ethiopia, Uganda, Tanzania, Rwanda and Ghana. USAID is funding the communication and educational measures supporting the introductory phase of each country's program. The aim over the initial five year collaboration is to reach the necessary brand presence in project countries, and to ensure that local women can rely on the product being consistently available in the pharmacies. In return, Bayer guarantees that it will continue offering the product at the agreed price beyond the formal end of the project's contract period.

Another example is our Jadelle Access Program: in 2012 an initiative involving a number of organizations – including the Clinton Health Access Initiative, the Norwegian, British, Swedish and US governments, the Children's Investment Fund Foundation and Bayer HealthCare – announced at the UN Headquarters in New York their commitment to make a long acting and reversible contraceptive method available to more than 27 million women in the poorest countries of the world. The initiative focuses on Jadelle, an implant providing long-acting reversible contraception for up to five years and has been prequalified by the WHO. The commitment announced at the United Nations in New York was enshrined in a contract. The contracting parties – Bayer HealthCare and the Bill & Melinda Gates Foundation – agreed to supply the Bayer contraceptive implant to at least 27 million women in developing countries for a period of six years from 2013 on. Bayer had reduced the price of Jadelle and in turn, the Bill & Melinda Gates Foundation covered the risk of default.

Furthermore, Bayer Healthcare has a long-standing cooperation with WHO in fighting Neglected Tropical Disease. Since more than a decade Bayer supports WHO in fighting Chagas disease in Latin America as well as African sleeping sickness by donation essential medicines to treat these patients. Since sometimes more than just medication is needed, Bayer provides also financial support for distribution of these medicines. Just a few weeks ago in 2013 we signed another agreement with WHO to support mobile intervention teams on the ground in the DR Congo to identify and control local disease areas with outbreaks of African sleeping sickness. This way Bayer HealthCare supports the goals set in the London Declaration on NTDs to eliminate African sleeping sickness and control Chagas disease by 2020.

3. Bayer was one of fifty companies worldwide that established the UN Global Compact in the year 2000. UN General Secretary Kofi Annan inaugurated the initiative with this statement: “Let us choose to unite the power of markets with the strength of universal ideals.” On a global level it has four overriding objectives:

- to promote human rights
- to guarantee international labor standards
- to improve environmental protection and
- to fight corruption.

Bayer's corporate social responsibility has traditionally involved assistance for those in need and efforts to improve social conditions in all the countries in which the company is active. Important tools of our social responsibility include donations and support for long-term projects according to the principle "helping people to help themselves." Here we cooperate closely with both government institutions and non-governmental organizations.

In 2009 Bayer developed a Sustainability Program. The program places special importance on alliances for sustainable health care, innovative partnerships to improve the supply of high-quality food. Bayer is facing up to this challenge in keeping with its mission “Bayer: Science For A Better Life.” Sustainability is also key to all our Patient Assistance Programs and reflects our long-term commitment to provide access to medicines to those who need them.

Thanks to our strategic commitment, the services of our HealthCare business – high-quality drug products and treatments – are being made available to patients across the globe in countless programs.

4. Stakeholder engagement is at the core of our CSR and "Access to Medicines" strategy. Since long we engage and network with various national and international organization, institutions, NGOs and government authorities. We see us as private industry as partner in finding solutions for better healthcare. Our cooperation with USAID and the Bill & Melinda Gates Foundation in our core competence area of contraception and Family Planning may be a good example to illustrate this. Since more than 10 years we established the "international Dialogue on Population and Sustainability" as platform for interaction and discussion with stakeholders active in this area.

Since 2009, on a biannual basis, the ATM Index rates the top-20 pharmaceutical companies regarding their performance in increasing access to medicines. In the last 2012 rating Bayer ranked #9 among the leading pharmaceutical companies, which reflects the acceptance of our engagement in this area.

5. As a company, we are firmly rooted in society – as a reliable employer and trainer, as a good neighbor at our locations all over the world, as an organization that uses and protects natural resources. It comes natural to us to deal with people and nature in a respectful and sustainable manner, to act unconditionally in accordance with applicable laws, and to maintain the highest standards.

We believe responsibility lays the foundation for long-term confidence in the reliable, high quality of our work and products. There must be a healthy balance between economy, ecology and society – and this conviction is the basis of our actions.

Our performance regarding social engagement and contribution to society are published in the annual Bayer Sustainability Report. As pharmaceutical company our contribution to healthcare and access to medicines are core of activities.

6. Our outstanding capacity for innovation is based on several factors. This demands consistently high investments in research and development. In the last five years, Bayer has always maintained a research budget of around €3 billion, regardless of economic developments. It is also important to have a policy of sound innovation management with clear structures, focus and discipline coupled with a corporate culture that offers researchers a suitable working environment and reinforces the importance of innovation – and therefore researchers – for our company. We also measure our

sustainable innovative strength through additional KPIs, such as the number of patents registered each year and the quality of these patents.

Reliable, global protection of intellectual property rights is essential for an innovation company like Bayer. Protected products or processes currently account for an estimated 40 percent of Bayer's sales. At the end of 2012 we held approximately 76,000 valid patent registrations and patents, and a further roughly 10,000 protected inventions. Bayer undertakes approximately 6,500 patent registrations worldwide each year. A patent generally remains valid for 20 years. As it takes 12 years on average to develop a new pharmaceutical, only eight years of patent protection generally remain following the product's approval. Without such protection, it would not be possible to cover the significant costs incurred in the research and development of innovative pharmaceuticals and to plan new therapeutic options. We therefore advocate the protection of both the international patent system and our own intellectual property worldwide.

7. The challenge of answering pressing healthcare issues worldwide is a huge task that no aid organization, government, company or research institute can manage alone. However, as part of a network of strong partners it is possible to make a real difference. We initiate and support many cooperation projects that are committed to improving healthcare – be it in family planning, the fight against neglected and infectious diseases, training medical personnel, sex-education campaigns, or programs to give people with low incomes access to the drugs they need. In addition to donating medicines or money to overcome acute emergencies, our engagement concentrates mainly on sustainable concepts for long-term improvements in healthcare.

Our partners include governmental and non-governmental organizations with longstanding experience in their respective fields, global networks and local contacts. For example, for over 50 years, Bayer HealthCare, in collaboration with partners, has been committed to giving women in developing countries the chance of self-determined family planning using quality hormonal contraceptives.

Another area in which we cooperate closely with various partners is in the fight against neglected tropical diseases (NTDs), which threaten 1.4 billion people worldwide; the poorest of the poor in developing and transition countries are particularly at risk.

As in the case of Neglected and Tropical Diseases, the fight to defeat these diseases and improve people's living conditions particularly in poor endemic countries can only be won as part of a concerted, major international effort. In 2012, thirteen pharmaceutical companies, the governments of the United States, the UK, and the United Arab Emirates, the Bill & Melinda Gates Foundation, the World Bank and other global health organizations launched the biggest campaign to date in the fight against the neglected tropical diseases. The aim: to control or eradicate ten neglected tropical diseases in collaboration with the countries affected by 2020.

The strength of the initiative is that renowned partners with global influence are using their respective expertise and organizational skills in a concerted action to achieve the agreed goals. For example, partners are extending programs to provide drugs, thus covering requirements up to 2020. They are also providing research knowledge, molecules and funds to develop new drugs and a system for distributing drugs faster. In the London Declaration on Neglected Tropical Diseases, the participants furthermore undertake to cooperate more closely and to document progress.

In the course of the initiative, we are particularly active in projects fighting Chagas disease and African sleeping sickness. We are also making molecules available from our library of compounds for research and the development of new therapies.