Novartis and the UN Global Compact Leadership Blueprint

2011 UN Global Compact Communication on Progress

"Our company's shared commitment to corporate responsibility rests with every Novartis associate. We made progress on governance of corporate responsibility during 2011, anchoring it more strongly within the Executive Committee."

Joseph Jimenez, CEO, Novartis
Annual report 2011

NOVARTIS

Novartis and the UN Global Compact Leadership Blueprint

Implementing the ten principles into strategies and operations (see Annex 1, page 5)

1. Full coverage and integration across principles
   - For each of the 10 principles reported in our UN Global Compact Communications on Progress, we outline our commitment and policies; projects and activities; results; targets; and cross-reference GRI indicators. This reflects how Novartis Group companies implement the 10 principles from a strategic down to an operational level.

2. Robust management policies and procedures
   - Corporate responsibility (CR) is endorsed and ingrained at the highest level in Novartis. A Corporate Responsibility Steering Committee (CRSC) meets bi-monthly to give oversight and guidance. The committee is chaired by George Gunn, who is a member of the Executive Committee of Novartis (ECN).
   - Our Code of Conduct, Policy on Corporate Citizenship (reflecting the 10 principles of the UN Global Compact) and Corporate Citizenship Guidelines define the Novartis approach to CR and give associates guidance in their daily work.
   - This overarching framework is reinforced by means of policies and guidelines relating to particular business functions – such as our Promotional Practices Policy and Guidelines (NP4) which set out what is permissible practice for the sales and marketing of our Pharmaceutical Division's products.
   - A Business Practices Office (BPO) offers Novartis Group company associates and external stakeholders a 'one-stop-shop' to which grievances and allegations can be submitted. All complaints are investigated and reported to management, so that appropriate action can be taken.

3. Mainstreaming into corporate functions and business units
   - The CRSC is made up of representatives with operational responsibilities in all divisions and major functions of the company. The CRSC is a decision-making body that makes recommendations to the ECN to ensure a coordinated and integrated CR approach that meets our aims of: reaching more patients; collaborating for results; and doing business responsibly.
   - The CRSC is mirrored by a Corporate Responsibility Communications network with communications and public affairs representatives from all the divisions and CR-specific functions.
   - Training of Novartis Group company associates, measurement and reporting are key processes to assess progress toward CR implementation.

4. Value chain implementation
    - Our Third Party Code and our Corporate Citizenship Guideline on Third Party Management set out the CR requirements we expect our suppliers to meet. Preference is given to third parties who adhere to such standards.

Taking action in support of broader UN goals and issues (see Annex 2, page 22)

1. Core business contribution to UN goals and issues
    - Through its core businesses, Novartis focuses its CR contributions on the health-related Millennium Development Goals (MDGs). Novartis has made significant investments in the developing world to support access to quality healthcare and has helped to improve the lives of hundreds of millions of patients worldwide.
    - Novartis regularly communicates on its contribution to the MDGs:
        - The Novartis commitment to women's and children's health: The contribution of Novartis to achieving the UN Millennium Development Goals (in particular, Novartis initiatives addressing MDGs 4 and 5 on women's and children's health, pages 4-5)
        - Achieving the UN Millennium Development Goals: The contribution of Novartis

2. Strategic social investments and philanthropy
    - Beyond the core business, philanthropic commitments by Novartis contribute specifically to the realization of the MDGs. The Novartis Foundation for Sustainable Development (NFSD) is focused on the poorest of the poor. It is committed to "development with a human face" and the projects it supports in developing countries are primarily focused on the achievement of the MDGs, particularly in relation to health.

3. Advocacy and public policy engagement
    - Novartis contributes to the international corporate responsibility and sustainability debates, participates in key UN summits and conferences and is actively engaged with corporate responsibility stakeholders within and beyond the UN system.

4. Partnerships and collective action
    - Novartis counts ongoing alliances and collaborations with public and private organizations worldwide. These are vital to advancing access to medicine and healthcare delivery to patients. Our company works with a range of organizations, including governments, international agencies such as the World Health Organization, foundations and nongovernmental organizations in improving access to healthcare.
    - "Collaborating for results" is one of the three key objectives of the Novartis CR strategy, together with "reaching more patients" and "doing business responsibly".

Engaging with the UN Global Compact (see Annex 3, page 26)

1. Local networks and subsidiary engagements
    - York Lunau, NFSD Corporate Responsibility Advisor, is a member of the Board of the UN Global Compact Swiss Network.
    - Novartis supports local UN Global Compact networks. Novartis subsidiaries are free to join their local UN Global Compact network (there is no "headquarter only" policy). Novartis subsidiaries in some countries also publish UNGC Communications on Progress reports (Argentina, Colombia and Mexico for instance).

2. Global and local working groups
    - Klaus M. Leisinger, NFSD Chairman, is a member of the UN Global Compact Human Rights Working Group.
    - Together with Nestlé, the NFSD co-chairs the UN Global Compact LEAD task force on Strategic Social Investments and Philanthropy. As a part of this work, Klaus M. Leisinger, NFSD Chairman, contributed a comprehensive paper on "Corporate Responsibility Leadership and Corporate Philanthropy".

3. Issue-based and sector initiatives
    - Novartis Group companies are members of various chambers of commerce, sustainability industry associations, and pharmaceutical industry associations. We also participate in sector initiatives such as the Pharmaceutical Supply Chain Initiative to promote high ethical standards in the supply chain or the Pharmaceutical Security Institute to combat counterfeit medicines.

4. Promotion and support of the UN Global Compact
   - Klaus M. Leisinger, NFSD Chairman, is a member of the steering committee of the UN Global Compact LEAD initiative.

Annex 1:
How Novartis lives up to the 10 principles

Principle 1

Principle 1 - Human rights: Businesses should support and respect the protection of internationally proclaimed human rights.

Commitment and policies	• Code of conduct: "We strive to ensure that activities within our sphere of influence do not negatively impact fundamental human rights, as set out by the United Nation's Bill of Rights and the core conventions of the International Labor Organization, either directly or through our business relations." • Corporate citizenship policy: "We seek to promote and protect the rights defined in the Universal Declaration of Human Rights of the United Nations within our sphere of influence." • Corporate citizenship policy: "We do not tolerate human rights abuses within our own business operations." • Corporate citizenship guideline 4 on human rights: "Novartis recognizes that the inherent dignity and the equal and inalienable rights of all members of the human family are the foundation of freedom, justice and peace. It therefore respects and supports the protection of human rights, as enshrined in the Universal Declaration of Human Rights (UDHR) issued by the General Assembly of the United Nations on December 10, 1948." • Right to health: "Novartis endorses the right to health. We believe that each sphere of society – from government and charitable organizations, to medical professionals and business – has a role to play in support of the right to health... We believe the primary contribution of Novartis emanates from our normal business activities – discovering, developing and successfully marketing innovative products to cure disease, ease suffering and enhance the quality of life."
Projects and activities	• Access-to-medicine programs in collaboration with the World Health Organization (WHO) and other intergovernmental and nongovernmental organizations to combat malaria, leprosy and tuberculosis in developing countries. • Patient assistance program for oncology drug, *Gleevec/Glivec*, reaching patients worldwide. • Patient assistance programs for uninsured, low-income citizens in the US. • As part of the UN Millennium Villages project, the Novartis Foundation for Sustainable Development (NFSD) supports a village in Tanzania. • Research on neglected diseases (dengue fever, malaria and tuberculosis) by the Novartis Institute for Tropical Diseases (NITD). • Research on vaccines against diseases of the developing world by the Novartis Vaccines Institute for Global Health (NVGH). • Closing any gaps identified on living wages to ensure employees and their families can meet their basic material needs. • Active participation of Novartis in the Human Rights Working Group of the UN Global Compact to advance thinking on compliance assessments for human rights as well as concepts for access to medicines. • Innovative business model, i.e. "Arogya Parivar," to address the health needs of underserved rural regions of India known as the bottom of the pyramid (BOP).
Results 2011	**Right to health** • Total 2011 access-to-medicine programs valued at USD 1.7 billion, reaching 89.6 million patients globally. • 100 million treatments of the anti-malarial Coartem delivered without profit to 40 malaria-endemic countries. • Coartem Dispersible, the antimalarial for children with a body weight 5kg-25kg developed by Novartis and Medicines for Malaria Venture, has been rolled out in 39 countries, up from 33 countries in 2010; 50

	million Coartem Dispersible treatments were delivered in 2011. • Completed deliveries of more than 39 million Coartem and Coartem Dispersible treatments under the Global Fund's new Affordable Medicines Facility-malaria to six countries. • "SMS for Life" program scaled up to all 5,099 health facilities in Tanzania, and pilots started in Ghana and Kenya. • The NITD completed Phase 1 clinical trials for NITD609, an investigational new antimalarial with a novel mechanism of action, and announced the discovery of a second new dual-acting class of antimalarial compounds with a potential to both prevent and treat malaria. • The NVGH completed an age de-escalation study for Vi-CRM197, a new conjugate vaccine against *Salmonella* Typhi; developed a process for Paratyphi A with demonstration of generation of serum bactericidal activity; and preclinical studies on Shigella vaccine supported plans for vaccine trials. • *Rabipur* vaccine (antirabies) has been added to the portfolio of Arogya Parivar, a for-profit social initiative developed by Novartis to increase accessibility of healthcare education and products to underprivileged rural communities in India. **Human rights** • The Human Rights Assessment for Pharmaceutical Companies, developed in cooperation with three other pharmaceutical companies by the Danish Institute for Human Rights (DIHR), was finalized and implemented as an online tool which can be used by other companies. The assessment is designed to help companies detect potential human rights violations caused by the effect of their operations on employees, local residents and other stakeholders. • Living wage: the wage-level review identified 17 cases of Novartis employees earning less than the living wage. The salaries of the employees concerned (14 in Romania, 3 in other countries) have been adjusted to meet the required living wage levels. **Global Compact** • As one of the 54 founding members of the Global Compact LEAD initiative, Novartis supported the new LEADership initiative, particularly by elaborating a concept paper on corporate philanthropy and initiating a respective workstream. • Participated in the revitalized Global Compact Human Rights Working Group.
Targets 2012	• Build consensus within the Global Compact Human Rights Working Group around the meaning of the two Human Rights principles for the pharmaceutical sector, and continue to support the Global Compact Office in establishing its LEADership initiative. • Continue to use established process to update living-wage levels annually and adjust salaries of any associates found below those levels. • Improve Arogya Parivar supply chain efficiency for remote villages by appointing direct distributors; and support development of local healthcare infrastructure by expanding Credit for Healthcare Initiative.
GRI indicators	• HR1, HR2, HR3, HR8, HR9
Additional information	→ http://www.novartis.com/corporate-responsibility/access-to-healthcare/index.shtml → www.novartisfoundation.com → www.nitd.novartis.com → www.nvgh.novartis.com → www.who.int/en/ → www.un.org

Principle 2

Principle 2 - Human rights: Businesses should make sure they are not complicit in human rights abuses.

Commitment and policies	• Code of conduct: "We strive to ensure that activities within our sphere of influence do not negatively impact fundamental human rights, as set out by the United Nation's Bill of Rights and the core conventions of the International Labor Organization, either directly or through our business relations." • Corporate citizenship guideline 2 on fair working conditions. • Corporate citizenship guideline 4 on human rights. • Corporate citizenship guideline 5 on third party management. • Corporate citizenship guidance note 5.1 on practical implementation and recommendations for corporate citizenship in 3rd party relations.
Projects and activities	• Establishing a new position for global employee relations responsible for defining standards for global employee relations and setting up a network. • Third Party Management: A global project to overhaul the third party management approach is successfully complete. It has been piloted in two key countries, China and France. The program's core objective is about more effective engagement, capability building and collaboration with suppliers, to bring lasting improvements in their corporate citizenship performance. • Our third party management process is deployed in 212 different locations with an established organization of 210+ associates to actively support these efforts within our supply chain of circa 200 000 suppliers. • Third party code of conduct is communicated to all class 1 suppliers (professional services, market research, etc.) to promote the Novartis and UN Global Compact principles. • Third party compliance assessment through on-site assurance visits for class 3 suppliers (contract manufacturing, waste management, animal testing, etc.) deemed to have a significant influence on Novartis business activities and/or a significant probability of nonconformity to the values of the UN Global Compact.
Results 2011	• Third party management: – Conducted 82 supplier assurance visits in 2011 in countries ranging from Argentina, Brazil and China to Colombia, India, and Mexico. – Received and assessed 75 third party questionnaires. – Held webinars for Novartis third party management associates in APAC, LatAm, Europe and the US.
Targets 2012	• Launch new Responsible Procurement Program to replace the current Third Party Management approach. The Responsible Procurement Program implementation will be supported with a global training program. • Develop first capability-building project with a target group of suppliers.
GRI indicators	• HR1, HR2, HR6, HR7
Additional information	→ http://www.novartis.com/corporate-responsibility/responsible-business-practices/caring-for-our-people/index.shtml → http://www.novartis.com/corporate-responsibility/responsible-business-practices/third-party-management.shtml

Principle 3

Principle 3 - Labor standards: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Commitment and policies	• Code of conduct: "We respect the right of associates to choose to join an association, provided that local law is respected. Novartis engages in constructive dialogue with associates and their representatives." • Corporate citizenship policy: "We believe in constructive dialogue between employer and employees and support the principle of freedom of association." • Corporate citizenship guideline 2 on fair working conditions, point 8 on freedom of association: "Novartis recognizes that each employee has the right to choose whether to join a trade union or employee association. Novartis companies shall give trade unions a fair chance to compete for unionization of employees and shall be comfortable with collective bargaining arrangements, individual arrangements, or a mixture of the two." • Corporate citizenship guideline 5 on third party management, point 6 on freedom of association: "Suppliers shall respect the rights of workers, as set forth in local laws, to associate freely, join or not join labor unions, seek representation and join workers' councils. Workers shall be able to communicate openly with management regarding working conditions without threat of reprisal, intimidation or harassment."
Projects and activities	• Novartis Euroforum (NEF) is a consultation body consisting of approximately 45 employee representatives from Novartis Group companies in the EU and Switzerland. NEF represents approximately 52,000 employees and ensures formal consultation with elected employee representatives before decisions are taken. Frequent meetings are held to ensure ongoing, structured dialogue between Novartis top management and employee representatives about key initiatives and projects affecting Novartis' associates. • Continue to raise awareness among employees on freedom of association (as a part of our corporate citizenship commitment). • Continue reporting on corporate citizenship aspects related to human resources.
Results 2011	• Approximately 60% of Group company associates worldwide are represented by a trade union or covered by a collective bargaining agreement. • Approximately 45% of associates are represented by internal personnel organizations. • Approximately 15% of associates are represented by external personnel organizations (trade unions). • Approximately 100% of associates are explicitly informed about freedom of association. The new Novartis Code of Conduct explicitly states the right of associates to choose to join an association provided local laws are respected. A copy of the new Code of Conduct was handed out to the associates during December 2011.
Targets 2012	• For 2012 workshops and yearly mandatory trainings are foreseen to further enhance knowledge about rights and obligations under the new Novartis Code of Conduct, including the right of association.
GRI indicators	• HR5, LA3, LA4, LA5, LA6
Additional information	→ http://www.novartis.com/corporate-responsibility/resources/index.shtml → http://www.novartis.com/corporate-responsibility/responsible-business-practices/caring-for-our-people/index.shtml

Principle 4

Principle 4 - Labor standards: Businesses should uphold the elimination of all forms of forced and compulsory labor.

Commitment and policies	• Code of conduct: "We protect associates from unfair or unethical working conditions, including bonded, forced or child labor, or any unsafe working conditions." • Corporate citizenship policy: "We do not tolerate forced labor and other forms of exploitational labor." • Corporate citizenship guideline 2 on fair working conditions, point 9 on forced, compulsory and bonded labor: "Novartis will not engage in forced, compulsory or bonded labor." • Corporate citizenship guideline 5 on third party management, point 10 on labor: "Suppliers shall not use forced, bonded or indentured labor or involuntary prison labor. "
Projects and activities	• Monitor adherence to labor standards within our operations. • Monitor adherence to labor standards within our supply chain (through assurance visits).
Results 2011	• No forced and no compulsory labor found. • No Novartis Group company associates were found below 18 who were not part of a regulated training scheme.
Targets 2012	• Continue to monitor human rights compliance within our operations and supply chain.
GRI indicators	• HR7
Additional information	↦ http://www.novartis.com/corporate-responsibility/resources/index.shtml ↦ http://www.novartis.com/corporate-responsibility/responsible-business-practices/caring-for-our-people/index.shtml

Principle 5

Principle 5 - Labor standards: Businesses should uphold the effective abolition of child labor.

Commitment and policies	• Code of conduct: "We protect associates from unfair or unethical working conditions, including bonded, forced or child labor, or any unsafe working conditions." • Corporate citizenship policy: "We support programs to abolish child labor in a manner consistent with the basic interests of the child." • Corporate citizenship guideline 2 on fair working conditions, point 10 on child labor: "Novartis will not use child labor." • Corporate citizenship guideline 5 on third party management, point 10 on labor: "Suppliers shall not use child labor."
Projects and activities	• Monitor adherence to labor standards within our operations. • Monitor adherence to labor standards within our supply chain (through assurance visits).
Results 2011	• No Novartis Group company associates were found below 18 who were not part of a regulated training scheme.
Targets 2012	• Continue to monitor human rights compliance within our operations and supply chain.
GRI indicators	• HR6
Additional information	|→ http://www.novartis.com/corporate-responsibility/resources/index.shtml |→ http://www.novartis.com/corporate-responsibility/responsible-business-practices/caring-for-our-people/index.shtml

Principle 6

Principle 6 - Labor standards: Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Commitment and policies	• Code of conduct: "We treat our associates fairly, equally and respectfully. We expect associates to demonstrate respect toward each other and we do not tolerate any form of harassment or discrimination." • Corporate citizenship policy: "The Novartis core values are based on the fundamental rights of every individual […], such as nondiscrimination […]. We base our human resources policies and practices on fairness […]." • Corporate citizenship guideline 2 on fair working conditions, point 11 on non discrimination: "Novartis will not tolerate discrimination based on personal characteristics that are not inherently relevant to the performance of a job. Such characteristics include race, color, sex, religion, political opinion, national extraction or social origin or any other characteristic protected under local law. […] Each Novartis company shall ensure equitable treatment among its employees in terms of basic employment terms, advancement possibilities, paid holidays granted, occupational safety and health, access to training and vocational guidance, and all other material terms and conditions of employment." • Corporate citizenship guideline 5 on third party management, point 10 on labor: "Suppliers shall provide a workplace free of harassment and discrimination. Discrimination for reasons such as race, color, age, gender, sexual orientation, ethnicity, disability, religion, political affiliation, union membership or marital status is not condoned."
Projects and activities	• Systematic monitoring of D&I KPIs. • Cross-divisional "Best-Talent" initiative to emphasize integrity and leadership standards for internal and external hires. • Group-wide Diversity and Inclusion (D&I) strategy to promote greater diversity of talent, inclusion, engagement, innovation and customer/patient focus throughout the organization. • Expand diverse talent recruitment programs. • Pursue initiatives where Novartis divisions are linking Diversity and Inclusion (D&I) to innovation, teamwork, patients, talent development and succession management. • Diversity and Inclusion Advisory Council (DIAC), created in 2006, comprises external experts who advise Novartis on the development and implementation of diversity and inclusion strategies and practices. The DIAC meets semiannually with Novartis leaders to support and challenge the company's progress. The DIAC also holds open meetings with associates. • Conduct the Global Employee Survey and implement outcomes related to employee engagement from survey results. • Input into European Commission activities including the European platform for national diversity charters and co-lead the first-ever European Diversity Benchmark pilot. • Implement broad set of actions, including additional whistle blowing line in Novartis Pharmaceutical Corporation Sales department, as a result of the "Velez vs. Novartis Pharmaceutical Corporation USA" case. • Continue global and country mentoring programs to support D&I. • Continue inclusive leadership programs and female leadership programs across divisions. • Participate in UN Women & UNGC events in Switzerland and in the US. • Integrate D&I into research, development and commercial processes and strategies • Continue to build science and leadership capabilities in emerging markets
Results 2011	• The proportion of women in management (local definitions and job grades) is 36% (from 28% in 2005).

	• The proportion of women in the top two job bands (Global Job Family Architecture 1 and 2) is respectively 27% and 29%.
	• The Corporate Executive Group (CEG) of Novartis – representing approximately the 300 most senior executives of Novartis Group companies – includes at least 29 nationalities. The proportion of women at CEG level is 19% (from 10% in 2005), and in the largest Novartis Division (Pharmaceuticals), this proportion amounts to 23%.
	• Developed and implemented commercial practices within some Sales and Marketing teams.
	• Group Companies enriched female talent pipeline through selection and development of high potential female employees during the systematic yearly Organization and Talent Review Process.
	• Implemented range of female leadership development programs in many divisions:
	  – Pharmaceuticals Executive Female Leadership Development Program held for the second year. 50% of first cohort participants have had role change or promotion.
	  – Oncology launched female-focused leadership program for early talent.
	  – Vaccines & Diagnostics ran two cycles of Women's Integrated Learning & Leadership program.
	  – Women@Sandoz Summit held.
	• Increased focus on Life-Work Integration implementation.
	• Enhanced D&I Strategic Council to develop a comprehensive, global strategy which addresses business needs within the Novartis Group.
	• Increased D&I resources and most divisions now have dedicated D&I leaders.
	• Continued mandatory training/e-learning for managers/associates to improve quality of performance management discussions.
	• Novartis became a signatory to the Women Empowerment principles with UNIFEM.
	• Piloted cross divisional (NIBR and Pharmaceuticals Development) scientific capability development program targeting diverse talent in emerging countries.
	• Expanded inclusive leadership and behavior training.
	• Established divisional scorecards and integrated D&I into more business processes.
	• Introduced a parenting program in Switzerland, based on similar programs run in the Pharmaceuticals Division.
	• Expanded Employee Resource Groups beyond the US with a focus on generations, cultures and disabilities.

Targets 2012	• Further monitor relevant KPIs • Focus on embedding inclusive behaviors • Further integrate D&I into business processes • Implement aligned group and divisional D&I strategy actions
GRI indicators	• EC5, EC6, HR4, LA10, LA11, LA12, LA13, LA14
Additional information	→ http://www.novartis.com/corporate-responsibility/responsible-business-practices/caring-for-our-people/diversity-and-inclusion.shtml

Principle 7

Principle 7 - Environment: Businesses should support a precautionary approach to environmental challenges.

Commitment and policies	• Code of conduct: "We systematically identify and manage health, safety and environmental risks in our activities and over the entire value chain of our products and services." • Corporate citizenship policy: "We take a precautionary approach in the innovation and development of new products and technologies. To this end, we follow a step-by-step approach, we engage in scientific peer review, and we consider benefits and risks of innovation in a scientific and transparent manner." • Novartis position on precautionary principle: "The company applies the precautionary approach wherever a significant threshold of plausibility for a potential risk is reached and when science does not give a clear-cut answer on that potential risk. […] When an activity or a product poses a threat of serious or irreversible damage to the environment, precautionary measures are considered even if cause-effect relationships are not fully established scientifically. However, the precautionary approach needs to remain science-based in order to ensure continued innovation." • HSE guidelines: HSE management (#1); emergency management (#2); HSE risk management (#3); biosafety (#4); warehousing (#6); waste management (#7); contaminated site management (#10); transportation (#11); energy management (#13); energy standards for buildings and equipment (#14). • HSE guidance notes: risk management (8 GNs), biosafety (7 GNs), warehousing (4 GNs), waste management (2 GNs), contaminated site management (2 GNs), transportation (5 GNs), energy management (4 GNs), energy standards for buildings and equipment (3 GNs).
Projects and activities	• Precautionary approach applied in all operations to minimize environmental impacts (emissions to air and water, waste to landfill, efficient use of water and energy resources). • Novartis Group companies manage risks proactively by implementing appropriate preventive and contingency measures. This risk management process is designed to identify potential hazards and take action to reduce the risk of an event – the likelihood of occurrence and severity of consequences – to an acceptable minimum level. Risk portfolios are elaborated on the sites, consolidated at divisional and corporate levels and reviewed by senior management. • Identifying and managing HSE risks by conducting site analyses and audits by corporate HSE and the HSE organizations of the divisions and businesses. • Business Continuity Management (BCM) efforts on pandemic preparedness (reviewed by a group audit).
Results 2011	• Management of HSE risks – 14 corporate HSE and bio-safety audits and 19 divisional and business audits conducted in 2011. – Good progress was made in 2011, as a significant number of risks could be removed from the 2010 Group Risk Portfolio. – A BC audit of the Sandoz Division Supply Chain was carried out with no critical findings. • HSE training – 6 regional courses on systematic incident investigation were held in Singapore, Sao Paulo (Brazil), Holzkirchen (Germany), Paris (France), Shanghai (China) and Basel (Switzerland), with 134 participants trained. – 4 regional energy workshops were held in Singapore, Marburg (Germany), Sao Paulo (Brazil) and Holly Springs (NC, USA). – 5 process safety courses were held in Mumbai (India), Shanghai

	(China), Sao Paolo (Brazil), Basel (Switzerland) and Horsham (UK), with a total of 110 participants being trained. – 1 Zurich Hazard Analysis workshop was held in Sao Paolo (Brazil) with 22 participants. – 8 training courses on HSE data management and reporting were held in Singapore, Atlanta (USA), Fort Worth (USA) (2), Sao Paulo (Brazil), Mumbai (India) and Basel (Switzerland) (2), with a total of 114 participants being trained. – A web-based training course on HSE data reporting was launched in 2011 and was attended by 24 participants. – 1 new HSE course placed on the Novartis Virtual University, accessible to employees worldwide. • Business Continuity Management (BCM) – 43 corporate Novartis Emergency Management workshops were held in 26 locations in 18 different countries with 691 people trained. – 4 corporate BCM workshops were held in Singapore, Johannesburg (South Africa), Atlanta (USA) and Bangkok (Thailand), with a total of 94 participants trained in aspects of business continuity management.
Targets 2012	• Management of HSE risks – 13 corporate HSE and bio-safety audits and 16 divisional and business unit audits are scheduled for 2012. – Preparation of the annual divisional and corporate risk portfolios and respective risk minimization actions. – A Business Continuity audit of the Vaccines & Diagnostics Division is planned for 2012. • HSE training – 4 environment & energy, 4 process safety, 3 Zurich Hazard Analysis / HazOp, 6 risk portfolio, 6 systematic incident investigation and 10 data management system (DMS) training courses are scheduled. – Novartis Virtual University to be completely relaunched on a more modern IT platform with new courses accessible to employees worldwide. • Business Continuity Management (BCM) – At least 40 corporate Novartis Emergency Management and business continuity management workshops are planned for 2012.
GRI indicators	• 4.11, EC2, EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN11, EN12, EN13, EN14, EN15, EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24, EN25, EN26, EN27, EN28, EN29, EN30
Additional information	http://www.novartis.com/corporate-responsibility/responsible-business-practices/protecting-the-environment/index.shtml

Principle 8

Principle 8 - Environment: Businesses should undertake initiatives to promote greater environmental responsibility.

Commitment and policies	• Code of conduct: "We make efficient use of natural resources and minimize the environmental impact of our activities and products over their life cycle." • Corporate citizenship policy: "We want to be a leader in Health, Safety and Environmental Protection (HSE). […] We strive to make efficient use of natural resources and minimize the environmental impacts of our activities and our products over their life cycle. We assess HSE implications to ensure that the benefits of new products, processes and technologies outweigh remaining risks. We periodically review such assessments in light of new concerns or evidence." • Corporate citizenship guideline 5 on third party management, point 8 on principles and expectations: "Novartis gives preference to third parties that share the societal and environmental values required by the Global Compact." • Corporate citizenship guideline 5 on third party management, point 11 on health and safety: "Suppliers shall provide a safe and healthy working environment, including for any company provided living quarters." • Corporate citizenship guideline 5 on third party management, point 12 on the environment: "Suppliers shall operate in an environmentally responsible and efficient manner and they shall minimize adverse impacts on the environment." • HSE guidelines: HSE & BC management (#1); emergency management (#2); HSE risk management (#3); biosafety (#4); warehousing (#6); waste management (#7); contaminated site management (#10); transportation (#11); energy management (#13); energy standards for buildings and equipment (#14). • HSE guidance notes: risk management (8 GNs), biosafety (7 GNs), warehousing (4 GNs), waste management (2 GNs), contaminated site management (2 GNs), transportation (5 GNs), energy management (4 GNs), energy standards for buildings and equipment (3 GNs).
Projects and activities	• Health – Reducing accidents through behavior-based safety training for associates. – Health Promotion initiatives are being rolled out in all sites to support associates with smoking cessation, hypertension, obesity, vaccinations and cancer prevention. • Resources – Energy efficiency: investment policy, mandatory energy challenges on investments, energy audit programs, energy management structures and processes, regular workshops on energy management, and Novartis Energy Excellence Awards. – Water management: efficiency measures for contact water, promotion of water recycling and water risk assessment at sites with water scarcity. • Environment – GHG emission management (Scope 1 and Scope 2): fuel switch to gas (level of 90% achieved), support of renewable resources (bio-fuels, gas from waste, solar, combined heat and power systems), air conditioning with surface or groundwater water. – Waste management: waste separation and recycling/recovery strategies, segregation of materials in the demolition of old buildings, policy to favor recycling and incineration wherever feasible, and elimination of hazardous waste to landfill. – Management of historic soil and groundwater contaminations based on a cautious science-based approach and in full cooperation with the respective local authorities and governmental agencies.

	– Minimization of Active Pharmaceutical Ingredients (API) effluents to the environment, eco-toxicological testing of drug substances. – Sustainable Packaging initiative to promote material use reduction, avoid use of environmentally-critical materials and establish requirements for suppliers of packaging materials.
Results 2011 (all data excludes Alcon, which is available separately on novartis.com)	• Health – The Lost Time Injury & Illness Rate (LTIR) was further reduced from 0.18 in 2010 to 0.15 per 200 000 hours in 2011. – The Total Recordable Case Rate (TRCR), based on the total number of injuries and illnesses with and without lost time, stands at 0.54 per 200 000 working hours for 2011 (down from 0.73 in 2010). – A uniform and comprehensive health promotion initiative called Be Healthy was rolled out to 76 Novartis Group company sites with more than 300 employees. • Resources – Novartis issued a new target in 2011 to improve energy efficiency by 15% by 2015 based on 2010. Energy efficiency improved by 5.1% in 2011. – Novartis issued a new target in 2011 to improve contact water use efficiency by 4% by 2012 based on 2010. Contact water use efficiency declined by 1.9% in 2011. • Environment – In 2011 Novartis was able to reduce total GHG emissions by 3% despite continuing growth. – Reduction of CO_2 emissions from the company vehicles fleet from 168kt in 2010 to 155kt in 2011. – Carbon-offsetting: ❖ Argentina: Land has been purchased in Argentina for afforestation of pasture land to sequester carbon. Afforestation started in 2007 and was complete by the end of 2009. It covers 2,350 hectares or 70% of the overall purchased land. In 2008, the project received Forest Stewardship Council certification, a quality label on the sustainable (environmental and social) aspects of the forest's management. This label was renewed in 2009 and 2010 and Novartis will seek to maintain this certification in the future. Novartis is working on certification of the CO_2 sequestered as Certified Emission Reduction Units (CERs) by national and international CDM bodies. The carbon sequestration is expected to amount to 100,000 tons of CO_2-equivalent by 2012 and up to 3 million tons by 2040. The project has been registered by the UN Framework Convention on Climate Change in November 2010 and issuance of first credits is expected for 2013. ❖ Mali: A second carbon-offset project sponsored by Novartis is a jatropha plantation and bio-fuels project in Mali, West Africa. The seeds of this shrub can be used for pressing oil, making bio-fuel for rural electrification or producing a natural fertilizer from the residues. Since 2007, approximately 5,200 hectares of jatropha were planted by more than 5,000 local farmers in numerous communities of three districts in south-western Mali. In 2011, harvest from these plantations was transformed into jatropha oil used for application of rural electricity generation and soap manufacturing. ❖ China: A third carbon-offset project was started in Sichuan, China, to afforest 3,800 hectares of mountainous land with about 10 million trees of native species. In 2011, the first 507 hectares were planted and validation as a UNFCCC CDM project was initiated. In addition to carbon sequestration, the project will protect the land from soil erosion, landslides and flooding and provide labor and income (from wood and non-wood products) to local communities. The project will also enhance biodiversity as natural forests will help to re-establish habitat for a variety of plants and animals.

	– Novartis achieved a further reduction in emissions of non-halogenated VOCs in 2011 to 1,050 tons, from 1,277t in 2010. – Emissions of halogenated VOCs decreased to 136t in 2011 from 244t in 2010. – Hazardous operational waste disposed in landfills decreased from 2.t in 2010 to less than 1t in 2011. Novartis has eliminated disposing of non-inert hazardous waste to landfills and this small quantity represents non-organic ash waste from an onsite incinerator.
Targets 2012	• Health – Sustain 2011 LTIR performance of Novartis Group without former Alcon and improve Alcon performance by 13% based on 2011. The LTIR target for 2012 is 0.19 including Alcon. – Reduce TRCR of Novartis Group without former Alcon by 5% and improve Alcon performance by 7%.based on 2011. – Continue the roll-out of the Be Healthy initiative to an additional 100 sites with more than 100 employees in 2012. • Resources – Improve energy efficiency by a further 15% by end 2015, based on 2010. – Improve water efficiency by a further 4% by end 2012, based on 2010. • Environment – Improve Halogenated VOC emissions by 15% by end 2012, based on 2008. – Improve by Non-Halogenated VOC emission by 15% by end 2012, based on 2008. – Decrease Scope 1 GHG emission from onsite operations 5% below 1990 level of 308 kilotons by 2012, including carbon offsets. – Decrease total GHG emissions by 15% by 2015 and 20% by 2020 including carbon offsets, based on 2008 levels. – Improve efficiency of hazardous waste not recycled by 10% by 2012, based on 2008. – Improve efficiency of non-hazardous waste not recycled by 20% by 2012, based on 2008.
GRI indicators	• EC2, EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN11, EN12, EN13, EN14, EN15, EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24, EN25, EN26, EN27, EN28, EN29, EN30, LA6, LA7, LA8, LA9, PR1, PR2
Additional information	→ http://www.novartis.com/corporate-responsibility/responsible-business-practices/protecting-the-environment/index.shtml → http://unfccc.int/2860.php

Principle 9

Principle 9 - Environment: Businesses should encourage the development and diffusion of environmentally friendly technologies.

Commitment and policies	• Corporate citizenship policy: "We strive to make efficient use of natural resources and minimize the environmental impacts of our activities and our products over their life cycle. We assess HSE implications to ensure that the benefits of new products, processes and technologies outweigh remaining risks." • Corporate citizenship policy: "We give priority to business partners, suppliers and contractors who share our societal and environmental values, and we support their efforts to promote these values through their business activities." • Corporate citizenship guideline 5 on third party management, point 21 on improvement programs and special support: "In cases where the results of the assurance visits and inquiries are unsatisfactory, Novartis may assist the Third Party in developing an improvement program designed to raise the level of compliance with the Third Party Code of Conduct."
Projects and activities	• Technology for best renewable/alternative energy use is one of the four criteria used to identify projects in the annual Novartis Energy Excellence Awards. • Research initiatives to generate essential know-how on the effects of pharmaceuticals in the environment (PiE). • Research collaborations between academia, regulators and industry, aiming at a more targeted and efficient environmental risk assessment for human pharmaceuticals. • Building construction contractors (Campus Basel): requirements on materials, energy management, waste separation, etc.
Results 2011	• Annual Energy Excellence Awards recognize outstanding examples of energy management and reductions of GHG emissions across the Novartis Group. To date, the 124 projects submitted to the 2011 awards program (57 of them already implemented) have achieved annual energy cost savings of more than USD 11 million. The achieved savings (USD 11 million) are equivalent to 3% of Novartis total energy costs for 2010. Many projects demonstrate very short payback periods. For two-thirds of the projects, it is less than two years and for 40%, it is one year or less. The annual energy savings from completed projects amount to 600 TJ — more than 3% of the company's 2010 energy consumption. Respective GHG emission reductions will add up to 45kt. • The release rate of our priority Active Pharmaceutical Ingredients (API) from the Pharmaceuticals Division with waste water streams has been reduced to less than 1.9t (or below 0.05%) of the total API production volume.
Targets 2012	• Energy Excellence Awards in energy efficiency and GHG emission reduction will continue in 2012. • With relaxed investment rules and promotional and educational activities, Novartis supports the achievement of increasing energy excellence and use of renewable energy in its facilities worldwide. • Eco-toxicity testing, effluent monitoring and research activities in relation to pharmaceuticals in the environment are ongoing.
GRI indicators	• EC2, EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN11, EN12, EN13, EN14, EN15, EN16, EN17, EN18, EN19, EN20, EN21, EN22, EN23, EN24, EN25, EN26, EN27, EN28, EN29, EN30
Additional information	→ http://www.novartis.com/corporate-responsibility/responsible-business-practices/protecting-the-environment/index.shtml

Principle 10

Principle 10 - Anti-corruption: Businesses should work against corruption in all its forms, including extortion and bribery.

Commitment and policies	• Code of conduct: "We do not tolerate any form of bribery or corruption. We do not bribe any public official or private person and we do not accept any bribes." • Corporate citizenship guideline 3 on business ethics – bribes, gifts and entertainments. "Novartis will not engage in any form of bribery. In plain language bribery means money or favor given or promised in order to influence the judgment or conduct of a private person or public official in a position of trust. " "All associates and managers of Novartis and its affiliates ("Novartis") shall at all times comply with the law. They have the duty to inform themselves about the national and international laws relating to their business activities. Activities that would violate local or international criminal law may under no circumstances be carried out even if they may seem permissible under this policy." • Promotional codes established for each Novartis division. The intent behind the codes is to secure the credibility and integrity of Novartis in worldwide healthcare by ensuring that promotion to healthcare professionals and the general public is conducted in an ethical and balanced manner, supported by accurate and relevant information and in accordance with local regulations. • Code of conduct, section 5: Conflict of Interest: "Business transactions must be conducted with the best interests of Novartis in mind. Nobody, whether an individual, a commercial entity, or a company with a relationship to a Novartis employee, may improperly benefit from Novartis through his or her relationship with the employee or as a result of the employee's position in the company. Furthermore, no employee may personally benefit in an improper way. Situations which may cause conflict between an employee's responsibilities towards Novartis and his or her personal interests should be avoided." • Conflict of Interest policy dealing with giving and receiving gifts. "An Associate's personal interests should never influence his/her business judgment or decision-making on behalf of Novartis. Novartis fully respects the Associates' private life, but expects Associates to avoid situations that could result in a conflict between their personal interests and those of the company. The Conflicts of Interest Policy provides rules on how to avoid or handle such conflicts." • Provision in employment contracts: "The Code of Conduct, the Novartis Group Conflicts of Interest Policy, the Guidelines on Reporting Violations of Law and Policies and all other Novartis policies, procedures, guidelines and other such items applicable to your work are to be adhered to by you and you are aware that a violation of such policies could lead to disciplinary actions up to and including termination of the employment."
Projects and activities	• Review the Group policy framework and compliance organization to: – improve the current group policy framework, including Code of Conduct and its governance to reflect best practice – establish key strategies to further improve integration of integrity and compliance with business practices – align the current organization and resources with the increased requirements of an effective integrity and compliance program • Managing inquiries and complaints (through the Business Practices Office, BPO, charged with receiving and investigating misconduct cases worldwide).
Results 2011	• Revision of Code of Conduct and development of a global roll-out plan embedding it into the business via the divisions (launched in January 2012).

	• A simplified Policy Architecture was developed, setting clear ownership, quality standards and approval processes for Global Policies. • Strengthened cross-divisional organizational cooperation through the Global Compliance Leadership Team and the introduction of a Country Compliance Head role. • Continued implementation of an Integrity and Compliance Program throughout the Novartis Group. • 14 419 Novartis associates trained on Code of Conduct via e-learning courses. Numbers include new Novartis associates and those not previously trained, as well as certain third-parties who work for Novartis. • 33 080 associates completed certification on Code of Conduct. • In 2011, the BPO received 1522 complaints that became investigations. To date, 1253 of those complaints have been fully investigated and 827 fully or partially substantiated. Employment contracts of 439 associates were discontinued while 569 warning letters were issued and appropriate training undertaken to improve behavior. • The new Novartis Animal Welfare Standard and the Standards Document were approved and implemented. • An Animal Welfare Forum was held in Cambridge where the Global 3Rs Award was awarded. • A process was initiated to introduce all new employees to Novartis Animal Welfare Policy and activities at the welcome day. • Conducted 75 animal welfare audits of partners globally.
Targets 2012	• Continue to focus on the robust implementation of our Integrity and Compliance Program throughout the Novartis Group, in close collaboration with other functions and the business. • Initiate the upgrade of our Global Policies. • Upgrade our anti-bribery compliance program. • Improve our on-line compliance trainings. • Increase best practice sharing and co-coordination of compliance activities across divisions at local level. • Strengthen compliance self-monitoring processes and awareness within divisions and business units in the countries. • Promote and monitor best animal welfare practices and compliance internally and at third party providers, based on the Novartis Animal Welfare Policy, Standards and Standard Operating Procedures. • Continuous risk assessment of internal animal experiments and third party providers. • Integration of Alcon into the Global Novartis Animal Welfare Organization.
GRI indicators	• 4.3, 4.6, 4.8, PR6, PR7, PR8, PR9, SO2, SO3, SO4, SO7, SO8
Additional information	→ http://www.novartis.com/corporate-responsibility/responsible-business-practices/ethics-governance-and-compliance/index.shtml → www.celc.executiveboard.com → www.ifpma.org → www.oecd.org → www.iccwbo.org/policy/anticorruption/

Annex 2: Overview of Novartis activities toward the MDGs

[Achieving the UN Millennium Development Goals: The contribution of Novartis](), pages 12-13

The Millennium Development Goals

Improving access to healthcare (p. 28)

The Millennium Development Goals	Access to primary healthcare services in rural Mali	Access to effective malaria treatment in Tanzania	Patient-centered treatment of tuberculosis in Tanzania
1 ERADICATE EXTREME POVERTY AND HUNGER	Income-generating activities for rural communities, such as jatropha cultivation, poultry and milk production; income-generating activities for women's groups; and measures against malnutrition in children	Income-generating activities for women's groups	
2 ACHIEVE UNIVERSAL PRIMARY EDUCATION			
3 PROMOTE GENDER EQUALITY AND EMPOWER WOMEN	Loans for women's groups; training women as village health workers to conduct health education campaigns	Grants for women's groups; training women as village health-workers to conduct health education campaigns	
4 REDUCE CHILD MORTALITY	Child vaccination, village-based preventive and curative services; quality of care improvement (incl. child health); health insurance protection; and measures against malnutrition in children	Training of healthcare personnel in Integrated Management of Childhood Illnesses (IMCI); social marketing campaigns in schools on malaria; quality of care improvement (incl. child health); and health insurance protection	
5 IMPROVE MATERNAL HEALTH	Quality of care improvement (incl. maternal health); health insurance protection; prenatal consultation; and village-based preventive and curative services	Sensitization for women in ante- and postnatal care and use of bed nets; quality of care improvement (incl. maternal health); attended deliveries; and health insurance protection	
6 COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES	Improvement of access to healthcare; health insurance protection; and village-based preventive and curative services	Training on malaria case management; introduction of Rapid Diagnostic Test for malaria; introduction of Coartem® in ADDOs; social marketing campaigns on malaria; and health insurance protection	Introduction of Patient-Centered TB Treatment approach; social marketing campaigns on TB
7 ENSURE ENVIRONMENTAL SUSTAINABILITY	Installation of incinerators in health centers; contribution to carbon sequestration and reforestation through jatropha plantations	Installation of placenta pits in health facilities	
8 A GLOBAL PARTNERSHIP FOR DEVELOPMENT	Collaboration with regional and district authorities for health and social development, Union Technique de la Mutualité Malienne (UTM), and Institut National de Recherche en Santé Publique (INSP)	Collaboration with Ifakara Health Institute (IHI), regional and district health authorities and Swiss Tropical and Public Health Institute (Swiss TPH)	Collaboration with Tanzanian National TB and Leprosy Programme, Ifakara Health Institute (IHI), KNCV (Tuberculosis Foundation), and National Institute for Medical Research (NIMR)

Strengthening human resources in healthcare (p. 30)

The Millennium Development Goals	ICATT: e-learning program for health professionals in developing countries	Tanzanian Training Centre for International Health	Telemedicine project in Ghana
1 ERADICATE EXTREME POVERTY AND HUNGER			
2 ACHIEVE UNIVERSAL PRIMARY EDUCATION			
3 PROMOTE GENDER EQUALITY AND EMPOWER WOMEN			
4 REDUCE CHILD MORTALITY	Innovative e-learning tool for training in Management of Childhood Illnesses (IMCI)	Various training courses in childhood illnesses for non-physician clinicians	Improving quality of healthcare through teleconsultation (incl. child health)
5 IMPROVE MATERNAL HEALTH	ICATT is being further developed for training in maternal health	Various training courses in maternal health for non-physician clinicians	Improving quality of healthcare through teleconsultation (incl. maternal health)
6 COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES	ICATT contains training modules on common childhood illnesses (incl. malaria)	Training of non-physician clinicians in most common diseases (incl. HIV/AIDS, malaria, TB)	Improving quality of healthcare through teleconsultation (incl. HIV/AIDS, malaria, TB)
7 ENSURE ENVIRONMENTAL SUSTAINABILITY			
8 A GLOBAL PARTNERSHIP FOR DEVELOPMENT	Collaboration with World Health Organization (WHO), Sirius Technologies, and Tanzanian Training Centre for International Health (TTCIH)	Collaboration with Swiss Tropical and Public Health Institute (Swiss TPH) and Tanzanian Ministry of Health and Social Welfare	Collaboration with Millennium Villages Project (MVP), Digital Health Initiative (as co-chair), and Broadband Commission (as member)

Empowering vulnerable groups (p. 32)

The Millennium Development Goals	REPSSI: psychosocial support of AIDS orphans	Leprosy care in India
1 ERADICATE EXTREME POVERTY AND HUNGER	Income-generating activities and cash support for meals, mainly for orphans; community savings and loan programs to improve farming yields	Help people affected by leprosy integrate back into society through disability care, rehabilitation and reconstructive surgery
2 ACHIEVE UNIVERSAL PRIMARY EDUCATION	Supporting orphans to remain in school	
3 PROMOTE GENDER EQUALITY AND EMPOWER WOMEN	Multiple project components promoting women's empowerment	
4 REDUCE CHILD MORTALITY	Support material to improve adherence to antiretroviral therapy, reducing mother-to-child transmission of HIV/AIDS	
5 IMPROVE MATERNAL HEALTH	Support material to improve adherence to antiretroviral therapy; psychosocial support to destigmatize HIV/AIDS	
6 COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES	Psychosocial support and advocacy for children and orphans affected by HIV/AIDS; prevention, treatment and care of HIV/AIDS promoted across all activities and publications	Integrated leprosy care, incl. improvement of access to treatment, disability care, rehabilitation and reconstructive surgery, as well as training of health and social workers
7 ENSURE ENVIRONMENTAL SUSTAINABILITY		
8 A GLOBAL PARTNERSHIP FOR DEVELOPMENT	Collaboration with international organizations such as UNICEF and UNAIDS; the Swiss and Swedish Development Agencies; as well as over 140 NGOs and community organizations	Collaboration with state and district health authorities in India

Joining forces for the MDGs

The Millennium Development Goals	Millennium Villages Project
1 ERADICATE EXTREME POVERTY AND HUNGER	Increasing production of staple food crop; credits and loans for seeds; crop diversification; and school meals coverage
2 ACHIEVE UNIVERSAL PRIMARY EDUCATION	School infrastructure; teacher training and capacity-building; school meals coverage
3 PROMOTE GENDER EQUALITY AND EMPOWER WOMEN	Women's participation; business cooperatives for women; and increasing school enrollment for girls
4 REDUCE CHILD MORTALITY	Improving access to healthcare (incl. for children)
5 IMPROVE MATERNAL HEALTH	Improving access to healthcare (incl. for women)
6 COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES	Improving access to healthcare (incl. for HIV/AIDS, malaria, and TB); donation of Coartem® for treatment against malaria to all MVP sites
7 ENSURE ENVIRONMENTAL SUSTAINABILITY	Tree nurseries, rebuilding soil fertility and erosion control for crop areas
8 A GLOBAL PARTNERSHIP FOR DEVELOPMENT	Collaboration with Millennium Villages Project (MVP); United Nations Development Programme (UNDP); and Millennium Promise

Achieving the UN Millennium Development Goals: The contribution of Novartis, pages 26-27

	Initiative	MDG 4: Reduce child mortality
Pioneering research and products	**Pediatric policy**	Systematically evaluate medical need and potential therapeutic use in children for all drug development projects; develop age-appropriate pediatric formulations; completed and continuing Pediatric Drug Development programs in several therapeutic areas
	NITD malaria research	Discovered new class of compounds, spiroindolones, to fight malaria parasites
	NVGH vaccine against salmonella	Developing cost-effective pediatric conjugate vaccine for Salmonella Typhi to combat typhoid; currently in phase two of clinical testing
	DTPw, hepatitis B and Hib combination vaccine	Produce single vaccine against five deadly childhood diseases
	Haemophilus influenzae type b vaccine	Produce pediatric vaccine to prevent pneumonia, meningococcal disease and other invasive diseases in children
	Live poliovirus vaccine	Produce poliovirus vaccine, a key tool in the WHO's Eradication Initiative to eliminate the spread of the polio virus
	Menveo® and Bexsero®	Develop two pediatric meningococcal disease vaccines
	Pipeline priorities	Researching pediatric formulation of acellular pertussis combinations and vaccine against respiratory syncytial virus
Improving access to healthcare	**Malaria Initiative (including SMS for Life program)**	Supply first pediatric formulation against malaria not-for-profit for public health-sector use; manage antimalarial stock levels to improve access to antimalarial treatments
	ACCESS project (Tanzania)	Train healthcare personnel in Integrated Management of Childhood Illnesses (IMCI); provide education campaigns in schools on malaria; quality-of-care improvement (including child health); health insurance protection plans
	Initiative Accès (Mali)	Promote child vaccination; village-based preventative and curative services; quality-of-care improvement (including child health); health insurance protection; measures against malnutrition in children
	Millennium Villages Project	Improving access to healthcare (including for children)
	Arogya Parivar	Provide access to ORS formulations against diarrhea; implemented Embrace infant baby warmer pilot; offer health education (including child health)
Strengthening healthcare systems	**ICATT e-learning program**	Developed innovative e-learning tool for training in Integrated Management of Childhood Illnesses (IMCI)
	Telemedicine in Ghana	Improve quality of healthcare through teleconsultation (including child health)
	Tanzanian Training Centre for International Health	Offer various training courses in childhood illnesses; center specializes in children's health; recruited new tutors with specializations including pediatrics
	Supporting Tiny Hearts (Finland)	Improved access to pediatric cardiovascular healthcare infrastructure
Empowering vulnerable groups	**REPSSI – Regional Psychosocial Support Initiative for AIDS orphans**	Offer support material to improve adherence to antiretroviral therapy, reducing mother-to-child transmission of HIV/AIDS; psychosocial support and advocacy for children affected by HIV/AIDS
	Leprosy care in India	
	Birth control and pregnancy education program (Venezuela)	
	Más Tiempo para Ti (Mexico)	
	Caring for those who Care (Argentina)	

The Novartis commitment to women's and children's health The contribution of Novartis to achieving the UN Millennium Development Goals, page 4

MDG 5: Improve maternal health
Discovered new class of compounds, spiroindolones, to fight malaria parasites
Researching group B Streptococcus vaccine for pregnant women
Evaluate efficacy and safety of artemisinin-based combination therapies for pregnant women; manage antimalarial stock levels to improve access to antimalarial treatments
Sensitize women in ante- and postnatal care and use of bed nets; quality-of-care improvement (including maternal health); attended deliveries; health insurance protection plans
Provide prenatal consultations; village-based preventative and curative services; quality-of-care improvement (including maternal health); health insurance protection
Improving access to healthcare (including for women)
Provide access to products such as calcium and nutritional supplements necessary during pregnancy; offer health education (including maternal health)
Developing Integrated Management of Pregnancy and Childbirth Training Tool (IMPACTT)
Improve quality of healthcare through teleconsultation (including maternal health)
Offer various training courses in maternal health; center specializes in maternal health; recruited new tutors with specializations including gynecology
Offer support material to improve adherence to antiretroviral therapy; psychosocial support to destigmatize HIV/AIDS; promote prevention, treatment and care of HIV/AIDS across all activities and publications
Integrated leprosy care, including better access to treatment, disability care, rehabilitation and reconstructive surgery; train health workers
Provided educational resources to address contraceptive care, antenatal care, and adolescent birth rate
Supply Information and tools for women with osteoporosis
Offer educational and emotional support for caregivers

The Novartis commitment to women's and children's health The contribution of Novartis to achieving the UN Millennium Development Goals, page 5

Annex 3: Example of Novartis contribution to major Global Compact themes: "Corporate Responsibility Leadership and Corporate Philanthropy"

Corporate Responsibility Leadership and Corporate Philanthropy

Klaus M. Leisinger*

Introduction

Corporate activities to promote human welfare and increase a company's positive impact on society beyond its direct business sphere have been regarded by academia[1] and enlightened firms[2] as an integral part of corporate social responsibility for several decades. The "UN Global Compact: Blueprint for Corporate Sustainability Leadership" also expands on the 10 principles-based corporate responsibility concept by requesting companies to also take "action in support of broader UN Goals and Issues".[3] Companies are encouraged "to undertake more outward-oriented actions to increase their positive impacts in society"[4] and

- Pursue social investments and philanthropic contributions that tie in with the core competencies or operating context of the company as an integrated part of its sustainability strategy;
- Coordinate efforts with other organizations and initiatives to amplify – and not negate or unnecessarily duplicate – the efforts of other contributors;
- Take responsibility for the intentional and unintentional effects of funding and have due regard for local customs, traditions, religions and priorities or pertinent individuals and groups, and
- Strive for partnerships with UN entities, governments, NGOs and industry peers.

There are many different ways and means for companies to create value for society in addition to the positive externalities created by normal business activities – and there are many different potential beneficiaries to create value for and many different aims to be supported, including the achievement of broader UN goals. All such activities can increase corporate impact in society; all of them can make companies "part of the solution" in a wider sense – all of them are therefore desirable.

The approaches explicitly recommended by the Global Compact are "strategic social investments" and "corporate philanthropy";[5] these are two broad concepts which companies can apply according to the specificities of their business model, corporate culture and top management's value framework. As on the one hand, both of them have their value and in many cases, there is a continuum between the two types of engagement, they should not

* Klaus M. Leisinger is President and Managing Director of the Novartis Foundation for Sustainable Development (www.novartisfoundation.org) and Professor of Sociology at the University of Basel (subject areas: business ethics, corporate responsibility, development policy);

1 See Carroll A.B.: A Three-Dimensional Conceptual Model of Corporate Social Performance. In: Academy of Management Review. Vol. 4 (1979) No. 4, pp. 497-505; also: The Pyramid of Corporate Social Responsibility: Towards the Moral Management of Organizational Stakeholders. In: Business Horizons (Elsevier), July-August 1991, pp. 39-48;

2 The Novartis Foundation for Sustainable Development (www.novartisfoundation.org) was founded by the Novartis predecessor company Ciba-Geigy in 1979;

3 Referring to an "array of global issues – based on the most acute or chronic global challenges – including Peace & Security; the Millennium Development Goals; Human Rights; Children's Rights; Gender Equality; Health; Education; Humanitarian Assistance; Migration; Food Security; Sustainable Eco-Systems and Biodiversity, Climate Change Mitigation and Adaptation; Water Security and Sanitation; Employment and Decent Work Conditions; and Anti-corruption." See UN Global Compact: Blueprint for Corporate Sustainability Leadership, New York 2010, p. 4.;

4 *Ibid.*, p. 7;

5 Other approaches such as "social enterprises" are therefore not discussed here, despite being perceived as having huge potential to create social value and stronger societies in which communities and citizens have more power to shape their lives and determine their destinies; see HM Government: Growing the Social Investment Market. A Vision and Strategy. London (Cabinet Office) 2011;

be seen as Manichean "either/or" propositions. On the other hand, there *are* important conceptual and motivational differences between the two, certainly with regard to their pure manifestations at the two ends of the spectrum.

As the content, structure, expected deliverables and target population of diverse concepts are likely to vary due to the differences between the motivational structure and corporate expectations behind them, there is a need for semantic distinctness and conceptual clarity. Semantic distinctness and conceptual clarity also form the precondition for corporate management to make the right choices as to whether something should be done at all and, if yes, for whom and in what form. In addition, honesty and transparency regarding motivation and purpose are necessary to manage expectations and to avoid misperceptions of potential partners from civil society.[6]

Corporate philanthropy – a multi-faceted concept

"Corporate philanthropy" is an umbrella term for a variety of forms and content based on a range of motivations and expectations. As with the expression "corporate social responsibility"[7] different definitions of corporate philanthropy reflect different values, interests and mindsets, and alternative approaches are based on different perceptions shaped by varying cultural and contextual factors and professional backgrounds. This pluralism of understanding of one and the same term creates confusion and makes comparisons difficult.

For most members of civil society, the term "philanthropy" triggers humanitarian, altruistic, pro-poor associations. "Strategic corporate philanthropy" let alone "strategic social investments" as understood by their proponents are driven by the primary purpose of benefiting the corporate bottom-line by developing future markets or making the supply chain more efficient; such aims are usually not part of civil society's association with the term philanthropy, neither are cause-related marketing[8] or sponsorship. I therefore propose to differentiate between three concepts: corporate philanthropy, strategic corporate philanthropy and strategic social investments.

Corporate philanthropy

In its original, *altruistic* meaning, philanthropy (*phil-anthropos*) by corporate citizens describes voluntary, active and non-reciprocal efforts (of a financial, organizational, human resources or other kind) with the purpose of benefiting human beings or fulfilling an under-served social need, regardless of any specific "return on investment" for the donor. Corporate philanthropy of this kind is needs-oriented and falls into Archie Carroll's category "purely ethical" because it is not based on economic, legal or political

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6 Some civil society representatives see corporate social responsibility in general as an "invention of PR"; see Frankental P.: Corporate Social Responsibility – A PR Invention? In: Corporate Communications: An International Journal Vol. 6 (2001), No.1, pp. 18-23;

7 Archie Carroll had already reviewed more than 25 different conceptual approaches in 1999. Ten years later, Alexander Dahlsrud was already referring to 37 definitions. See Carroll A.B.: Corporate Social Responsibility: Evolution of a Definitional Construct. In: Business and Society Vol. 38 (1999) No.3, pp. 268-295; see also Dahlsrud A.: How Corporate Social Responsibility is Defined: An Analysis of 37 Definitions. In: Corporate Social Responsibility and Environmental Management Vol. 15 (2008) pp. 1-13. Dahlsrud, however, finds that despite the different terminology applied, the definitions congruently refer to five dimensions – environmental, social, economic, stakeholder and voluntariness – making the lack of one universally accepted definition less problematic than it might seem at first glance; See also Freeman I. / Hasnaoui A.: The Meaning of Corporate Social Responsibility: The Vision of Four Nations. In Journal of Business Ethics Vol. 100 (2011) pp. 419-443;

8 Defined as "the process of formulating and implementing marketing activities that are characterized by an offer from the firm to contribute a specified amount to a designated cause when customers engage in revenue-providing exchanges that satisfy organizational and individual objectives." See Varadarajan P.R. / Menon A.: Cause-Related Marketing: A Coalignment of Marketing Strategy and Corporate Philanthropy. In: Journal of Marketing Vol.52 (July 1988) p. 60;

considerations.[9] Corporate philanthropy can be, but must not necessarily be, *charity* i.e. unconditional support of needy people. The use of corporate funds should be conditional on a minimum of good governance on the beneficiaries' side. It should also – except in cases of humanitarian emergencies – address the roots of a problem, not just its symptoms (as charity often does).

A good example would be supporting the elimination of neglected tropical diseases such as leprosy by donating medicines to cure them and working with partner organizations that are also involved in the fight against these diseases. Most patients affected by tropical diseases of poverty are living in absolute poverty, eking out their existence with a purchasing power of two dollars or less per day – hardly attractive customers for the high-value, innovative medicines of a multinational, research-based pharmaceutical company.

Corporate philanthropy clearly goes beyond what bottom-line duties require;[10] it is one way of demonstrating what values the company stands for, that it wants to make a difference and become part of the "solution" – even if this does not increase turnover or profit as a result. As there is no – or at least no actively pursued – business case, corporate philanthropy depends predominantly on the social values, sensitivity and awareness of the firm's top management. It is part of management's value framework, the company's culture and core values – or it does not happen. Moreover, in companies, human beings are in charge of decision-making and therefore their values are fundamental elements guiding corporate preferences and weighing up facts. Managers who as private individuals value benevolence and the enhancement of the welfare of needy people are likely to also spread their intrinsic concern for others in the corporate context and support the company's engagement in corporate philanthropy.[11]

While the primary purpose of corporate philanthropy is altruistic, corporate philanthropy *can* generate positive "moral capital" among communities and stakeholders with whom the company does not have a direct business relationship. It is also likely to strengthen the motivation of employees by making them proud of their company. The "moral capital stock" – i.e. the "accumulated outcome of the process of assessment, evaluation, and imputation by stakeholders and communities of a firm's philanthropic activities"[12] – *can* provide a company and its shareholders with "insurance-like protection" for many of its intangible assets when accidents or other unfortunate events occur:[13] If corporate management is perceived to be socially aware and responsive to other people's needs, unfortunate events such as accidents are perceived as what they are: accidents – and not assigned to irresponsible motivations such as saving money at the expense of safety. When accidents or other unfortunate events occur, a company needs moral capital to mitigate negative perceptions – but it is too late to create it after the event.

However, in contrast to other forms of creating social value, the creation of the moral capital serving as "insurance" in times of unfortunate events and the employees' pride are *desirable side-effects* of altruistic actions, not their actively pursued primary objective.

Strategic corporate philanthropy

Strategic corporate philanthropy describes a corporate contribution concept that aims to support present or future business activities in synergy with the creation of measurable social value. As strategic philanthropy is "giving for reward" and used to improve

9 Schwartz M.S. / Carroll A.B.: Corporate Social Responsibility: A Three Domain Approach. *op. cit.*, p. 515f;

10 *Ibid.*, p. 505f

11 Choi J. / Wang H.: The Promise of a Managerial Values Approach to Corporate Philanthropy. In: Journal of Business Ethics Vol. 75 (2007) pp. 345-359; Choi and Wang also conclude that managerial benevolence and the integrity to act consistently according to personal values are likely to enhance corporate financial performance through promoting managerial credibility and high levels of trust among corporate stakeholders.

12 See Godfrey P.C.: The Relationship between Corporate Philanthropy and Shareholder Wealth: A Risk Management Perspective. In: Academy of Management Review Vol. 30 (2005) no.4, p. 783;

13 *Ibid.*, pp. 777-798;

corporate financial performance, it focuses on areas of strategic interest to the company. The past few years have shown a steady movement toward the increasingly strategic practice of corporate philanthropy.[14] Strategic corporate philanthropy is integrated in the overall corporate strategic plan and endeavors to find an optimal mix between business interests and community needs. In its pure manifestation it makes the rational economic choice to invest only in activities that are expected to create measurable value for shareholders.

A good example would be the donation of computers to high schools in poor neighborhoods and to university students from low-income families by a corporation that designs and markets computers. The creation of the social value "enabling students to work with state-of-the-art equipment" is at the same time a pre-investment for future market success as it attracts potential future customers to the company's technology. The "business case" of strategic corporate philanthropy is obvious: It is the creation of better brand recognition and loyalty, reputational capital, higher employee morale, deeper customer commitment and other strategic benefits for the company.

The "business case" is one of the reasons why strategic corporate philanthropy is seen by many civil society stakeholders to be a contradiction in terms. Some argue that making corporate giving strategic detracts from the intrinsic value of the philanthropic act and thus devalues its benefit.[15] This critical view reflects the old debate between a "value rationale" and a "purpose rationale" position and, in the light of the global dimension of poverty, is not very helpful; the motivation of the donor should not matter as long as the activity creates the desirable social value for the beneficiaries. Criticism of that kind is likely to reflect an ideological aversion to "big business" rather than a deep dedication to the cause of solving a specific problem.[16]

No doubt, strategic corporate philanthropy activities can have desirable social and economic externalities for the people benefiting from them. However, as their primary purpose differs from that of altruistic endeavors, they are likely to have a strategy- rather than a needs-oriented focus. This again will have a socially discriminatory effect: The problems of the poorest might not be considered to be an "attractive" engagement from a corporate strategy point of view.[17]

Strategic social investments consist of a similar approach based on the same motivation, but are even more bottom-line oriented.

Strategic social investments

Strategic social investments aim to develop present markets and create the preconditions for future market expansion. They can also support development clusters by addressing the overall socio-economic conditions of the target area. A pharmaceutical company can, for example, engage in strategic social investment in low-income markets, by providing essential healthcare education and training medical auxiliaries and other healthcare staff, thus increasing the demand for essential drugs. At the same time, the company can improve access to affordable medicines by means of differential pricing schemes and

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14 Saiia D.H. / Carroll A.B. / Buchholtz A.K.: Philanthropy as Strategy. When Corporate Charity "Begins at Home". In: Business & Society Vol.42 (2003) No.2, p. 171.

15 *Ibid.*, p. 185

16 Such criticism is also voiced against altruistic forms of corporate philanthropy, for example, the fact that Novartis decided to donate all drugs needed in the fight against leprosy was not well received by several NGOs engaged in the fight against leprosy. Leprosy patients getting their medication for free and being cured certainly couldn't care less about the pharmaceutical company's motivation to donate – why should anyone else?

17 Leisinger K.M.: Corporate Philanthropy: The "Top of the Pyramid". In: Business and Society Review, Vol. 112, No.3 (Fall 2007), pp. 315-342;

other special arrangements. All actions are helpful for patients with low purchasing power – and, at the same time, are strengthening or developing the corporate brand.[18]

Michael Porter and Mark Kramer discount the prevailing justifications for corporate social responsibility, i.e. the "morally right thing to do," "societal license-to-operate," "sustainability" and "reputational capital." They propose instead strategic social investments under the slogan "creating shared value."[19] In practice this means addressing social issues that are affected by a company's business activities as well as social issues in the external environment that have a significant impact on the underlying drivers of a company's competitiveness in the locations where it operates. The creating shared value-approach can include strategic philanthropy to improve education, support environmental efforts or remove other obstacles to development – the main purpose of all such activities is to reap "disproportional benefits because of the superior reputation and relationship" such corporate engagements can create.[20]

All the different approaches discussed here can create social value in addition to the societal benefits resulting from the core business activities carried out in compliance with the 10 UNGC principles. In corporate realities, one often finds examples of pure altruistic philanthropy, strategic philanthropy and strategic social investment as well as hybrid forms, *all* of which are part of the corporate social value creation portfolio and mutually enhance one another.

In order to develop "good practices" and enable corporate management to create an optimal portfolio of actions "in support of broader UN Goals and Issues" it is important to make clear what kind of corporate *and* social value ought to accrue from the "outward-oriented actions to increase the positive impact on society." [21] One good way to sort out different options in a rational way and communicate them credibly is to be transparent about the corporate value that corporate management expects from "more outward-oriented actions."

What "corporate value added" does management expect?

Corporate philanthropy in different forms has been a living reality for many years. In a poll conducted by the Committee Encouraging Corporate Philanthropy (CECP) in 2011, attendees of a CEO conference mentioned among others the following motives for the corporate commitment to solve societal problems:

- 25% *Greater community need*: i.e. the assumption that the public sector alone cannot meet rising needs;
- 22% *Globalization*: i.e. the reaction to the fact that market integration and expansion have brought companies closer to social issues faced by new stakeholders in different parts of the world;
- 18% *War for talent*: i.e. the empirically proven fact that employees with superior competences and skills expect to work for a value-driven employer.[22]

18 See e.g. Arogya Parivar from Novartis http://www.youtube.com/watch?v=ZVShahuX5Bc
19 Porter M. / Kramer M.: Strategy and Society. The Link between Competitive Advantage and Corporate Social Responsibility. Harvard Business Review December 2006;
20 Porter M. / Kramer M.: The Competitive Advantage of Corporate Philanthropy. In: Harvard Business Review December 2002, pp. 7f.
21 UN Global Compact: Blueprint for Corporate Sustainability Leadership, New York 2010, pp. 4ff.
22 Accenture / CECP: Business at its Best: Driving Sustainable Value Creation. New York 2011, p. 48 (www.corporatephilanthropy.org/pdfs/resources/Business_at_its_best.pdf)

As companies are not altruistic institutions and as they should not allocate scarce resources if they do not gain *any* benefit of any kind as a result, the fact that corporations are investing funds in different forms of philanthropy suggests that some kind of value is perceived. This "value," however, can be defined very differently:

- **Shareholder value:** The core of this value proposition is that companies ought to become engaged in (strategic) corporate philanthropy and strategic social investments only if and when shareholder value is increased by these activities. In an extreme understanding of this notion, corporate giving and investments must be strictly limited to circumstances where the benefit to the company is clear, compelling and measurable. As one cannot maximize two corporate objectives at the same time and as expenditures for social value creation and profits constitute – in the short term – a direct conflict of aims, those who focus on profit maximization are not likely to support philanthropy paid out of corporate funds. The underlying reasoning was given by Milton Friedman many years ago.[23]

  To "soften" this stance, one could look at enhanced corporate reputation or increased employee morale as elements of increased shareholder value – but public acknowledgment is first of all not a directly measurable item and uncertain as it depends on many other variables.

- **Stakeholder value:** According to this concept, companies ought to become engaged in corporate philanthropy, including its altruistic form, to satisfy stakeholder (e.g. civil society organizations, neighboring communities, employees and other specific constituencies) requests and expectations. The underlying rationale is the assumption that the company receives benefits such as higher customer loyalty, greater loyalty and motivation of its employees due to the pride they perceive and the public image of being a responsible player in society and a "good" corporate citizen. Giving back to the various constituencies that the company eventually depends upon for its societal license to operate contributes to the preservation and enhancement of the value of corporate assets and also provides some "insurance" for difficult times.

  Stakeholder value, in contrast to a short-term financial view, is difficult to quantify. There are no accepted standards or accounting metrics for measuring social returns to stakeholders and therefore no performance benchmarks. A second factor making "stakeholder performance" measurement difficult is that most companies do not invest resources after having done a differentiating stakeholder analysis that would enable them to determine program or project priorities that account for the diversity of stakeholder interests in modern societies. And, to make things even more complicated, stakeholder value accrues over the long term; it certainly does not appear in a *quid pro quo* fashion in the next quarterly results.

  The biggest challenge regarding efforts to measure stakeholder value is that the "stakeholder world is pluralistic"[24] – the company's "public" consists of multiple communities with competing views of the world, different moral value systems and value hierarchies. These provide individuals with different definitions of what constitutes a "good" society, and thus different preferences for "good" corporate action. In the OECD countries, for example, well over 70% of the population indicates that they are concerned about poverty and misery in the developing world and

23 Friedman M.: The Social Responsibility of Business is to Increase its Profits. In The New York Times Magazine, 13 September 1970 pp. 32f (www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html); for counter-arguments see e.g. Blair M.M.: A Contractarian Defense of Corporate Philanthropy. In: Stetson Law Review, Vol.XXVIII, 1998, pp. 27ff.

24 See Godfrey P.C.: The Relationship between Corporate Philanthropy and Shareholder Wealth: A Risk Management Perspective. In: Academy of Management Review Vol. 30 (2005) No.4, p. 779;

perceive a moral duty to contribute to alleviating poverty.[25] Corporate engagements in the fight against misery would, so one should assume under these conditions, appeal to such people and make them applaud corporate philanthropy deliverables for the world's poor. Reality, however, shows that this is not necessarily the case. The same people might, at the same time, be opposed to biotechnology or genetic engineering, disagree with animal experiments or disapprove of high management remuneration – the "net" effect of all the conflicting judgments, therefore, does not have to be positive, despite a significant positive impact of that company's philanthropy.

- **Intrinsic value:** Seen from this value proposition, companies ought to become engaged in corporate philanthropy to be "part of the solution" to social, ecological and other problems on a needs-oriented basis without any expectation of reward for the company. The value proposition under such conditions is results-driven, e.g. a reduction in infant and child mortality, the number of patients cured or vaccinated, the number of girls educated or other social criteria.

All of these value propositions have their legitimacy and they are not necessarily "either/or" alternatives. But then different value propositions resulting from different motives and definitions of "success" usually lead to different strategies, different forms of engagement, different expectations and deliverables and probably target different beneficiary groups. The primary desired value outcome determines the strategy. This is why corporate management must debate the different options and decide upon the value they expect most from their actions in support of broader UN goals and issues.

The professional necessity of a "business approach"

Whatever the chosen strategy or strategy mix, corporate managers have a fiduciary obligation to protect the company's resources. While managers are also granted broad discretionary free rein to allocate resources for corporate philanthropy, they must see to it that these are deployed in the most cost-effective and efficient way. The allocation of corporate resources from which the company cannot possibly derive any benefit of any kind (e.g. if it were simply for "pet projects" of top managers and far removed from any reasonable business judgment[26]) must be considered to be an illegitimate use of corporate funds. Resources for such purposes ought to come, as Milton Friedman rightly insisted, out of the private pocket of the decision makers.

Experience shows that the impact of corporate philanthropy and strategic corporate philanthropy including strategic social investment is higher if and when the following criteria are respected. Corporate philanthropy and other activities in support of broader UN goals and issues:

- Must be *aligned with the corporate core competence* and in line with the company's values and culture, they should not address generic issues; good practices include the identification and analysis of the societal issue areas where the company can create the greatest social value by playing an optimal role due to its specific professional know-how, skills portfolio, experience, networks and wealth of innovation and creativity;

- Should be *focused* in order to create more impact with the available resources; there are many convincing purposes and one could come up with good arguments for most of them, but experience shows that too broad a portfolio of activities is usually associated with a smaller impact and lower efficiency;

[25] See http://www.oecd.org/dataoecd/56/35/41804623.pdf ; http://pewglobal.org/2007/12/13/a-global-look-at-public-perceptions-of-health-problems-priorities-and-donors/, and http://www.worldpublicopinion.org/pipa/articles/btdevelopmentaidra/135.php?lb=btda&pnt=135&nid=&id=

[26] See: Barnard J.W. Corporate Philanthropy, Executives' Pet Charities and the Agency Problem. In: Faculty Publications, Paper 314 (College of William & Mary Law School) Williamsburg 1997, pp. 1147-1178;

- Should be *invested after appropriate research* to understand the complexity of an issue before becoming engaged; complex issues never have simple solutions and successful strategies always depend on the social (local) context of the problem, awareness of the interests involved in maintaining or solving the problem, considering the impact of activities on power structures and other factors necessary to create win-win constellations; successes in solving complex issues depend predominantly on behavioral and social change and not just technology; and, as social change is complex and unpredictable, resistance and conflict should be expected. These issues can, however, – to a certain extent – be anticipated and proactively mitigated by *listening to the beneficiaries and learning from their points of view*;

- Ought to be *managed transparently* with regard to the way the problems were identified and the solutions agreed upon, and to the goals and rationale as well as activity plans and related budgets; it is also good practice to be transparent about the successes achieved and failures suffered; lessons learned from failures are to be applied as activities go on; while the commitment should have stability, its content should be responsive to new challenges and "exit" points ought to be defined from the very beginning;

- Good practices involve more than simply "writing checks"; a company should "*Do more than give*"[27] and, wherever possible, bring in management techniques and processes, business skills, human resources support, access to networks and other assets to achieve a greater impact; deeper involvement, however, necessitates the allocation of appropriately trained human resources attached to a professional corporate philanthropy program rather than in the communication, public affairs or marketing department to allow for unbiased priority setting;[28] external experts should be brought in wherever internal competences are not available – certainly evaluations ought to be performed by credible third parties;

- Working with *performance-based funding and SMART objectives* (specific, measurable, attainable, relevant and time-bound) is a must; if sustainable outcomes are to be achieved, long-term program needs rather that short-term project support and cooperation with suitable partners are necessary parameters of professional corporate philanthropy;

- *The right choice of partners and the use of networks* that share corporate values and goals make available the skills, resources and experience that are needed to maximize impact but are not available in the company; it is advisable to perform the partner selection process and due diligence according to criteria that are used in the business sphere;[29] and last but not least,

- *Communication must be fact-based, honest and avoid euphemistic narratives*; the successes achieved must be put into the context of the scope of the problem and acknowledge the contributions of the partners involved. Using euphemisms as a strategic tool for communication is risky and could be perceived as hypocrisy.[30]

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27 Crutchfield L.R. / Kania J.V. / Kramer M.R.: Do More than Give. The Six Practices of Donors who Change the World. Jossey Bass, San Francisco 2011;

28 For substantiation see Maas K. / Liket K.: Talk the Walk: Measuring the Impact of Strategic Philanthropy. In: Journal of Business Ethics. Vol. 100 (2011) pp. 445 – 464;

29 Simon F.L.: Global Corporate Philanthropy: A Strategic Framework. In: International Marketing Review Vol.12, (1995) No.4, pp. 20-37;

30 La Cour A. / Kormann J.: Euphemisms and Hypocrisy in Corporate Philanthropy. In: Business Ethics: A European Review Vol. 20 (2011) No. 3. pp. 267-279;

Corporate philanthropy and other activities in support of broader UN goals and issues are no substitute for responsible corporate conduct and therefore should not be part of the corporate activity portfolio until the corporate "house" is in order: To support kindergartens in nearby communities while tolerating child labor in corporate operations is at best cynical.[31] Corporate philanthropy should also not be brought in as a short-term "indulgence" to "compensate" for past corporate misconduct – the intention will be detected and, whatever is done in the field, a credibility gap will emerge. Communication about "doing good" through philanthropy while having inappropriate labor standards and destroying the environment is counter-productive for the company;[32] whenever philanthropy is not perceived to be a genuine manifestation of a company's comprehensive "responsibility philosophy" but seen as instrumental in diverting public attention away from corporate wrongdoing, it will contribute to eroding and not to enhancing reputation.[33]

Is there a "business case" for corporate philanthropy?

Is "being good by helping needy people" beneficial to a profit-oriented enterprise? People with altruistic attitudes who help needy people for the simple reason that they are better off if helped will be irritated by this question. For many good-minded and responsible people who consider such help an act of a private citizen's human solidarity rather than a corporate obligation, this question is, however, valid. Finding some kind of a "business case" could therefore tip the balance in favor of corporate philanthropy for them. This again could unleash huge resources for the world's poor, but unfortunately there is no simple answer.

First of all, people's judgment is not totally rational: We know from empirical social science research that people who passionately advocate *their* "good purpose" are at risk of – subconsciously – directing their search for evidence in support of their preconceived argumentation and are likely to find what they *a priori* wanted to, e.g. valid arguments in favor of corporate philanthropy. People who reject the idea of corporate philanthropy for whatever reasons will find *their* studies and point to evidence that corporate philanthropy is of no relevance to corporate economic performance – but instead costs shareholders money and management time.[34] Both "camps" are tempted to give greater weighting to arguments and evidence supporting their view and undervalue counter-arguments and evidence. The value premises, being the compass for the search for arguments, are often kept implicit.

To make things even more difficult, there are different "theories of the firm" predetermining the discourse on a "business case" for corporate philanthropy by negating the question as to whether companies should legitimately become engaged at all in efforts to solve deep-rooted problems that cause human misery – this is "none of their business". Answers to what is "the business of business" depend on what management believes is the purpose

31 Chen, Patton and Roberts found cases where companies having a bad record with regard to their integrity in their normal business activities are more likely to make charitable contributions and conclude that corporate philanthropy may be more a tool of legitimization than a measure of corporate responsibility; see Chen J.C. / Patten D.M. / Roberts R.W.: Corporate Charitable Contributions: A Corporate Social Performance or Legitimacy Strategy? In Journal of Business Ethics Vol. 82 (2008) pp. 131-144;

32 As shown early on by Marylin Collins, see Collins M.: Global Corporate Philanthropy – Marketing Beyond the Call of Duty? In: European Journal of Marketing Vol. 27 (1991), No.2 pp. 50ff.

33 Godfrey P.C.: The Relationship between Corporate Philanthropy and Shareholder Wealth: *op. cit.*, pp. 777-798; also Patten D.M.: Does the Market Value Corporate Philanthropy? Evidence from the Response to the 2004 Tsunami Relief Effort. In: Journal of Business Ethics Vol. 81 (2008) pp. 599-607;

34 E.g. Bartkus B. / Morris S. / Seifert B.: Governance and Corporate Philanthropy: Restraining Robin Hood? In: Business & Society Vol.41 (2002) No.3, pp.319-344; there are of course also studies which prove that unprofessional if not naive or stupid corporate giving does not lead to any good either for the donor or the donee – but unprofessionally conducted corporate giving is not dealt with in the current context.

of the firm. If the answer is that the company must be guided by a "single objective function: wealth creation for the shareholder" and the additional assumption is made that "if shareholder wealth is maximized, social welfare is maximized as well," then it is logically incoherent to allocate any resources to altruistic corporate philanthropy.[35] Strategic corporate philanthropy as well as strategic social investments will be done only if and when they serve the bottom line.

There are, however, valid doubts that trusted property rights and the invisible hands of the market alone will, in the long run, solve *most* social problems and that the government is in charge of addressing the rest.[36] The neoclassical interpretation of the firm is not the only way to see the world – it is challenged by distinguished economists and also disproved by reality: Many highly successful companies support programs that address some of the most fundamental societal challenges such as those mentioned by the UN Global Compact LEAD Initiative.[37]

If a "stakeholder theory of the firm"[38] is accepted according to which corporate management has not only a duty to act in the interest of shareholders but must also satisfy requests of other stakeholders, the picture looks different: In this view business success depends on a network of relationships among groups which all have a stake in the corporate activities; the input and goodwill of stakeholders such as e.g. employees, customers, communities or special interest groups are crucial elements for success. Management striving to make the company a "good citizen" based on this broader foundation will still endeavor to achieve the best financial results for shareholders – but in a way that creates as much value as possible for all societal stakeholders, and not at their expense.

There is evidence for a business case

Archie Carroll made the case many years ago that "companies will be expected to be profitable, abide by the law, engage in ethical behavior, and give back to their communities through philanthropy."[39] And, financial success will always be a top priority. But there *is* evidence that corporate philanthropy in its different forms is advantageous to the company as it fosters public acceptance and thus also corporate financial performance.[40] There is also evidence that corporate philanthropy makes "employees and their families feel proud"[41], and creates an "insurance" effect against negative societal perceptions when accidents or other unfortunate events occur.[42] Corporate philanthropy is also likely to have positive reputation effects[43], enhance trust and improve relations with stakeholders[44] and customers.[45]

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35 See the full theoretical discussion in Margolis J.D. / Walsh J.P.: Misery Loves Companies: Rethinking Social Initiatives by Business. In: Administrative Science Quarterly Vol. 48 (2003) pp. 281ff.

36 See e.g. Stiglitz J.E.: Globalization and its Discontents. (Norton) New York 2002;

37 See e.g. Accenture / CECP: Business at its Best: Driving Sustainable Value Creation. *op. cit.*

38 Which was gaining ground as early as 1984, see Freeman R.E.: Strategic Management: A Stakeholder Approach (Pitman) Boston 1984. Freeman continued to develop his concept, see Freeman R.E. / Harrison J. / Wicks A.: Managing for Stakeholders (Yale University Press) New Haven 2007;

39 Carroll A.B.: Ethical Challenges for Business in the New Millennium: Corporate Social Responsibility and Models of Management Morality. In: Business Ethics Quarterly Vol. 10 (2000) Issue 1, p. 41;

40 Wang H. / Choi J. / Li J.: Too Little or too Much? Untangling the Relationship Between Corporate Philanthropy and Firm Financial Performance. In: Organization Science Vol.19 (2008) No.1 pp. 143-159;

41 If and when certain conditions are given, see Muller A. / Kräussl R.: The Value of Corporate Philanthropy During Times of Crisis. The Sensegiving Effect of Employee Involvement. In: Journal of Business Ethics published online 17 April 2011 (DOI 10.1007/s10551-011-0861-6);

42 Godfrey P. / Merrill C. / Hansen J.: The Relationship between Corporate Social Responsibility and Shareholder Value: An Empirical Test of the Risk Management Hypothesis. In: Strategic Management Journal Vol. 30 (2009) pp. 425-445;

43 Bramer S. / Millington A.: Corporate Reputation and Philanthropy: An Empirical Analysis. In: Journal of Business Ethics Vol. 41 (2005) pp. 26-44; Bramer and Millington see the reputation effect as also depending on the quantity of philanthropic expenditure – which again is a function of the financial performance of the

But, as said before, this evidence refers to very different forms of corporate philanthropy. Although even hardcore defenders of shareholder value endeavors may agree that, if one compares the costs of corporate philanthropy with total turnover or profits, there are less noble reasons to be inefficient; it seems clear that a decision to become engaged in needs-oriented philanthropy is unlikely if it would exclusively depend on the proof of a measurable, economic "business case" – excluding broader, more complex benefits such as stakeholder trust and "moral capital." As so much depends on the structure, motivation and quality of different forms of philanthropy, a *generalizing* judgment about the "business case" may not be possible at all: Altruistic corporate philanthropy will be judged according to different criteria than strategic corporate philanthropy and, even more so, strategic social investments. As the judgment depends on the parameters used, it does not make sense to put all of them into one discussion basket.

Proving a business case for altruistic corporate philanthropy and strategic corporate philanthropy (not for strategic social investments, as they would not be made if there were no business case) is even more difficult than analyzing causal relations between overall corporate social performance and corporate financial performance: Margolis and his colleagues found in their study that "the overall effect is positive but small [… and that the association is] strongest for the analysis of the specific dimension of charitable contributions, revealed misdeeds, and environmental performance."[46] But the direction of the correlation was not exactly clear: They found at least as strong a link between prior corporate financial performance and subsequent corporate social performance as the reverse. Margolis and his colleagues, however, concluded that "there is no financial penalty for corporate social performance" and reminded us that "if corporate responses to social misery are evaluated only in terms of their instrumental benefits for the firm and its shareholders, we never learn about their impact on society, most notably on the beneficiaries of these initiatives."[47]

Marc Orlitzky and his colleagues found affirmative results in their study about the relationship between corporate social and financial performance: Corporate virtue in the form of social responsibility – including but not explicitly mentioning corporate philanthropy – is likely to pay off.[48] The relationship tends to be bidirectional and simultaneous, and reputation appears to be an important mediator of the relationship.

Being realistic and avoiding the traps of selective literature research or anecdotal evidence, one will have to come to the conclusion that the relationship between good "social performance" and good financial performance is much too complex and contingent to carve out a measurable causal relationship between a sub-aspect of corporate responsibility, philanthropy and shareholders' wealth: Sustainable financial results depend on the totality of outcomes of "good management" and not only one partial, normative aspect of it such as corporate philanthropy. Many activities that are part of what is

company, which in itself is part of the reputation equation. They also see an industry-specific effect inasmuch as industries that exhibit significant social externalities, such as the alcoholic drink and tobacco sector, are likely to gain a better reputation by philanthropy.

44 Wang H. / Choi. J. / Li J.: Too Little or too Much? Untangling the Relationship between Corporate Philanthropy and Firm Financial Performance. *op. cit.*, pp. 142-159.

45 Sen S. / Bhattacharya C.B. / Korschun D.: The Role of Corporate Social Responsibility in Strengthening Multiple Stakeholder Relationships: A Field Experiment. In: Journal of the Academy of Marketing Science. Vol. 34 (2006) No.2 pp. 158-166; Barnes R.: American's Value Business' Philanthropic Performance. In: The Chronicle of Philanthropy Vol. 13 (1995) pp. 1-4, Barnes sees "three out of four" Americans take a company's philanthropic record into account when deciding whether to do business with it.

46 Margolis J.D. / Elfenbein H.A. / Walsh J.P.: Does it Pay to be Good? A Meta-Analysis and Redirection of Research on the Relationship between Corporate Social Performance and Financial Performance. Work in progress, Harvard Business School, Boston MA, 1 November 2007

47 Margolis J.D. / Walsh J.P.: Misery Loves Companies: Rethinking Social Initiatives by Business. *op. cit.*, p. 282;

48 Orlitzky M. / Schmidt F.L. / Rynes S.L.: Corporate Social and Financial Performance: A Meta-Analysis. In: Organization Studies Vol. 24 (2003) No.3, pp. 403-441;

considered in terms of "good ethics" or "good corporate citizenship" simply belong to the package of "good management practices."

So, are we then restricted to a value-based "right thing to do" argumentation? To a certain extent, yes, we are – and more so as we move up the corporate responsibility pyramid with altruistic philanthropy at the top. To become engaged in altruistic philanthropy depends on the value premises of those who make decisions about resource allocation, i.e. top management. The more needs-oriented corporate philanthropy becomes, the more a "philanthropy pays for shareholder value"- approach is the wrong angle to deal with the issue. Without referring to the value premises of top management, it is simply impossible to answer questions about the "whether" and, if yes, "how", "for whom" and "how much" of "action in support of broader UN Goals and Issues."

Value premises matter most

Today's management of global companies is more complex than ever before – as is the solution of the dilemmas arising from the multitude of stakes and finding a sustainable balance between them.[49] Top management has to acknowledge the conflict between economic efficiency and the allocation of corporate resources for the creation of social value beyond that arising in the context of pursuing the conservative business model. They will have to weigh up different stakeholder requests and balance their satisfaction from a long-term perspective. As not all stakeholder requests can be met, choices have to be made in any case – and in many cases such choices are value-driven. Many of the fundamental societal problems cannot be solved by corporate policies that exclusively focus on activities intended to maximize shareholders' wealth. Some issues are not so much of strategic but ethical importance.

Three factors define the perception of what are responsible and irresponsible stakeholder demands, corporate culture and the value premises of corporate management.[50] All these factors may change over time and, as moral reflection and choice are always to a certain extent contextual, differ in different parts of the world. Nevertheless it is not a heroic assumption that firms with a "humanistic culture" that are sensitive to the needs of others are likely to have a broader and deeper perception of responsibility than those who only care about maximizing profits in a legal way.

The top management's value framework and social awareness mindset determine a company's commitment to such corporate philanthropy, its structure, content and volume – they also determine the expected value for a specific constituency and the definition of "enlightened self-interest." If top management accepts the obligation of those who have "broader shoulders" assisting those in need and if they – also in their professional role – see a need to participate in weaving the fabric of a society they want their children and grandchildren to live in, they will become engaged in needs-oriented philanthropy.[51]

For hard-nosed managers, the argumentation that some corporate actions are "morally right" may not carry a lot of weight if and when these actions are not seen to contribute directly to the creation of economic value to the company. And yet, as individual citizens,

[49] Margolis and Walsh, quoting P.E. Tetlock, point to the importance of values in this context: "Disagreements rooted in values should be profoundly resistant to change [...]. Libertarian conservatives might oppose the (confiscatory) stakeholder model even when confronted by evidence that concessions in this direction have no adverse effects on profitability to shareholders. Expropriation is expropriation, no matter how prettified. And some egalitarians might well endorse the stakeholder model, even if showing compelling evidence that is reduces profits. Academics who rely on evidence-based appeals to change minds when the disagreements are rooted in values may be wasting everyone's time." See Margolis J.D. / Walsh J.P.: Misery Loves Companies: Rethinking Social Initiatives by Business. *op. cit.* p. 281.

[50] Galbreath J.: Drivers of Corporate Social Responsibility: The Role of Formal Strategic Planning and Firm Culture. In: British Journal of Management. Vol. 21 (2010), pp. 511-525;

[51] See Corvino J.: Reframing "Morality Pays": Toward a Better Answer to "Why be Moral" in Business. In: Journal of Business Ethics Vol.67 (2006) pp. 10ff.

they seldom disagree on the appropriateness of supporting social purposes or helping to alleviate human misery. This conflict of roles could be lessened if there was more and more pronounced public acknowledgement from the civil society constituencies that engage for the respective purposes – reputation capital, public image and employees' pride and admiration in being part of the solution to a global problem can be seen as something of long-term value also for shareholders. If one takes such "rewards" seriously, there is evidence that a top management that is socially aware, has compassionate values and takes consistent action – in addition to striving for excellence in their economic endeavors – produces better and more sustainable financial results than those that focus on economics only.[52]

A pledge for needs-oriented corporate philanthropy

Profit-oriented companies are neither the only nor the first addressees for "big" concerns, such as achieving the Millennium Development Goals, agreed upon by the international community; they are probably not even the actors with the greatest competence in the fight against human misery – but their resources, skills, experience and mindset are proven to be valuable assistance in solving those problems that are obstacles in the way of achieving the Millennium Development Goals.

Given the pluralism of opinion and values within a company and with its relevant stakeholders, it is probably wise to recommend a mix of corporate philanthropy, strategic philanthropy and strategic social investment so that all internal and external constituencies can find their preferences being taken care of. There is a continuum between altruistic philanthropy and enlightened strategic philanthropy / strategic social investment engagements – both ends of the continuum ought to be included in the corporate social value creation portfolio and be used where they have the biggest impact and the best cost-effectiveness. The entire portfolio is important and the different elements are components that can be used to fine tune according to the specific circumstances, with regard to individual stakeholders and constituencies as well as in organizational and cultural contexts.

One should not moralize over the content of corporate responsibility as long as a company complies with the spirit of the 10 principles of the UN Global Compact. But it is difficult to escape the fact that the fight against the human misery has a distinct *moral* dimension. It is one of the most precious interreligious, intercultural and intertemporal valid hypernorms of mankind that every human being has a right to life and possesses an inalienable and untouchable dignity.[53] Enlightened global citizens derive from this not only a culture of non-violence but also a commitment by those who have "broader shoulders" to carry more and help people living in misery. There is a large and growing consensus that "corporate citizens" – companies competing with integrity[54] – also have a role to play in a social contract against extreme poverty. They can do this through needs-oriented corporate philanthropy.

We are the first generation that has the resources, the knowledge and the skills to overcome at least poverty in its extreme expression and to enable all people on this globe to meet their basic needs. To make them available for this noble objective must become our generational mission, be it as private or as corporate citizens. Sustainable solutions to the problems of the dimension and complexity involved here are beyond the ability of any

52 Choi J. / Wang H.: The Promise of a Managerial Values Approach to Corporate Philanthropy, *op.cit.*; Worden S.: The Role of Integrity as a Mediator in Strategic Leadership: A Recipe for Reputational Capital. In: Journal of Business Ethics Vol. 57 (2003) pp. 31-44;

53 See Küng H. / Leisinger K.M. / Wieland J. (Eds.): Manifesto Global Economic Ethic. Consequences and Challenges for Global Businesses. dtv, Munich 2010; see also: www.weltethos.org

54 "Competing with Integrity" is a book that still merits professional attention: De George R.: Competing with Integrity in International Business. Oxford University Press, New York 1993.

single actor. There is a specific role for all enlightened individuals, local communities, nation states, foundations, corporations and multi-lateral institutions – if all bring their specific contribution to the table and co-operate in good faith to compose the "mosaic solution," it will be easier to achieve the Millennium Development Goals and save millions of lives. A coalition of the enlightened could create pressure on others to overcome indifference, convert an abstract and general concern into concrete action and put aside what Sigmund Freud called the "narcissism of the small differences" between those who are from "different camps" but basically share the same vision.