Sharing Big Pharma's Value

By N. Craig Smith, INSEAD Chaired Professor of Ethics and Social Responsibility

Could creating shared value be the next stage of evolution for CSR? The pharmaceutical industry shows how it can work.

Until recently, it was not considered the business of Big Pharma to solve societal problems, at least beyond its narrow, though vital, role in providing medicines. From the industry's point of view, its social contract was simple: invest in researching and developing new medicinal products aimed mainly at populations that could pay for them, receive valuable intellectual property protections for those products and create shareholder value.

By necessity, this business model is now being revisited. R&D is generating fewer blockbuster drugs. Uncertain economic growth and reduced government spending in the developed world is slowing sales growth. Higher regulatory expenses and reduced profitability are also putting pressure on R&D budgets.

Meanwhile, activist groups and NGOs have launched strong critiques that pharma companies are underserving people with the greatest need, especially in Southeast Asian and African countries, where prevalent infectious and non-communicable diseases, or NCDs (for example, cancer), constitute a double threat.

In the past, the social contributions of pharmaceutical firms were mainly done through corporate philanthropy, spending an estimated total of US$3.4 billion on outreach in 2009 alone. But pure philanthropy is, by definition, a revenue drain and therefore is tricky for companies to sustain, particularly in tougher economic times.

However, there is potentially a bright future for the industry if there is widespread commitment to following the lead of some companies (both in and out of the pharma sector) that have discovered opportunities to bolster their bottom line in emerging and developing markets by creating social value at the same time as generating economic returns.

Creating Shared Value

These developments are linked to a concept called *shared value*, which rejects the idea that a company can only flourish by putting its own best interests ahead of the community. Popularised in an influential 2011 *Harvard Business Review* article, Michael Porter and Mark Kramer define shared value as “corporate policies and practices that enhance the competitiveness of a company while simultaneously advancing social and economic conditions in the communities in which it operates”.

This “everybody-wins” approach shares core principles with corporate social responsibility (CSR) as it is conventionally understood, but differs from CSR in two key ways: 1) Shared value is proactive rather than reactive; 2) Shared value is directly aligned to profit maximisation, rather than being peripheral to revenue-generating activity.

But Porter and Kramer set the shared-value bar even higher than that, arguing initiatives such as fair trade purchasing that merely involve a “redistribution of value” don’t count. To truly qualify as an example of Porter and Kramer’s “higher form of capitalism”, companies must do more than just move money around; they need to reorient their business around the mission of creating social value and economic value as part of the same core business activity.

Big pharma’s partnerships

Years of planning went into Eli Lilly and Company’s initial foray into creating shared value. In 2011, the company launched The Lilly NCD Partnership, announcing a US$30 million investment over five years. The partnership’s first phase is focused on combating the growing problem of diabetes in areas of Brazil, India, South Africa, and Mexico. Lilly has been a leader in this field since 1923, when it introduced the world's first insulin for public use.

The new initiative aims to take a more holistic approach to diabetes by addressing, in partnership with other organisations, the key challenges of many people not knowing they have diabetes and of insufficient treatment when they are aware. For example, in two Indian cities, Lilly has planned media awareness campaigns and screening drives. In addition, the company will join with non-profit organisations to train healthcare workers at primary care clinics in diabetes treatment.

For Lilly, the NCD Partnership represents a conjoining of heretofore-separate activities, including education, philanthropy, and growing its emerging-market share. Lilly's shared-value initiatives are intended to help its emerging-markets business units meet ambitious growth targets resulting from the company's 2009 restructuring.

Though Lilly clearly stands to profit from tapping into this vast underserved market, it intends to "find the right roles for the right medicines…even if they aren't ours", according to a promotional video for the partnership.

Improving access

In 2007, Novartis established Arogya Parivar (Hindi for "healthy family"), a business unit dedicated to getting much-needed medicines to some of India's most remote villages. There can be no doubt that rural India has a serious healthcare crisis: India's villages account for just 22 percent of the country's healthcare spending, despite being home to more than two-thirds of its population.

To reach villagers, one-quarter of whom subsist on less than a dollar per day, Novartis developed an affordable portfolio of generic drugs. Not all of the medicines are manufactured by Novartis.

To make up for the lack of adequate medical facilities in these areas, Arogya Parivar set up local distribution networks. Arogya Parivar's sales supervisors also collaborate with doctors, hospitals, and NGOs to run frequent health camps. The company says doctor visits in the villages covered by AP have tripled since the health camps arrived.

According to Novartis, Arogya Parivar is already in the black, having surpassed company expectations by breaking even in its 31st month of operations. Now, Novartis aims to replicate its success in other countries, starting with Kenya, Indonesia, and Vietnam. Toward that end, it has established the Social Business Group, a unit within the parent company with its own management team and processes.

Challenges

As with other industries, the transition to creating shared value in the pharma sector is not without its challenges. At Lilly, initial development of the NCD Partnership was somewhat stalled by an internal culture clash, with some executives believing “social engagement should be separate from the business”, to quote a 2012 publicly-available report from consulting firm FSG. The decision to adopt a more aligned approach was arrived at only after “senior leaders of the company developed a deeper understanding of the potential to create shared value”. It takes time for any paradigm shift to find favour within a big corporation, but without consensus from upper management, shared value initiatives are much more likely to fail.

Another important challenge to overcome is the local focus these initiatives must adopt in order to be successful. In most cases, meeting the needs of a community requires deep familiarity with the language and culture of that community. Rather than relying solely on their own resources, companies will have to entrust local affiliates to cultivate collaborations with entities on the ground that can help, as we see with both Lilly and Novartis.

Though changing the way Big Pharma does business is not an easy proposition, we’ll likely see more and more companies orienting towards creating shared value in the years to come. In this industry above all, communities and companies need each other too badly to be at cross-purposes. The key question isn’t so much whether, or even how, pharma companies should reorient their business toward creating shared value. Now that industry leaders have gotten the ball rolling, the more pertinent question might be: How long will communities tolerate companies that don’t?

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