From Corporate Philanthropy to Creating Shared Value: Big Pharma’s New Business Models in Developing Markets

N. Craig Smith

The challenge of balancing shareholder interests and public opinion /// Big pharma companies traditionally operate in a sensitive field. On the one hand, they need to generate profits for their shareholders and for research funds to develop new treatments for all types of diseases. On the other hand, they contribute significantly to the happy and healthy life of millions – at least of those who can afford to buy their drugs. This last issue has increasingly set the pharma industry on the radar of public concern. Activist groups and NGOs have launched strong critiques that pharma companies are underserving the people with the greatest need, especially in countries in Southeast Asia and Africa, where prevalent infectious and NCDs (non-communicable diseases like cancer) constitute a double threat. In the past, pharmaceutical firms tried to take wind out of the NGOs’ sails through corporate philanthropy with social contributions, spending an estimated total of $3.4 billion on outreach in 2009 alone. But pure philanthropy is, by definition, a revenue drain and therefore tricky for companies to sustain, particularly in tougher economic times. Besides the wary eye of the public, the pharma industry also faces economic pressure: R&D is generating fewer blockbuster drugs; uncertain economic growth and reduced government spending in the developed world are slowing sales growth, and higher regulatory expenses and reduced profitability are also putting pressure on R&D budgets.
Creating shared value for the good of communities and companies /// How to proceed in such an environment? Clearly, the pharma players faced the challenge of breaking fresh ground. What some discovered in this situation was the concept of creating shared value. This concept rejects the idea that a company can only flourish by putting its own best interests ahead of the community. It was first brought to the attention of a wider public by Michael Porter and Mark Kramer in an influential Harvard Business Review article in 2011. Shared value is defined 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.” It results in a “win-win” situation for all parties. This approach shares core principles with corporate social responsibility (CSR) as it is conventionally understood but according to Porter and Kramer differs from CSR in two key ways:

> Shared value is proactive rather than reactive
> Shared value is directly aligned to profit maximization rather than being peripheral to revenue-generating activity

Porter and Kramer set the shared-value bar even higher, arguing initiatives such as fair-trade purchasing that merely involve a “redistribution of value” do not count. To truly qualify as an example of a “higher form of capitalism,” as described by Porter and Kramer, companies must do more than just move money around. They need to reorient their business around the mission of creating social and economic value as part of the same core business activity (see Figure 1).

**FIGURE 1:**
Objectives of Creating Shared Value

**MANAGEMENT OBJECTIVES**

>> INCREASING PROFITABILITY

> MITIGATING THE CSR TRADE-OFF
  > INNOVATION
  > PRODUCTIVITY

>> SATISFACTION OF SHAREHOLDER INTERESTS

>> PREVENTION OF (UNNECESSARY) REGULATION

**SOCIETAL OBJECTIVES**

>> RESTORING THE LEGITIMACY OF CAPITALISM AND COMPANIES

> GENERATE GROWTH (PRODUCTIVITY AND INNOVATION)
> GENERATE SOCIETAL AND ECOLOGICAL SUSTAINABILITY

**SHARED VALUE FOR THE GOOD OF COMMUNITIES AND BUSINESSES**
Growing by sharing value /// Big companies, both in and out of the pharma sector 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. Vodafone with Safaricom in Kenya has reconceived the money transfer market by developing a new system that enables millions of people who have access to a mobile phone, but no bank account, to send and receive money, top-up airtime and make bill payments. Marks and Spencer has redefined productivity in its value chain by empowering local suppliers to improve the lives of their workers. A similar path was taken by Nestlé and Illy. They encouraged cluster development by working with coffee and other farmers to improve quality and yield through direct sourcing and education. And in the pharma industry, as well, some have taken the lead in using the shared value concept to innovate and grow their business, especially in developing markets (see boxes with the Eli Lilly and the Novartis case).

THE ELI LILLY CASE: COMBATING DIABETES IN UNDERSERVED AREAS AROUND THE GLOBE

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 $30 million investment over five years. The partnership’s first phase 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 organizations, 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 organizations to train healthcare workers at primary care clinics in diabetes treatment.

For Lilly, the NCD Partnership represents a conjoining of previously separate activities, including education, philanthropy and growth of its emerging-market share. It is a holistic approach to the disease that comprises something greater than just selling more drugs. 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.

PosTer used in a communications campaign to increase awareness of diabetes and hypertension in India

Growing by sharing value /// Big companies, both in and out of the pharma sector 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. Vodafone with Safaricom in Kenya has reconceived the money transfer market by developing a new system that enables millions of people who have access to a mobile phone, but no bank account, to send and receive money, top-up airtime and make bill payments. Marks and
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% 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. Moreover, they are marketed in ways appropriate to the target market, with single-dose packaging in some instances so that the drugs are more affordable, for example, and pictorial instructions on use of the drug for the illiterate.

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.

Over six years, Arogya Parivar has helped create more than 500 jobs and has built skills and capacity among hundreds of business partners, suppliers and customers, including healthcare professionals in India. Its impact translates to providing 42 million people with improved access to healthcare across an estimated 33,000 villages. According to the company, 50,000 doctors and pharmacies have also received medical knowledge transfer.

According to Novartis, Arogya Parivar is already in the black, having surpassed company expectations by breaking even in its 31st month of operations. The model is being replicated in Kenya and Vietnam, where it is currently in a pilot phase, and plans also include expanding the initiative to Indonesia. To develop the program, Novartis has established the Social Business Group, a unit within the parent company with its own management team and processes.
Challenges of implementing the shared value concept

> Top management support /// 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 favor within a big corporation, but without consensus from upper management, shared value initiatives are much more likely to fail.

> Identifying shared value opportunities /// Granted top management support for shared value initiatives, finding the right projects to develop is not always easy. Some social or environmental problems offer win-win opportunities, as in the pharma examples discussed above. Others, however, may be win-lose (society wins but with no economic return to the business) or lose-win (society still loses while business makes an economic return). In the lose-win category, the business might have identified an opportunity to create shared value for some sections of society but perhaps with adverse consequences for other stakeholders (e.g., developing a fish-farm export initiative in Sub-Saharan Africa that has adverse environmental consequences).

> Local partnership /// Another important challenge to overcome is the local focus these initiatives often 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 will 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 is not 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?

FURTHER READING

Smith, N. Craig (2013): “Sharing Big Pharma’s Value,” INSEAD Knowledge

Porter, Michael E.; Kramer, Mark R. (2011): “Creating Shared Value.” Harvard Business Review, Vol. 89, No. 1 – 2, pp. 62 – 77.

www.lilly.com/Responsibility/improving-global-health/global-health-programs/Pages/diabetes-partnership.aspx

www.businesscalltoaction.org/wp-content/files_mf/bctacasesstudy_novartis_web.pdf