

A BUSINESS PERSPECTIVE ON CORPORATE GOVERNANCE

Interview With Rosemary Kenney and Nancy Nielsen of Pfizer Inc



Businesses that hope to succeed in today's global marketplace must incorporate newer, stricter legal requirements and also take into account growing social expectations. According to one pharmaceutical company that has distinguished itself as a leader in corporate governance, good citizenship and ethical practices eventually produce a stronger bottom line. "Doing business with integrity is good for business," says Nancy Nielsen, Pfizer's senior director of corporate citizenship. She and Rosemary Kenney, the company's senior manager for corporate governance and communications, spoke with the Economic Perspectives editors on Pfizer's perspective.

Photo above: Trachoma examination in Morocco. Pfizer, in conjunction with the World Health Organization, supports a program to combat trachoma, the leading cause of preventable blindness in the developing world. A critical component of the strategy is the use of Pfizer's antibiotic, Zithromax. Patients can take a single-dose oral treatment for trachoma—a radical advance from the previous regime of daily applications of antibiotic eye ointment over a six-week period. (©1997, Pfizer Inc)

Pfizer Inc discovers, develops, manufactures, and markets prescription medicines for human beings and animals. The company has more than 100 plants around the world and its products are available in more than 150 countries.

Question: Following a series of scandals in the U.S. business world, corporate governance became a global buzzword and the U.S. Congress passed the Sarbanes-Oxley Act strengthening corporate governance regulations. Some firms have complained that the pressure to be more transparent and accountable actually shackles them instead of providing guidance. The debate begs the question: Is good corporate behavior good for business? And can you really force it on corporations?

Answer: What most corporations are talking about are the costs associated with complying with new U.S. Securities and Exchange Commission (SEC) rules mandated under Sarbanes-Oxley. And yes, it does cost money to implement internal auditing practices if a company never had them before. Doing so may require additional personnel, additional work—sometimes outsourcing—to determine the best methodology to conform to the new guidelines.

On the other hand, companies like Pfizer already had most of these procedures in place and were already following very high standards of ethical practices for transparency and accountability. We did have to make some minor adjustments to our internal policies and procedures, but the Sarbanes-Oxley rules have not had the same impact on us as on some other companies. And while it has cost us some additional money, Pfizer does not look at Sarbanes-Oxley as a burden because we agree with it.

Q: What about those companies—especially smaller firms—that do find it a struggle? How can they be convinced that it's in their best interest?

A: The bottom line is that if you want to be a publicly traded company, you have to conform to these mandates. I used to work for a much smaller company, but I was still under the same SEC mandates as a larger publicly traded company. Those mandates included paying New York Stock Exchange listing fees and the costs associated with publishing a proxy statement and annual report, mailing it to investors, filing a 10-K report [a comprehensive overview of a company's business and financial condition] with the SEC, and filing SEC forms for the officers and directors of the company. The SEC's role is to protect the shareholder.

If you're a publicly traded company, it's far better to invest in good practices that support accountability and ethical behavior, rather than hoping that the SEC or any other regulatory body never questions you.

Q: So if these practices were already in place, it suggests that your company believed them to be good for business. Is that the case?

A: As a rule, good conduct is good for business, and doing business with integrity is good for business. In the early 1990s, Pfizer became the first company to establish a vice president for corporate governance—an officer-level position—so obviously Pfizer is not new to the idea that high standards of corporate integrity are integral to doing business. And that's basically what Sarbanes-Oxley is trying to do: It's trying to regulate and mandate ethical behavior.

Q: What precipitated Pfizer's decision to create the position of vice president for corporate governance?

A: There were at the time a lot of shareholders questioning some of the decisions being made by Pfizer, and the chairman and CEO [chief executive officer] saw an opportunity to discuss with institutional investors—who were very large shareholders in Pfizer—the issues that Pfizer faced as a pharmaceutical company. They designated a vice president for corporate governance whose mandate was to go out and speak to institutional investors and open a dialogue that would allow for an exchange of ideas from both sides. The goal was for management to better understand the issues that were important to institutional investors and for the investors

to better understand the issues facing the pharmaceutical industry. And that certainly has been a very beneficial relationship.

Q: Many non-U.S. companies don't have a system like Pfizer's. Could you describe how they might implement a similar approach to corporate governance?

A: The approach to corporate governance starts at the top of the corporation. There is no way it can be implemented unless there is "tone at the top." It has to come from the senior management and the board of directors; there has to be an absolute buy-in that corporate governance is good for business.

In practical terms, the good governance message is sent to employees through training manuals and mandatory education. Pfizer employees have to take online governance tests. Employees are made aware of the laws and rules and how they apply to everyday operations.

Pfizer also has a 24-hour hotline that employees can call if they see behavior that might involve wrongdoing. Our compliance department makes presentations at staff meetings for employees in locations all around the country. Employees receive e-mail reminders on a regular basis, and corporate governance posters are regularly on display. At Pfizer there's always some message about compliance with governance and laws and rules. I've worked in a number of different companies, and it's more pronounced here than anywhere I've ever worked.

Q: A major theme of corporate governance today involves the active participation of shareholders in a company's decision making. How do Pfizer shareholders make their concerns known?

A: Shareholders make their opinions known through the time-honored methodology of sending shareholder proposals to the company on an annual basis. Those proposals are usually published in a proxy statement, and they often voice shareholders' discontent with certain issues.

More recently, Pfizer was one of the first companies to provide e-mail addresses for the chairs of each of the committees of the board, as well as for the board of directors as a whole. Some shareholders have taken advantage of that and communicate with directors via e-mail.

But whatever the form of communication, Pfizer's policy is always to answer shareholder questions and keep an open line of communication.

Q: What is the volume of these communications, and from whom do they tend to come? Are they limited to the large institutional investors?

A: We receive e-mails primarily from individual investors. Mail totally unrelated to business—résumés, solicitations, requests for philanthropy—are filtered out and forwarded to the appropriate person for handling. The board gets a quarterly report that lets them know what issues are of importance for the shareholders, and, when appropriate, the board will respond.

Q: How is corporate governance involved in the selection of the Pfizer board of directors?

A: Each director undergoes an annual nomination process conducted by the corporate governance and nominating committee of the board. Each director's attendance, fees, other board affiliations, and so on are reviewed on an annual basis. The board is predominantly an independent board. The only "insider" is our chairman and chief executive officer, Hank McKinnell, and we have what's called an outside related director in our former CEO, Bill Steere (William Steere Jr.). The rest of the board is independent.

Q: Could you describe how Pfizer distinguishes between corporate governance and corporate citizenship?

A: We talk about citizenship as being our role in the local and global community and how we conduct business responsibly. We break that into five different pieces: advancing good health, engaging in dialogue with stakeholders, protecting the environment, conducting business responsibly—that's the governance piece—and respecting employees.

Q: What form does that take, in practical terms?

A: When you construct a value chain, you go through every piece of a business. In pharmaceuticals, the chain would include research, development, manufacturing, sales, marketing, delivery, etc. We have a chart on our Web site that identifies each piece of our value chain, and underneath each we've written what the components are for corporate citizenship.

For example, in research and development (R&D) it would involve the allocation of the R&D budget to developing and developed world diseases. Or it might involve the transparency of clinical trial data. One of the things we've done recently is to post our political action committee contributions [to political candidates] on our Web site. When you add the pieces on the value chain, you get an overall picture of the kinds of things that make for a responsible company locally and globally.

Q: How would you respond to economists who argue that companies should not be used for "social engineering," or that involvement in charitable enterprises can cause a firm to lose focus on its primary purpose of maximizing profits?

A: You asked earlier whether good governance affects profits. And while there is no direct contribution to the bottom line, there is a clear indirect contribution to a company's success.

For a good company to be successful today, it really has to do both. Over the last 10 years, we've seen tremendous changes in society—with globalization, advances in communications, greater awareness of social inequities—and there's been a shift in how society sees the role of business. One reason Pfizer takes on these environmental and social projects is that it helps protect our license to operate. The second reason is that we've looked at what it takes today to create a sustainable business, and we've concluded that it requires being involved in all aspects of the community. So there is an impact on the bottom line, and that's the business case for corporate governance.

Q: Do you have any concrete examples of cases in which your involvement in community or environmental projects has been good for Pfizer as a business?

A: The watershed in the pharmaceutical industry was the summer of 2000, when 39 pharmaceutical companies sued the South African government to prevent it from importing cheaper versions of AIDS drugs. Pfizer was not among those companies, but most experts look back on that as a time when the pharmaceutical industry was out of touch with the expectations of society. And the industry as a whole suffered from the negative public reaction.

We also know that by engaging on the ground, socially and environmentally, we create relationships that we would not have otherwise. It creates a channel

through which we can educate people about the industry. Remember, pharmaceuticals is a high-risk, high-reward field. Ninety-five percent of the attempts in our laboratories fail; only 5 percent turn into medicines that make it to the market. Therefore, the medicines that make it to the market need to cover the costs of all the failures. That's one of the very basic things that we need to communicate to the public.

Being on the ground also gives us an early warning system for upcoming issues. If the industry had been really engaged back in 2000, the pharmaceutical lawsuit against South Africa never would have happened. And if you start spinning out the implications of that lawsuit had it really taken off, it potentially could have led to such a backlash that it would have shut down some pharmaceutical companies' licenses to operate.

Q: What does Pfizer mean when it states that one of its goals is to improve access to health care across the globe?

A: Our primary mission is to discover and develop medicines. We have the largest private laboratory in the world, with 13,000 scientists and 116 plants around the world making medicine. The next piece of it is to make medicines available and, we would say, affordable to people around the world.

Q: How do you go about doing that?

A: We do that largely through public-private partnerships. We partner with governments, nongovernmental organizations (NGOs), civil society organizations, faith-based groups, and patient advocacy groups to help deliver the medicine. We also have multiple channels for medicine donations to hospitals and health care clinics.

In the United States, we've very recently started a program under which people who do not have drug coverage insurance—45 million people in the United States—can qualify for free or discounted Pfizer medicines. The program is outlined on our Web site, and there's a toll-free number that people can call 24 hours a day to find out if they are eligible.

Q: How effective has this been?

A: We introduced it about four months ago, and we've been struck by the amount of marketing necessary to get such a program under way. You would think that if you put information on the Web and sent letters to senior citizens and patient advocacy groups, people would seize



Pfizer partners with governments to donate Diflucan® to treat opportunistic infections associated with HIV/AIDS in developing countries. The company has helped train 18,000 health care providers in 915 dispensing clinics in 23 countries in Africa, Asia, and the Caribbean. (Photo of Helen Joseph Hospital in South Africa © Pfizer Inc)

the opportunity right away, but we've actually had to treat this as a marketing campaign to get people to apply.

Q: Do Pfizer shareholders ever complain about these and other donation programs?

A: We do get complaints sometimes from Pfizer shareholders—they usually send a letter to our chairman—and our response is really the point that I was making earlier: In order to protect our license to operate and to run a sustainable business in today's world, to meet society's expectations of business and society's expectations of pharmaceuticals, this has to be part of our business model now.

There has been a big shift in this country over the past five years. People believe that they should get new medicines at very cheap prices, but somebody needs to pay for innovation.

Q: So how do you reconcile those opposing demands?

A: One of the ways we do it is through these public-private partnerships, like the one I mentioned for drug-coverage help to 45 million Americans. But it's an issue that the entire industry is wrestling with right now.

Q: Do you have partnerships like that overseas?

A: One of my favorites is what we call Global Health Fellows. We have created a medical "peace corps" of skilled Pfizer employees—doctors, epidemiologists, technicians—who go on six-month sabbaticals to developing countries, specifically to work on the ground with NGOs to find and treat infectious diseases, primarily AIDS.

Our longer-term programs include an international initiative to treat trachoma, which is the leading cause of preventable blindness in the world. We have, in conjunction with the World Health Organization (WHO), a program to prevent trachoma that involves donations of our antibiotic Zithromax, environmental help, basic sanitation education, and some surgery. We're going to be able to completely eliminate trachoma by 2020. I think we're in 18 countries.

Another program is the international Diflucan partnership. This is for AIDS-related infections such as thrush. Diflucan helps eliminate thrush almost immediately, and we provide it for free. For the least developed countries that meet a certain WHO income threshold, there is no cap and no time limit on the medicine donations. And we do that through partnerships with the government and NGOs. It's not just us on our own. Everything we're doing nowadays is through partnerships.

Q: What sort of performance measures do you use in deciding which programs receive funding?

A: The ultimate performance measure is healthy people, or people who don't get sicker—for example, the number of people cured of thrush, or the number of people who either regained their vision or were prevented from going blind. It all comes down to people and health. That's the bottom line.

One of things we're looking for is unmet medical needs and to see what we can do there. That's a big area that has been neglected, and we're prepared to take that on. We're not going to make any money from it; it's part of being a good corporate citizen.

Our 2003 annual report opens with this phrase: "We will define success as something broader than performance in the marketplace."

Q: Do you find that you are at the forefront of a movement involving other businesses?

A: It's not limited to us. But because Pfizer is the third- or fourth-largest company in the world by market capitalization, and because we're in health care, which affects everybody and is tied to everyone's economy, I think that what we do has a big impact and therefore it's really important that we do it.

I also think there is a trend among industry leaders. I know that my counterparts at Microsoft, Hewlett-Packard, Coca-Cola, DuPont, are all moving in the same direction. ■

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