

Global Health & Corporate Responsibility at Novartis

Defining the Global Health & Corporate Responsibility priorities

Novartis recognizes society's increasing expectations of our industry and our company. In recent years, many aspects of our business model have been debated and questioned in public settings, including how we price our medicines, engage with physicians, and leverage intellectual property to protect our innovations. These are industry issues, but our own behavior has sometimes contributed to these perceptions, as we have lacked transparency and faced allegations of inappropriate behavior. We are committed to living up to stakeholder expectations as we endeavor to increase the positive social impact we have on patients, stakeholders, the communities in which we operate, and society at large.

Our purpose is to improve and extend people's lives. We aim to develop breakthrough therapies and deliver them to as many people as possible. Building trust with our stakeholders is critical to our ability to deliver on our purpose, as well as our long-term financial performance. We have a clear strategic path that we believe will further accelerate our journey to build trust with key stakeholders and society. Our Global Health & Corporate Responsibility (GH&CR) activities are centered around four key focus areas:

- Holding ourselves to the highest ethical standards
- Being part of the solution on pricing and access to medicines
- Helping tackle global health challenges
- Being a responsible citizen

We are committed to taking real, measurable and reportable action in these key areas, and making sure that we communicate about them clearly and transparently. We are also determined to learn from and share our experience.

Identifying our key issues

We conducted our third full corporate responsibility (CR) materiality assessment in 2017. The results identified four material CR issue clusters: access to healthcare, innovation, patient health and safety, and ethical business practices. Within these clusters, priority topics have been identified. These topics are at the core of the four GH&CR focus areas outlined above, and are covered in the following sections of this report. For more details, download the [2017 Corporate Responsibility Materiality Assessment](#).

Streamlining our governance

In 2018, we strengthened our efforts to further integrate access to healthcare across our portfolio. To better reflect this increased breadth and scope, the company changed the name of the function responsible for leading this work to Global Health & Corporate Responsibility.

The Governance, Nomination and Corporate Responsibilities Committee (GNCRC) of the Board of Directors continues to oversee the company's strategy and governance on GH&CR topics.

We simplified the other CR governance bodies from three to one. The new GH&CR leadership team includes representatives from the business divisions and relevant functions. The Group Head of Global Health & Corporate Responsibility continues to report to the CEO of Novartis. We believe this new leadership structure will help ensure alignment behind a comprehensive GH&CR strategy, enabling its smooth rollout and integration into the business and streamlining objectives and monitoring of impact.

The CEO and the other Executive Committee of Novartis (ECN) members have a simplified balanced scorecard in 2018 that will be used in calculating their

compensation, which includes four strategic non-financial objectives, one of which is access to healthcare (see [Item 6, p146 of the Novartis Annual Report 2018](#)).

Engaging with key stakeholders

The GH&CR team, including Novartis Social Business and the Novartis Foundation, continues to engage with a wide range of stakeholders, including patients and caregivers, associates, healthcare providers, governmental and nongovernmental organizations, shareholders and other financial market participants, local communities, and partners from the pharmaceutical and other industries.

In September, we held an investor call focused on GH&CR priorities, and speakers included the Group General Counsel and the Group Head of GH&CR. In addition, we held a number of sustainability-focused calls with investors and investment groups, and we ran several sustainability-focused meetings during the year.

Highlights included hosting a two-day meeting of the Impact Valuation Advisory Council in October; a Novartis Social Business stakeholder dialogue held in Singapore in November; and a stakeholder event held in Basel in December, called "Reimagining Access: How to Make Innovation Accessible to More People in a Sustainable Way." Additionally, our CEO delivered a keynote address at the annual BSR Conference in New York in November, during which he presented the company's approach to building trust with society.

Novartis also strives to engage in constructive dialogue with policymakers and other external stakeholders, with the specific purpose of introducing our perspective into the policymaking process. Representing our perspective

and providing policymakers with data and insights enables informed decision-making conducive to improving patient outcomes. We also work closely with trade associations and participate in industry initiatives, which create opportunities to raise industry standards and exchange best practices. A list of our memberships can be found in the appendix on [page 58](#).

Novartis makes financial contributions to support political dialogue on issues of relevance to the company or to certain government projects (e.g., for capacity-building). Such contributions need to be fully compliant with applicable regulations, and we only make political contributions in countries where such contributions by corporations are both legal and generally considered appropriate. We publish the amount of these contributions on our website and, for the US, in the Novartis in Society US report.

Measuring and valuing our impact

The Novartis financial, environmental and social (FES) impact valuation is our approach to measuring the social and environmental impact our business activities have on society, in addition to our economic value. We first developed, tested and applied our methodology in 2016.

Since then, we have further developed the approach, significantly expanding the scope. In 2017, this approach showed that our activities contributed USD 84 billion to the global gross domestic product (GDP), as well as an estimated 830 000 jobs beyond those held by our own employees. In addition, our human capital impact – including employee development, occupational safety and living wages – was valued at USD 7.0 billion, with USD 6.6 billion coming from the social impact of living

wages in our own operations and the entire supply chain, and USD 0.4 billion coming from employee development and occupational safety. At the same time, we are taking steps to minimize our negative environmental impact, as measured by the carbon, other air emissions, water and waste impacts of our own operations and supply chain, which were valued at USD 4.7 billion. For the first time in 2017, we calculated the social impact of a large part of our Innovative Medicines portfolio in 29 countries, amounting to USD 72 billion.

Our impact valuation efforts are still evolving, with gaps to be filled in methodologies and data. In 2018, a number of Novartis case studies were published, aiming to address these gaps. For 2017, induced effects were added as additional air emissions and water impacts in the supply chain. The increased scope explains the change in results compared to 2016. For more details, see appendix [page 59](#).

Novartis financial, environmental and social impact 2017

Indicator	Results ¹	Remarks
Financial		
GDP contribution	USD 84 bn	Own operations USD 48 bn, indirect impacts USD 19 bn, induced impacts USD 17 bn
Employment	830 000	Own operations 121 000, indirect 360 000, induced 470 000
Economic inefficiencies		Not valued in 2017; no methodology available
Total taxes		Not valued globally in 2017
Environmental		
Climate, energy and air pollution	(USD 3.8 bn)	Own operations USD 220 m, indirect USD 1.5 bn, induced USD 2.1 bn
Water and waste	(USD 900 m)	Own operations USD 48 m, indirect USD 283 m; induced USD 413 m, downstream USD 149 m
Other environmental impacts		Land use, biodiversity not valued in 2017
Social		
Living wages	USD 6.6 bn	Own operations USD 1 bn, indirect USD 5.6 bn
Employee development	USD 370 m	Own operations
Occupational safety	(USD 3 m)	Own operations including third-party personnel (field force not yet covered)
Other human capital impacts		Employee well-being, voluntary turnover, human rights beyond living wages not valued in 2017
Products	USD 72 bn	Large part of the Innovative Medicines portfolio in 29 countries

¹ All figures refer to 2017. 2018 data is not yet available.

Valuing the global impact of Novartis – Five questions to John Elkington

In 2018, Novartis convened a group of experts to form its Impact Valuation Advisory Council (IVAC), with the following goal: to road test and improve the company's approach to impact valuation, building momentum for wider adoption across its global business to guide business outcomes that can create financial, environmental and social value. John Elkington¹ is the chair of IVAC. Other members include Amanda Feldman (director, Impact Management Project), En Lee (partner and head of Asia-Pacific, LGT Impact), Jelena Spanjol, Ph.D. (head, Institute for Innovation Management, Munich School of Management), and Mathis Wackernagel, Ph.D. (founder and president, Global Footprint Network). The first IVAC meeting was held in Basel in October 2018.

You coined the term “triple bottom line” 25 years ago. Where are we now?

Understood as a sustainability framework that examines a company's social, environmental and economic impact, my intention with the “triple bottom line” (TBL) was for it to be the basis of a world where people and planet were valued on par with profits. The concept has been widely adopted over the years, powerfully shaping ESG (environmental, social and governance) ratings, Global Reporting Initiative-style reporting, and the rapidly growing B Corporation movement.

But too often we see a trade-off mentality, where “shared value” is targeted across two bottom lines, at the expense of the third. In honesty, we still live in a world where the system deems profit and the financial bottom line as the

bottom line, the single measure of company success.

That's why I proposed a “product recall” for the TBL in June 2018, through the Harvard Business Review. Tomorrow's impact will be measured using tomorrow's impact tools, hopefully including a rebooted TBL.

Why is impact valuation seen as increasingly important?

There is growing market awareness that impact valuation – the quantifying of impacts in monetary terms – can bring key social and environmental value into the equation. Challenges once seen as peripheral are becoming financially “material” – a trend illustrated by BlackRock CEO Larry Fink's call in 2018 for urgent progress in this area.

How is the impact valuation work of Novartis helping advance the field?

The work Novartis is doing in the space goes beyond what most companies aspire to. In addition to publishing data on its impacts, both positive and negative, Novartis is openly sharing its evolving impact valuation methodology through detailed case studies. That's a huge boost for the entire field.

What are the strengths and weaknesses of the company's approach?

This is a practical, bottom-up approach, prioritizing the development of key indicators for topics highlighted in the firm's CR materiality assessment.

The next challenge: to make the methodology both accessible to and applicable across more

parts of the business. As challenges such as data granularity are overcome, the focus will expand to using impact valuation to drive and inform strategy and decision-making processes at Novartis.

What is the next step in impact valuation?

The widespread adoption of impact measurement and management has the potential to transform financial markets – where investors allocate capital toward companies that are eliminating negative impacts while creating positive impact.

The [Impact Management Project](#), which aims to accelerate this shift (and is represented on the IVAC by Amanda Feldman), signals the next stage of the Impact Revolution. Corporate goals, performance and reporting are already increasingly being tested against more ambitious benchmarks, linked to the [UN Sustainable Development Goals](#) (and the [World Benchmarking Alliance](#)), [Science-Based Targets](#) or the [Future-Fit Business Benchmark](#).

Even more importantly, new technology – including machine learning and artificial intelligence – will massively boost the utility of the data gathered.

Novartis could continue to contribute toward this global shift by engaging and leading by example.

¹ Author, advisor and entrepreneur; co-founder and executive chairman of Volans; and co-founder of SustainAbility

Indirect impacts in Switzerland

In Switzerland (Basel), where we are headquartered, Novartis offers jobs not only directly but also indirectly as a buyer of goods and services from suppliers, including many small- and medium-sized enterprises. In 2018, the company placed orders worth about CHF 2.4 billion with companies in the 26 Swiss cantons. Novartis indirectly secured more than 58 000 jobs in Switzerland through the procurement of products and services. Major areas of procurement include laboratory equipment, information technology products and services, raw materials, building costs, fixtures and fittings, and chemical products.

Contributing to the UN goals

We have a long-term commitment to support the United Nations in achieving its development goals, starting with the Millennium Development Goals and, since their adoption in 2015, the [Sustainable Development Goals](#) (SDGs). As a leading healthcare company, ensuring good health and well-being ([goal 3](#)) is at the core of our business and is aligned with our purpose of reimagining

medicine to improve and extend people's lives. Through our business operations and ongoing activities, we make essential contributions to [goal 8](#) (decent work and economic growth), [goal 9](#) (innovation and infrastructure), and [goal 13](#) (climate action). We harness the power of partnerships ([goal 17](#)) to discover and develop breakthrough treatments and deliver them to as many people as possible. In 2018, we made further commitments to help increase our contributions to [goal 5](#) (gender equality), and we strengthened our environmental targets to further align with [goal 6](#) (clean water and sanitation), [goal 7](#) (affordable and clean energy), and [goal 12](#) (responsible consumption).

As an original signatory of the UN Global Compact (UNGC), we are committed to sharing our progress in implementing the 10 principles of the compact. This report serves as our UNGC Communication on Progress. We will also publish a more detailed [UNGC Index](#) on our website in the first quarter of 2019.

A mapping of our activities against the SDGs and the UNGC principles can be found in the [GRI Content Index on page 51](#) of this report.

Photo Dr. Helen Yifter checks the blood pressure of Amina Shafi, 62, who has type 2 diabetes. Every three months, Ms. Shafi travels by bus to visit Dr. Yifter at Black Lion Hospital.

The UN Sustainable Development Goals offer a compelling vision and a sound framework for a fairer world – one with improved long-term prospects for peace and growth. We believe stable and reliable healthcare systems are vital for economic and social progress, and Novartis remains a willing partner in these efforts

Joerg Reinhardt
Chairman of the Board of Directors

