



# Is Merck's corporate social responsibility good for the global health?



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**Is Merck's corporate social responsibility good for the global health?  
-For the right reasons, not for public relations and market expansion  
motive?**

## **1. Background**

Corporate Social Responsibility (CSR) has been one of the leading topics at recent World Economic Forum (WEF) meetings. In contrast to Milton Friedman's view of limiting CSR to increase its profits<sup>1</sup>, a report from the WEF observes that the three key pressures- corporate competitiveness, corporate governance, and corporate citizenship- and the linkages between them will play a crucial role in shaping the agenda for business leaders in the coming decade.<sup>2</sup> It elaborates on corporate citizenship, such as "in the face of high levels of insecurity and poverty, the backlash against globalization and mistrust of big business, there is growing pressure on business leaders and their companies to deliver wider societal values."<sup>2</sup>

In parallel with the increasing calls for business to assume wider responsibilities in the social arena and claims, pharmaceutical companies are increasingly turning to CSR to repair its damaged reputation and boost the bottom line. The public perception that drug companies profit grossly and often unethically from matters of life and death has led to public mistrust. Reports of pharmaceutical companies' frauds or settlements in legal cases aggravate matters further.<sup>3</sup> In an increasingly competitive marketplace with dwindling new drug product pipelines and soaring generic penetration, public relations setbacks potentially have enormous repercussions on the bottom line. Therefore, the benefits for outreaching CSR practices can be manifold, although effective CSR programs will not be a cheap practice for companies. Embracing CSR can redeem the industry's reputation with the general public<sup>4</sup>, since there is strong external pressure on pharmaceutical companies to help combat global health problems. Therefore, access to medicines initiatives has long been the focal point of pharma's CSR strategy not only to retain brand reputation, but also to develop access in developing markets.

Merck & Co., Inc., established in 1891, is currently one of the world's seven largest pharmaceutical companies by market capitalization and revenue with operation in more than 140 countries.<sup>5</sup> It is of interest to notice George Merck's (son of the Merck's founder) words in a speech at the Medical College of Virginia in 1950: "We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered that, the larger they have been."<sup>6</sup> Apparently, the Merck's senior leader had recognized a responsibility not just to its shareholders, but also to the wider society audience around the world. One of the best illustrations of Merck's CSRs came during World War II, when Merck made streptomycin, a powerful antibiotic to treat tuberculosis and varieties of infectious disease, freely available to patients.<sup>7</sup> Merck has also been conducting many CSR programs for its employees and communities. Recently Merck is actively initiating many CSR programs for global health initiatives, such as Mectizan Donation Program (MDP), UN/Industry Accelerating Access Initiative, African Comprehensive HIV/AIDS Partnership (ACHAP), Global Alliance for Vaccination and Immunization (GAVI), etc.<sup>8</sup>

This paper attempts to analyze the Merck's CSR programs focusing on the MDP which is the most well-known CSR example from pharmaceutical companies. Merck's vision and philanthropy strategy, costs and outcome for the MDP program will be analyzed. Then, main challenging issues for Merck's CSR programs, such as monitoring and evaluation as well as transparency and accountability of the company's business practice on CSR programs, will be examined followed by some recommendations.

## **Merck's vision and corporate philanthropy strategy**

Merck's missions are to be fully responsible for 1) profitable economy, 2) abiding the laws of society, 3) ethicality to do what is right, just, and fair, and 4) philanthropy to contribute to various kinds of social, educational, recreational, or cultural purposes.<sup>9</sup> In response to global social activism<sup>10</sup>, Merck has adopted various voluntary regulatory standards to protect its reputation and brand.<sup>11</sup> Among these regulations, Merck

emphasizes a code of conduct, aligning with ethical and philanthropic responsibilities, which includes their five core values: 1) business for preserving and improving human life, 2) the highest standards of ethics and integrity, 3) the highest level of scientific excellence to improving human and animal health, 4) profits, but only from work that satisfies customer needs and benefits humanity, and 5) to most competitively meet society's and customers' needs.<sup>12</sup> In addition, Merck institutionalized its commitment to CSR in 1957 by creating the not-for-profit Merck Company Foundation to fund most of its charitable activities.<sup>13</sup> It is said that, since its inception, the Merck Company Foundation has contributed more than \$560 million to support important initiatives that address societal needs and are consistent with Merck's overall mission to enhance the health and well-being of people around the world.<sup>14</sup> Merck's annual charitable spending comes predominantly (over 80%) from the Foundation's endowments, supplemented with cash contributions from Merck operating funds.<sup>15</sup>

Although Merck undertook a wide range of philanthropy work on the national level, the majority of its initial contributions programs were diffused and unfocused rather than being tied to well thought-out social or company goals.<sup>16</sup> The major growth in Merck's charitable spending and donations can be traced to a shift in the Foundation's strategy in the mid-1990s with changes from education in the U.S. to global initiatives, from many little projects to few larger ones, and towards evaluating the impact of charitable programs.<sup>17</sup> In doing so, Merck's philanthropy priorities are now aligned with their business capabilities and mission, particularly for improving/expanding global access to healthcare, promoting/integrating environmental sustainability, and contributing to local communities where Merck has major facilities. In 2006 alone, Merck's philanthropic contributions totaled \$826 million (see Figure 1 in Appendix).<sup>18</sup>

Besides the Merck Company Foundation, Merck has invested to create inside governances for CSR. This CSR framework and commitment to annually review its progress towards the goals and objectives of the framework are expensive processes. Without Merck's understanding that CSR is an effective business organizing strategy for increasing the financial bottom line while simultaneously building civil society, the investment and commitment to its CSR would be not possible. Nowadays there are the Foundation's Oversight Committee, Office of Corporate Responsibility, Public Policy

and Responsibility Council, Corporate Responsibility Report Working Group, Executive Committee, Board Committee on Public Policy and CSR, and Ethics Office to oversee and ensure its CSR programs.<sup>19</sup> Merck's 40 pages of Code of Conduct are translated in 27 languages with comprehensive internal and external ethics training, and awareness programs are thorough.<sup>12</sup> Additionally Merck Group International has signed the United Nations Global Compact on international standards for CSR.<sup>20</sup> In response to its growing portfolio of global health initiatives, the Merck Company Foundation has been established in four ethics centers around the world (UAE in 1998, South Africa in 2000, Columbia in 2001, Turkey in 2003), while engaging a partnership with the W.D.C.-based Ethics Resource Center (ERC).<sup>21</sup> Furthermore, Merck also explores ways to recruit other drug companies in providing affordable drugs to developing countries while sustaining their research and development programs.

### 3. Analysis on Merck's CSR programs focused on the MDP

Onchocerciasis, more commonly known as "river blindness" is transmitted through the bite of black flies and can cause intense itching, disfiguring dermatitis, eye lesions, and over time blindness and premature death. More than 100 million people are at risk of infection, and it is estimated that 18 million are currently infected. Mectizan is a broad-spectrum anti-parasitic medicine which rapidly kills microfilaria. However, since it does not kill the adult worms, infected individuals need annual single oral dose of Mectizan for the 10-15 year which is a life span of the adult worms. In 1987, Merck began a program to donate its new drug Mectizan to "all that need it for as long as needed."<sup>22</sup>

The MDP is a multi-sectoral private-public-partnership involving the World Health Organization (WHO), the World Bank and the UNICEF, as well as ministries of health, non-governmental development organizations and local communities to provide medical, technical and administrative oversight of the donation of Mectizan<sup>22,24</sup> (see Figure 2 in Appendix). Cross functional management teams, such as the Mectizan Expert Committee, the Mectizan Donation Program Secretariat at the Task Force for Child

Survival & Development, and Office of Contributions, participate in design, oversight, evaluation, and reporting. Applying organizations and ministries must demonstrate the ability to distribute Mectizan safely and effectively to endemic areas for at least five years, with appropriate systems established for storage and handling of drugs, surveillance, management and reporting of adverse drug reactions, recordkeeping and reporting of treatments administered on an annual basis.<sup>22</sup>

Since the program's inception, Merck has donated more than 2 billion tablets of Mectizan, with more than 600 million treatments approved since 1988. In December of 2007, Merck announced a donation of \$25 million over eight years as part of an initiative with the World Bank to raise approximately \$50 million to help eliminate river blindness in Africa. The World Bank has raised the remaining \$25 million, providing all the funding necessary for 28 African countries affected by river blindness to develop self-sustaining Mectizan distribution programs by 2015. The program currently reaches approximately 80 million people in 30 African, six Latin American countries, and the Middle East (Yemen) each year.<sup>25</sup> Today, the delivery system for Mectizan also provides a mechanism to support other health and social services, such as treatment for the prevention of lymphatic filariasis, vitamin A distribution, cataract diagnosis, immunization campaigns, training programs for community health workers and census-taking.

Merck's involvement is considered a key factor in the success against the river blindness disease all over the world. Cost-effectiveness and cost-benefit analysis studies for the MDP by WHO and the World Bank indicated that the program indeed thrives for public benefits, with decreased incidence of river blindness patients in the developing countries (see Table 1 in Appendix). The results were also verified by prestigious research groups such as Johns Hopkins-Bloomberg School of Public Health.<sup>26</sup>

#### 4. Main issues and recommendations

Margolis and Walsh have examined nearly 100 studies of the relationship between CSR performance and corporate financial performance (CFP) over the last 30 years.<sup>27</sup> Most studies point to a positive relationship between CSR performance and CFP. Of the 80 studies that examined whether CSR performance predicts CFP, 42 found a positive relationship, 19 found no relationship, 15 studies reported mixed results, and only four studies found a negative relationship. Recently, the debate about CSR has shifted, that it is no longer about whether to make substantial commitments to CSR, but how.<sup>28</sup> Major identified issues from the current analysis are monitoring/evaluation of CSR programs and transparency/accountability of the company's business practices.

- **Monitoring/evaluation on CSR programs**

Although evaluation for its CSR program like the MDP indicated that the program indeed thrives for public benefits, Merck began to re-evaluate how to measure its corporate responsibility efforts since 2010.<sup>29</sup> Merck had categorized the existing measurements according to the priority areas of its new framework: Access to Health, Environmental Sustainability, Employees, and Ethics and Transparency. Then, the list of 36 key performance indicators (KPIs)<sup>19</sup> has applied globally to cover and serve all the business units with the exception of joint ventures as a baseline measurement for the CSR activities. Merck is reporting on this complete list of measurements in its CSR report from year of 2011.<sup>20</sup> Still, current sets of key performance indicators at Merck are very complex (see Table 2 in Appendix). Consequently, it will be difficult to convey its CSR performance internally as well as externally. Therefore, Merck needs to work on simplified version for better communicating with publics and stakeholders, while keeping current matrix for actual evaluation, if necessary. Clearer and better communication with outside evaluators, especially a third party, will be a win-win strategy certification. For example, Merck in recent years has won numerous recognitions such as award for the environmental protection efforts and top on the list of "1000 Most Sustainable Companies"<sup>31,32</sup> meeting the criteria for inclusion area ranked according to financial, environmental, social, and corporate governance key performance indicators. And

financial management companies screening their portfolios against nonfinancial criteria such as CSR or the ethical investing community enlist Merck belongs on their portfolio like the Calvert Large Cap Value Fund Engagement companies.<sup>33</sup>

- **Transparency/accountability of the company's business practices**

Even though Merck's intension and success of the MDP is publicly praised, certain business practices by Merck are not free from public criticism. Few recent cases are Vioxx case, payment of reprinted articles which are favorable to Merck on phony medical journal, and Medicaid overbilling filed by whistleblowers, which Merck agreed to pay more than \$650 million without an admission of liability or wrongdoing.<sup>34</sup> For instance, in 1999, the U.S. Food and Drug Administration (FDA) approved Vioxx for treating arthritis, which became one of the most prescribed drugs in history. However, further studies by Merck and by others found an increased risk of heart attack associated with Vioxx. Then Merck adjusted the labeling of Vioxx to reflect possible cardiovascular risks in 2002 and notified the FDA that it was voluntarily withdrawing Vioxx from the market. The FDA has since recommended that Vioxx be put back on the market, but with a more prominent warning regarding cardiovascular risks on its label. Still, lawsuits by about 50,000 people who used Vioxx were followed, which ultimately have cost Merck \$58 million settlement.<sup>35</sup> However, in 2004 the prestigious medical journal the Lancet published that "the unacceptable cardiovascular risks of Vioxx were evident as early as 2000..."<sup>36</sup> and criticized Merck for having kept the drug on the market as long as it did before withdrawing it.

It is apparent that violation on CSR practices is very costly, not greenwashing.<sup>37</sup> Therefore, Merck should increase visibility for the right and wrongs of business up front using technology, oversight bodies, and third-party reporting system. Shareholder engagement, which Merck has initiated from 2010 with limited presence, to exchange information, views and recommendations, and share activities and progress against key goals should be encouraged more actively by the form of one-on-one meetings, expert input forums or roundtable discussions, industry coalitions or formal partnerships. Greater transparency on the Merck website about information on policy, lobbying costs,



trade associations and other tax-deductions for its donation will guide and ensure Merck's sound and responsible business practices.

## 5. Conclusion

There are many foreseeable reasons why Merck wants to integrate CSR into its business. Besides improving brand reputation around the world and attracting and retaining employees and investors, there are important financial benefits in meeting the higher social and environmental standards and in differential marketing for the products.<sup>38</sup> As Merck's affirmative corporate social agenda moves from mitigating harm to reinforcing strategic philanthropy tied with a social issue<sup>36</sup> for global health initiatives, the greater benefit both for the public and the firm has been achieved. Since 1987, the MDP has approved more than 530 million treatments of Mectizan for river blindness. In retrospect, Merck CEO's decision more than two decade ago, "a Mectizan's open-ended donation" is responsible for an unparalleled success story of CSR by a pharmaceutical company, after Merck pursued unsuccessfully both commercial sales at market prices and third-party payers at either market or discounted prices.<sup>24</sup> Nowadays, through commercial activities and CSR programs, Merck is creating innovative business solutions that are able to reach both of those markets in different ways while delivering wide societal value such as providing medicine access to poor developing countries. Regardless of whether the purpose behind Merck's motivation for CSR programs is to boost to its corporate image and brand identity, to mitigate effects of disaster like the Vioxx incident, or to use as a powerful recruitment tool, we need to foster private companies' CSR activities and encourage its CSR-related processes with better accountability and transparency across the company. When company's CSR strategies are aligned with its business strategies, private corporations will be able to generate commercial business and investor interest while providing goods for the global health. Excellent example of corporate citizenship can stimulate other companies to emulate the CSR activities. By adopting autonomous governance structures and increasing

transparency by external verification, firm's CSR efforts would be more credible to its target stakeholders including publics.

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## Appendix

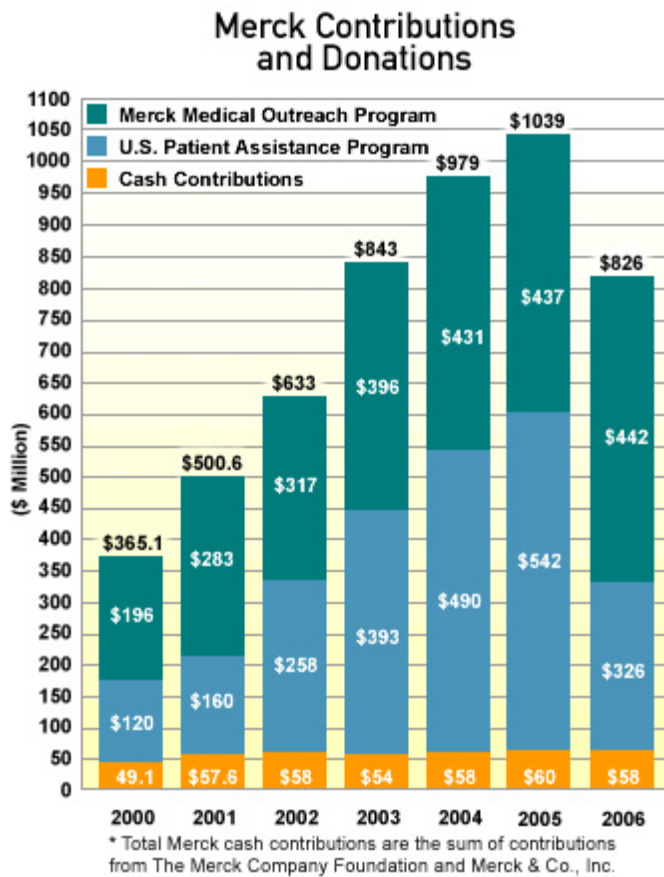
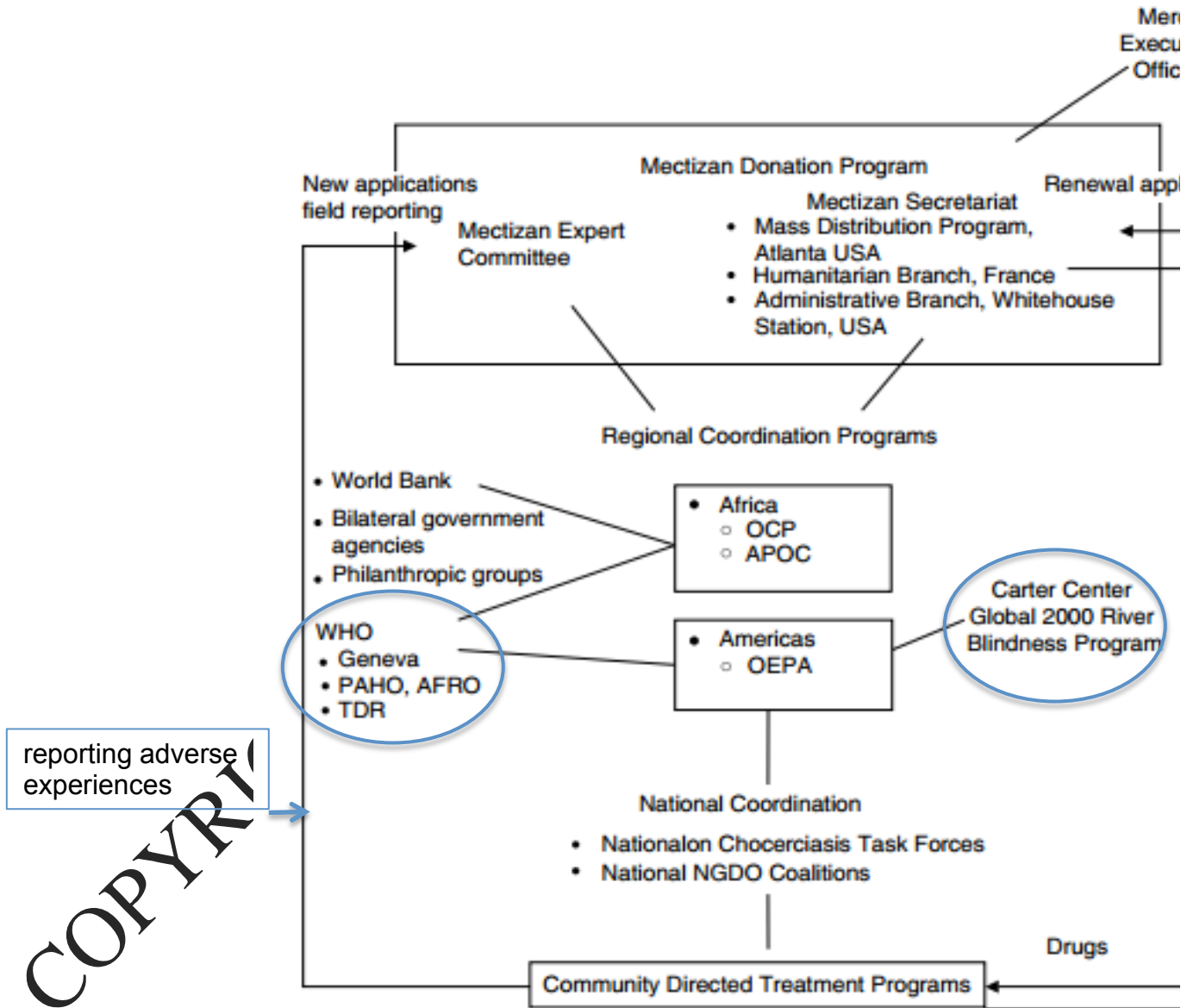


Figure 1. Merck Contributions and Donations.<sup>18</sup>



**Figure 2. Mectizan Donation Program and Partnerships**

(Adapted from Peters and Phillips<sup>24</sup>).

**Table 1. Economic Cost, Cost-Benefit, Cost-Effectiveness Analyses on Merck's MDP.**<sup>24-26</sup>

|                             |   |
|-----------------------------|---|
| Economic cost               | Permanent workers at the coffee plantation without onchocercal skin disease (OSD) earned, on average, 29.7 Birr (\$5.32 = 5.2% of per-capita GDP) more per month than workers with disease  |
| Cost-benefit analysis       | <ul style="list-style-type: none"> <li>- Net Present Value (NPV) including both land and labor benefits: \$3.7B over a 39 year program life and using a 3% discount rate or \$485M using a 10% discount rate.</li> <li>- NPV of \$15.5 million and ERR of 6% at a 10% discount rate for the 1996–2009 project horizon, while for the 1996–2017 project horizon the NPV was \$53.7 million and the ERR was 17%.</li> <li>- NPV using a 3% societal discount rate to be \$307 million, for an ERR of 24%, and a corresponding NPV of \$87.6 million with a 10% discount rate</li> </ul> |
| Cost-effectiveness analysis | <p>Persons with OSD spend an additional \$8.10 over a 6-month period in comparison with their non-OSD counterparts, and to spend an additional 6.75 h seeking health care over the same 6-month period.</p> <p>Average per-capita annual health expenditures in Nigeria, Sudan and Ethiopia are \$23, \$48 and \$25, respectively</p>   |



**Table 2. Key Performance Indicators (KPIs) at Merck.<sup>19</sup>**

| KEY PERFORMANCE INDICATORS (KPIs)   |
|---|
| access to health*   |
| Research & Development  |
| <b>Research &amp; Development</b>   |
| Percentage of <u>top 20 global burdens of illness</u> addressed by our products and pipeline (as defined by WHO and excluding accidents, premature birth and self-inflicted injuries) |
| Number of GCP/PV audits by regulatory agencies of Merck or clinical trial investigators that led to significant fines, penalties, warning letters or product seizures                 |
| Number of (new) initiated licenses for new technologies   |
| Narrative of compounds provided to Product Development Partnerships   |
| <b>Manufacturing &amp; Supply</b>   |
| Number of <u>product recalls</u> in the United States   |
| Number of countries we currently supply with our products   |

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Number (and examples) of local and regional manufacturing partnerships (globally)

Number of products available via local and regional partnerships

**Registration**

Number of new registrations (per year) by region

Percent of local regulatory agency GCP/PV training requests fulfilled which will help strengthen agency capabilities with their GCP/PV compliance oversight role

Enumeration of products that are submitted or have achieved WHO pre-qualification

**Commercialization**

Number of products for which we have access pricing

Number of countries where at least one product has intra-country pricing of public and private sectors

Amount of investment into patient and provider education programs

**Community Investment**

Number of healthcare workers trained through our major programs and partnerships

Amount of investment in partnerships for activities to address underlying barriers to health, such as nutrition and access to clean water.

Number of patients reached through our major programs & partnerships

**environmental sustainability**

Total Greenhouse Gas (GHG) emissions (as CO<sub>2</sub>e) (million metric tons)

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|   |
|---|
| Emissions of <u>Volatile Organic Compounds (VOCs)</u> (metric tons)                                   |
| Total <u>water usage</u> (billions of gallons)  |
| <u>Hazardous waste generated/recycled</u> (metric tons)   |
| <u>Non-hazardous waste generated/recycled</u> (metrics tons)  |
| <b>employees</b>  |
| <b>Diversity &amp; Inclusion</b>  |
| Percentage of women in executive roles ** ( <u>US</u> )   |
| Percentage of <u>women on the Board</u>   |
| Percentage of <u>under-represented ethnic groups on the Board</u>                                     |
| Percentage of under-represented ethnic groups in the workforce ( <u>US</u> )                          |
| <b>Wellbeing</b>  |
| Percentage of <u>employees engaged or fully engaged</u> (Merck Culture Survey)                        |
| Percentage of employees who completed health assessment (US)  |
| Overall <u>turnover rate</u> *** (%)  |
| Employee <u>Lost Time Incident Rate (LTIR)</u>  |
| Employee <u>Recordable Injury Rate (RIR)</u>  |
| <b>Volunteerism</b>   |
| Percentage of employees who took release time according to the global policy on employee volunteerism |
| Total number of volunteer hours   |
| <b>ethics &amp; transparency</b>  |

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Percentage of employees trained on our Code of Conduct

Number of substantiated concerns raised to the Office of Ethics/Ombudsman/AdviceLine

Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data

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