



Chain reaction

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By implementing standards of business conduct beyond corporate and national boundaries, Novartis is not only improving relations with suppliers but also boosting its own performance.

Hinjewadi, around 200 kilometers southeast of Mumbai in the Indian state of Maharashtra, is a booming IT and biotechnology center. Here, Emcure Pharmaceuticals Ltd. manufactures medicines (dosage forms) for Novartis at a state-of-the-art manufacturing facility complying with global standards. But this has not always been the case. Up until a few years ago, production operations at Emcure fell short of what is now expected with regard to quality assurance, environmental impacts and working conditions. To meet international requirements, a new, state-of-the-art production plant was needed. As a long-standing client, Novartis supported Emcure's planning processes. On the basis of their own experience in the construction of facilities of this kind, Novartis experts advised the Indian company on the design and layout of the new plant and equipment. Under its Third Party Management program, Novartis also supplied the necessary expertise for the installation of the machinery and the commissioning of the new production facility in Hinjewadi.

Besides having a social aspect, this type of know-ledge transfer also serves economic interests and can promote prosperity at the regional level. Thanks to the involvement of Novartis, Emcure was in a position to enhance its skills and technical expertise, to improve working conditions at the company, and to conform to international standards. At the same time, the efficiency of Novartis' own supply chain was increased. Today, Emcure's compliance with global standards makes it an attractive supplier for international customers.

“For Emcure, compliance with quality standards has always been a top priority, as has employee satisfaction. Accordingly, over the years, the company has enjoyed an attrition rate below the industry average. In line with the growing awareness of Health, Safety and Environment concerns in recent years, Emcure has implemented all the necessary measures to meet global standards.”

Emcure management

At the new production plant, 162 employees now work in an ultramodern environment. Here, solid dosage forms – tablets and capsules – are produced and packaged over an area of 4500 m², with a wide variety of active substances. The facility operates in accordance with current Good Manufacturing Practice (GMP) and has been accredited by international regulatory authorities (US FDA, UK MHRA, WHO, South African MCC). Emcure has also undergone Health, Safety and Environment audits carried out by other major pharmaceutical companies and met all their expectations. The company is today one of India’s fastest-growing pharmaceutical manufacturers and is engaged in highly promising alliances with some of the world’s largest drugmakers. It is currently exploring the possibility of contract-manufacturing products for global markets for various parts of the Novartis organization.

What does Third Party Management involve?

Third Party Management at Novartis is a key element of the Group’s Corporate Citizenship (CC) initiative. The aim of the Third Party Management Guideline is to establish standards of business conduct throughout the supply chain, while improving productivity at the same time. To achieve this goal, Novartis gives preference to suppliers and service providers that share the societal and environmental values set forth in the UN Global Compact. Novartis expects Third Parties to comply with minimum standard requirements concerning human rights, fair working conditions, and health, safety and environmental protection and anti-corruption. The way in which Novartis purchases supplies and contracts out manufacturing operations not only influences the company’s cost structures but shapes its own and its suppliers’ attitudes to working conditions and other internationally recognized standards. Novartis is thus seeking to make a significant contribution to the implementation of the Global Compact and – within its own sphere of influence – to promote improvements in social, environmental and economic conditions worldwide.

“As Novartis operates all over the world, we are faced with differences in the legal, social and cultural environments. This means that many of our business partners apply standards that are different from ours. While some of these differences are not material, there are limits to what a company competing with integrity can accept: Novartis expects our business partners to adhere to all national and other applicable laws and regulations governing protection of the environment, occupational health and safety, and labor and employment practices wherever we do business. Beyond that, we work with our business partners towards achieving the goals of Corporate Citizenship on a long-term and sustainable basis.”

Thomas Wellauer, Head Corporate Services, Novartis

Specifically, Novartis expects suppliers and service providers to comply, wherever they do business, with all national and other applicable laws and regulations governing environmental protection, occupational health and safety, and working and employment practices. In addition, Third Parties are expected to establish management systems (principles, plans and performance measures) designed to implement these requirements, and to provide for compliance assurance and continuous improvement.

Commitment to the UN Global Compact

Novartis was among the first signatories to the Global Compact, an initiative launched by UN Secretary-General Kofi Annan in 1999. Multinational companies in particular were invited to support the initiative by embracing “Ten Principles” under the headings of human rights, labor standards, environment and anti-corruption. Given their expertise and resources, companies that operate worldwide have a special responsibility to use their global influence in the promotion of socially and environmentally sustainable economic development.

The Ten Principles of the Global Compact

Human Rights:

1. Supporting and respecting the protection of internationally proclaimed human rights
2. Ensuring that one’s own business is not complicit in human rights abuses

Labor Conditions:

3. Upholding freedom of association and effectively recognizing the right to collective bargaining
4. Eliminating all forms of forced labor
5. Abolishing child labor
6. Eliminating discrimination in respect of employment and occupation

Environmental Protection:

7. Supporting a precautionary approach to environmental challenges
8. Undertaking initiatives to promote greater environmental responsibility
9. Encouraging the development and diffusion of environmentally friendly technologies

Anti-Corruption:

10. Working against all forms of corruption, including extortion and bribery

The Global Compact calls on businesses to make these principles an integral part of all their activities. In addition, dialog and partnerships are to be fostered among various stakeholders so that implementation of the Global Compact can be progressively expanded.

The Ten Principles of the Global Compact are applied consistently across the Novartis Group and are firmly embedded in management processes. This commitment has been recognized, for example, by the German Business Ethics Network (DNWE), which awarded Novartis the 2006 Prize for Corporate Ethics.

Novartis fulfills its social responsibility beyond the company's boundaries – not least as a result of its commitment to the Ten Principles of the Global Compact. Novartis is convinced that multinational corporations should assume certain responsibilities in the development and social sphere, on account of their knowledge, skills and financial strength. This conviction is partly based on an awareness of the fact that modern societies are increasingly assigning responsibility to companies for social, ethical and environmental conditions. While – in a globalized world – the capacity of individual states to exercise influence and control is diminishing, international companies have the relevant skills, global value chains and the requisite financial resources. To this extent, corporate social responsibility is of crucial importance – not just within the company but throughout the value chain.

“Together with our suppliers, we seek to ensure that, right across our supply chain, applicable laws are complied with and working conditions and environmental protection measures are improved. In doing so, we are not only reducing our own risk exposure but nurturing relations with our suppliers. At the same time, we are promoting better living conditions worldwide for everyone's benefit.”

Marino Buser, Chief Procurement Officer, Novartis

Motivation: reducing risks and exploiting opportunities

The commitment to establish standards of social, environmental and business conduct throughout the sphere of influence of Novartis is, however, also in the company's own best interests. Global procurement and marketing strategies make a multinational company's supply chain extremely complex. Novartis has a network of almost 200 000 suppliers. Quite apart from the associated legal and financial risks, this entails substantial risks for the company's reputation. Accordingly, Novartis is bound to take an interest in the social, environmental and ethical conditions prevailing in the procurement chain if it wishes to keep its own risk exposure to a minimum, and to enhance the company's attractiveness for ambitious associates, ethically aware customers and also – increasingly – financial markets.

In addition, the supply chain offers numerous opportunities for increasing the efficiency of processes and thereby significantly improving the company's general performance. For example, it is possible to pass on established management processes, increase efficiency and strengthen ties with particularly valuable and reliable suppliers. Thus, social responsibility and economically sound development go hand in hand.

Effective Third Party Management can also help to mainstream the Global Compact principles, as the progressive implementation and application of international standards is self-reinforcing, triggering a positive chain reaction. This means that international companies like Novartis can contribute to the widespread acceptance of the Global Compact idea.

Binding principles for the selection of suppliers

As part of its Corporate Citizenship (CC) initiative, Novartis issued an internal Guideline for Third Party Management. This Guideline specifies how suppliers and service providers are to be selected and monitored, with CC principles serving as evaluation criteria in addition to price and quality. As in the case of the other CC Guidelines issued by Novartis, the principles defined for Third Party Management reflect – and should help to propagate – the principles enshrined in the Global Compact.

- **Remuneration:** Third parties are required to pay their employees a fair wage. In no case should it be less than the legal minimum wage in the country of employment.

- **Working hours:** Third Parties are required to comply with local laws and regulations on working hours. Working hours should not be excessive by local standards and should allow for adequate time for rest and leisure. Overtime is to be voluntary and paid in accordance with local laws and regulations.
- **Forced labor:** Third Parties are required to exclude forced labor and to ensure that the overall terms of employment are voluntary.
- **Child labor:** Third Parties are required to exclude child labor. Local minimum working age laws and regulations are to be complied with. Third Parties should strive to improve the situation within their sphere of influence by awareness building, training and regular performance assessments. Programs to abolish child labor in a manner consistent with the basic interests of the child should be supported.
- **Freedom of association:** Third Parties are required to respect the right of each employee to join a trade union or an employee association. They are to give trade unions a fair chance to compete for the unionization of employees and should be comfortable with collective bargaining agreements, individual arrangements or a mixture of both. Suppliers are not expected by Novartis to be unionized.
- **Discrimination:** Third Parties are required to prohibit discrimination based on race, color, age, sex, sexual orientation, ethnicity, religion, disability, union membership, or political views. They are to protect all employees against harassment in the workplace, including sexual harassment.
- **Security:** Third Parties are required to establish procedures applicable to company security personnel, to protect employees and associated persons from excessive use of force and inappropriate invasions of their privacy. Local custom and government practice are not considered to justify deviations from universally accepted standards of human rights.
- **Health, safety and environmental protection:** Third Parties are required to provide a safe workplace for their employees to prevent accidents and injury to health. At a minimum, Third Parties are to comply with all applicable local health, safety and environmental protection laws and regulations.

How are the principles implemented by Novartis?

Formulating the Guideline was only the first step. Crucial to its success is how it is implemented and monitored, i.e. the management systems, responsibilities and support measures defined.

The Division Heads and the Head of the Novartis Institutes for BioMedical Research (NIBR) are responsible for proper implementation of the Guideline within their Division and Business Units. They nominate a Third Party Officer within their Division (Pharma, Sandoz, Vaccines&Diagnostics, NIBR) and in each Business Units (Consumer Health). The Officer should preferably be the head of a purchasing department or the head of a supply chain function. The Third Party Officers ensure that for all purchasing operations within their Division or Business Unit a reliable Third Party Management system is in place, covering purchasing operations in all affiliates and sites. Responsibility for local coordination at the numerous sites worldwide lies with Third Party Managers. They cooperate closely with the local purchasers, who are in direct contact with suppliers.

Together with the Third Party Officers, the Chief Procurement Officer ensures that the Third Party Management Guideline is applied consistently within Novartis.

Implementation proceeds on two levels: Before Novartis contracts with or renews business relations with a Third Party, the company is evaluated to determine whether it meets the expectations of Novartis concerning the CC principles. This evaluation is accorded the same weight as other criteria, such as price or quality. In addition, where appropriate, Novartis offers support in the development of improvement programs, so as to help suppliers comply with the expected CC standards and deal with existing problems.

For this purpose, Novartis has developed the following **Management Process:**

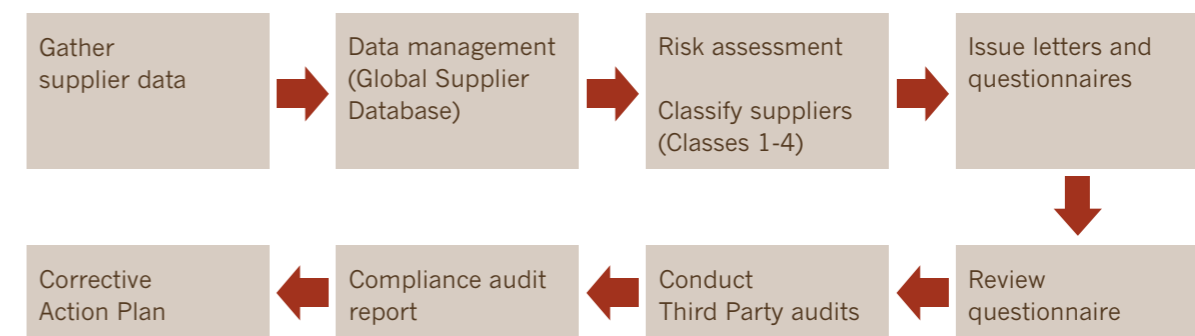
- All suppliers and service providers are made aware of the Third Party CC Principles and informed that compliance is one of the essential requirements for the initiation or maintenance of a business relationship with Novartis.
- Contracts include explicit reference to the Third Party CC Principles and the compliance requirement to qualify for a business relationship with Novartis. For suppliers, standards of business conduct are thus a contractual provision. This clause is a key instrument for the implementation of such standards. Its inclusion not only provides legal

security for Novartis but underlines the central importance of the company's own standards. However, over and above the contractual obligation, Novartis increasingly relies on communication and cooperation in a spirit of partnership.

- All Third Parties are classified according to the level of risks associated with their operations, as well as their turnover with Novartis and the geographical area of their production site, into one of four categories.
- Third Parties classified as noncritical (Class 1) are made aware of the Third Party CC Principles and the fact that Novartis gives preference to Third Parties that comply with these principles. Third Parties that prove to be in compliance with these principles, or with substantially similar standards, fulfill an important qualification requirement for being rated as a preferred Third Party.
- Third Parties classified as critical (Class 2) are asked explicitly for information about their level of compliance with the Third Party CC Principles (self-assessment). To this end, the Group provides a form to be used as is or with additional questions of specific interest to the Divisions and Business Units. The data supplied to Novartis is updated for all further compliance evaluations.
- For Third Parties classified as very critical (Class 3 or 4), Novartis seeks additional assurance of their commitment to and implementation of the Third Party CC Principles. This may include in particular visits to the Third Party site (audits) in order to learn about the level of compliance with the Third Party CC Principles and standards. For Third Parties using Novartis materials, processes, techniques, or know-how, e.g. toll or contract manufacturers, an assurance visit is mandatory for approval. As a basis for preparation and conducting the assurance visit, Novartis provides a form to be used as is or with additional questions of specific interest to the Divisions and Business Units. Follow-up visits are conducted on a regular basis. The data received during this process is maintained for ongoing compliance evaluations.
- In cases where the results of the assurance visits and inquiries are unsatisfactory, Novartis may assist the Third Party in developing an improvement program. If concerns persist regarding the commitment or capability of the Third Party to improve of its own accord, Novartis has to decide whether special support should be provided or the contract should be terminated. If an agreed improvement program cannot be completed, or if the audit results are not satisfactory, then the contract is terminated.

- In cases where, in view of a previous or ongoing business relationship, sufficient information about a specific Third Party is already available to Novartis, the assessment process can be simplified and reduced to the level necessary to ascertain compliance. However, such deviations from the standard assessment process have to be justified and documented.

Specifically, implementation of the Third Party Management Guideline involves a series of steps:



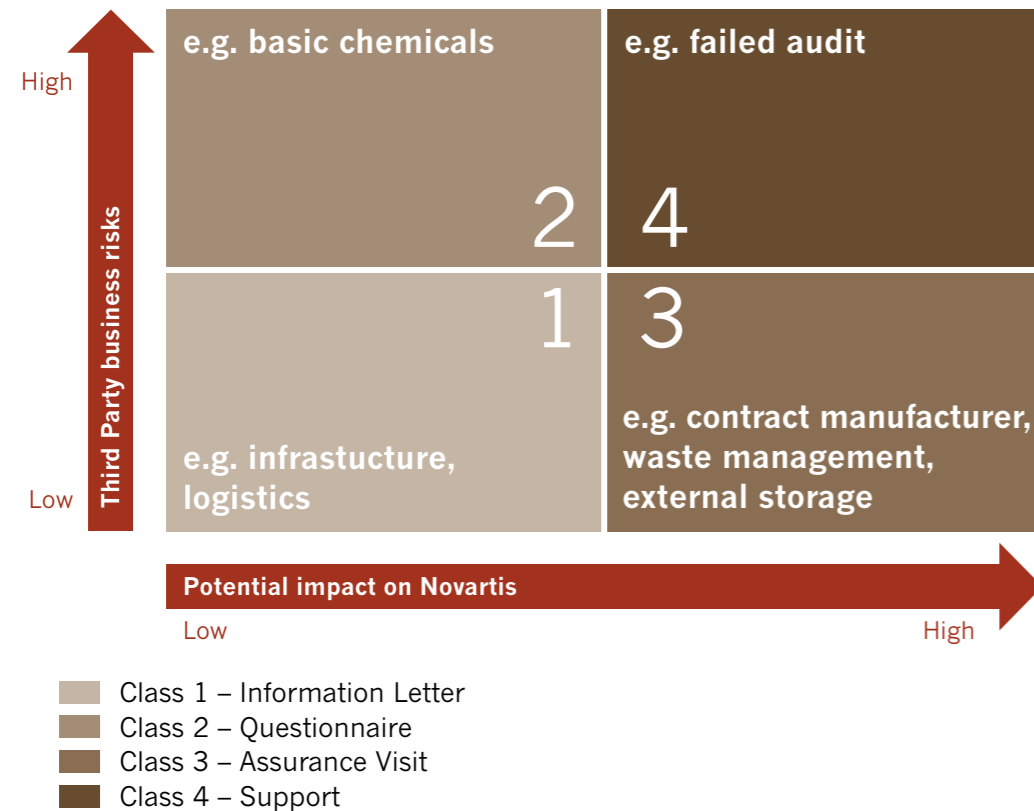
Data collection and management

Initially, data on individual suppliers is gathered. This provides Novartis with a more accurate picture of the Third Parties and, at Group level, a comprehensive overview of the supply chain. It also increases transparency in local markets. The data is stored centrally in the Global Supplier Database and updated every six months.

Risk assessment and classification

A key element of the implementation process is the corporate citizenship risk assessment. Data collected from 2004 onwards provide the basis for the classification of suppliers. All suppliers have been and continue to be assigned to one of the four above-mentioned categories according to their turnover with Novartis, the geographical location, the risks associated with their operations, and the possible impacts of their activities on Novartis.

Third Party Management Examples of classification Risk Analysis



In the assessment of risks and the evaluation of possible impacts on Novartis, a number of key questions are considered, such as the following: “Does a particular industrial sector involve elevated risks – for example, is an increased risk of pollution inherently associated with the chemical industry? Where is the supplier located – is the likelihood of problematic working conditions greater in a developing country than in an industrialized nation?” In addition, the Third Party Manager’s personal knowledge of the local situation is an important factor. For example, if there are indications that a company takes a lax attitude towards compliance with standards, it will also need to be classified as more critical and higher-risk. Depending on the class to which a supplier is assigned, it will be made aware of the CC principles and of what is expected by Novartis and, if appropriate, it may receive a questionnaire or an audit visit to permit further evaluation.

Audits

If the results of a questionnaire are unsatisfactory or the supplier is classified as class 3, Novartis will opt for an assurance visit to the supplier’s site. In most cases, audits are conducted by specialized independent firms, such as Intertek. They are carried out in accordance with a standard procedure and are completed within one to two days. They consist of a documentary and an evaluative component. The documentary component involves the examination of company documentation, such as personnel records, standard operating procedures, process descriptions, training materials, and principles and guidelines – and a review of the information provided in the questionnaire. The aim is to investigate whether documentation is part of the management process and the day-to-day company culture. This part of the audit also includes an initial discussion with company executives, interviews with management representatives, a site inspection and individual interviews with employees. The aim of the evaluative component is to gain an impression of how standards are actually implemented in everyday business operations. In the course of the audit, the relevant information on working, social, environmental, and health and safety standards is obtained and documented. At a final meeting with the supplier’s management, the findings are presented and discussed. In the event of deviations from the relevant guidelines, an agreement is made on how the issues identified are to be addressed. The Corrective Action Plan is signed by all parties. The audit reports and Corrective Action Plans are forwarded to the Novartis managers responsible and provide the basis for follow-up and support measures.

What has Novartis achieved so far?

Since the Third Party Management Guideline came into force in August 2003, this process has enabled Novartis to gain a comprehensive overview of its supply chain.

In 2006 – of a total of 165 000 suppliers worldwide – around 42 000 companies whose annual turnover with Novartis is in excess of USD 10 000 were made aware of the Third Party Code of Conduct. Of these, 8600 are expected to sign a self-assessment how they comply with the standards of business conduct formulated by Novartis. With regard to employees’ working conditions, among other things, 92 suppliers were audited in 2006.

The previous year, around 39 000 of a total of 198 000 suppliers were notified by Novartis: 5576 were assigned to Class 2, 470 to Class 3, and none to Class 4. Altogether, more than 6000 suppliers received a questionnaire for further evaluation. Less than half of these companies returned the self-

assessment. Audits were performed in 55 cases.

In 2007, self-assessment questionnaires will only be issued to suppliers with annual orders worth more than USD 100 000 (or USD 1 million in OECD countries). Previously, the lower limit for annual turnover was set at USD 10 000. By 2010, around 500 suppliers should have undergone further evaluations.

	2004	2005	2006
Number of active suppliers worldwide	162 000	198 000	165 000
Turnover > USD 10 000	30 000	39 000	42 000
Self-assessment	4 600	5 500	8 600
Audits	5	55	92

However, the bare statistics cannot provide an adequate picture of what has been achieved to date. They do not reveal the countless minor or major improvements that have been realized or initiated. Especially in the areas of working conditions, working hours and employee safety, numerous steps in the right direction have been taken worldwide. Of particular significance in this connection is the – unquantifiable – progress that has also been made in awareness raising and the training of purchasers at the local level.

Short-term goals

On the basis of the results achieved in 2005, the following goals were defined for 2006: Novartis wishes to complete the assessment of 25% of the selected suppliers whose activities are to be evaluated locally, with regard to working conditions and health, safety and environmental protection. For the companies inspected, individual improvement programs are to be prepared.

Gradual improvements

Near the city of Baroda, an industrial and service-sector center in western India, just under 400 km north of Mumbai, Amoli Organics Pvt. Ltd. produces active pharmaceutical ingredients and intermediates. The company is one of the leading manufacturers in India of the anti-inflammatory agent diclofenac (*Voltaren*), which was originally developed by Novartis. Amoli's international customers include Sandoz, the generics business of Novartis.

Having been rated as an important supplier of Novartis, Amoli was the subject of an assurance visit in May 2006. Locally, Amoli is among the companies with above-average standards in the areas of quality control, safety, environmental protection and working conditions. However, the audit revealed a wide variety of points where global standards were not met and improvements were thus required. These included deficiencies in safety equipment for employees, emergency planning and early-warning systems, sanitary facilities, and personnel records and payslips. By the end of September 2006, virtually all of the improvements recommended had been implemented. But one issue remained unresolved: the limiting of overtime and the rates paid. In the agreed improvement program, compliance with local regulations was recommended. Under these rules, employees should not perform more than two hours of overtime work per day or 12 hours per week (50 per quarter) – with payment of twice the standard hourly wage. Here, Amoli and Novartis face a dilemma, which they are jointly seeking to resolve. Amoli's management points out that overtime is performed exclusively on a voluntary basis, and that for employees it represents a welcome opportunity to boost their monthly income. The current rate paid by Amoli for overtime is time and a half, which is relatively high by regional standards. For Amoli, an increase bringing the rate up to double time would entail a significant rise in costs. Given the low margins and fierce competition in this sector, Amoli's competitive position could be adversely affected as a result. It is not clear whether the company's increased costs could be passed on to its customers through price rises without running the risk of losing orders.

Although Novartis only works with partners that are among the best in the region, these companies often fall short of global standards. The majority of suppliers – like Amoli – are highly motivated to meet the expectations of Novartis and to benefit from the expertise associated with proposed improvements. In many cases, however, as well as gradual improvements, substantial investments are required to bring production facilities, in particular, into line with international standards. As this is beyond the financial means of many suppliers, there may be a need for sector-wide initiatives.

Work in progress: challenges, problems and solutions

From the outset, Novartis was aware that the existence of a code of conduct does not in itself amount to the exercise of social responsibility. Problems cannot be considered to be solved merely by reference to a Guideline. Rather, there is a need for a substantive explanation of how far a company like Novartis assumes responsibility for its suppliers' social and environmental performance, and how it responds to breaches and supports corrective action. Here, Novartis faces numerous unresolved questions and challenges.

In this connection, the following questions are particularly relevant:

1. Does Novartis have a process that permits a systematic assessment of compliance with standards? Are reviews conducted internally or by an independent third party?

Novartis has a system for assessing its suppliers' compliance with standards. Audits are generally carried out by an independent firm. But the system still has its weaknesses. For example, of the 8600 self-assessment questionnaires issued in 2006, only 2200 were completed and returned to Novartis. Although this problem has yet to be resolved, Novartis is currently working to develop effective solutions. Here, one of the challenges facing the company is how to deal with suppliers that are of crucial importance to Novartis in cases where, for example, a given product cannot be readily sourced from a different supplier (as a certificate from the FDA may be required) or the supplier is a subsidiary of a rival pharmaceutical company that wishes to maintain confidentiality.

In addition, global Third Party Officers only have limited scope for intervention in the activities of Group companies. The unsatisfactory nature of this situation has been recognized, and Novartis is seeking to define an appropriate escalation process. While the CC principles represent a criterion as important as price or quality in the selection of suppliers, it remains open to what extent this question in practice plays a clearly defined role in annual performance assessments for purchasers at the local level.

2. Do suppliers have a contractual obligation to comply with CC standards? Does Novartis offer them support programs?

New contracts with suppliers routinely include provisions requiring the Third Party to comply with the Novartis CC standards. Less well defined, however, are the consistent development and implementation of specific and sustained improvement programs; the emphasis to date has been placed on taking stock of the current situation. Novartis is well aware that this is only the beginning, and that further processes and structures are required.

Here, it would be possible to seek assistance from external organizations with extensive experience accumulated over many years in this area.

3. Does the Novartis Third Party Management Guideline promote the implementation of internationally recognized standards of business conduct?

Novartis has a clear commitment to exercise social responsibility and expects all its suppliers to share this commitment. Having evaluated its suppliers, Novartis is also better able to determine its own position. However, following the initial evaluations, experience suggests that audits and monitoring processes cannot in themselves resolve the issue of suppliers' standards. They merely represent a starting point, whereby a supplier's current level and potential for improvement can be assessed. Thus, while Novartis has begun to implement ethical norms and standards in a binding manner within the supply chain, the company realizes that this will need to be a long-term process, involving continuous improvements and refinements.

4. Does Novartis act as an inspector, or as a partner wishing to provide assistance so that both parties can jointly contribute to the realization of the Global Compact ideas?

Novartis increasingly seeks, wherever possible, to support suppliers in making the necessary improvements. This is particularly important, for example, in the area of working conditions, where improvements do not exclusively involve technical modifications or adjustments to management processes. Since attitudes and cultural questions are also relevant, it is essential to establish partnerships and – wherever possible and appropriate – to tackle problems together. As well as creating lasting understanding and introducing effective approaches, Novartis can thus, not least, improve relations with its suppliers.

5. To what extent is Novartis open to contributions from external experts in this area?

So far, Novartis has developed the Third Party Management process in a highly independent manner, which brings both advantages and disadvantages. A great deal of the process to date has tended to have the character of a "monologue". To enhance transparency, Novartis intends to pay increasing attention to the questions and challenges raised by external institutions and to involve them in the continuation of the entire process. In the long term, it is also in the company's own best interests to engage in an open dialogue – even with the industry's harshest critics. Novartis thus makes itself less vulnerable to attack and creates the opportunity to communicate its own limits more clearly.

Outlook

Novartis is seeking to move away from a “risk reduction strategy” (i.e. to avoid being held responsible for breaches of standards of business conduct) towards an “offensive strategy”.

Offensive strategy: The company makes a commitment to comply with a code of conduct, compliance with minimum social standards is monitored, and measures are taken within the company itself to enable suppliers to comply with minimum social standards. In addition, there is a dialogue with critical groups such as NGOs.*

To this end, since mid-2006, Novartis has initiated a process of dialogue at the local level, with the participation – based on audits – of various suppliers and of local purchasing and Corporate Citizenship managers. Here, Novartis is also considering involving NGOs from the country concerned and/or (trade union) employee representatives in this dialogue process. An-other possibility would be to draw on the Global Supply Chain Management expertise of multi-stakeholder initiatives such as the Fair Labor Association (FLA).

Novartis is also playing an active role in the Pharmaceutical Supply Chain Initiative, which is designed to coordinate the activities of individual companies and expand their scope to include cooperation and training, as well as auditing. This should facilitate continuous improvements in the performance of the supply chain.

Further information is available online at:
www.pharmaceuticalsupplychain.org

Novartis is reviewing the audit and follow-up processes in cooperation with Intertek. In addition, Novartis intends to develop ideas and strategies for post-audit improvement programs. Finally, as part of the dialogue process already under way, awareness-raising workshops are to be held for local managers in order to address the problems mentioned above.

Novartis International managers are establishing and reinforcing contacts at the local level by visiting the Group companies concerned. In this way, Novartis wishes to learn more about the problems of everyday business operations on the ground, and to gain a better understanding of the audit process and a better appreciation of the challenges ahead. The company is thus initiating closer cooperation and greater coordination between the global and local level. Experience on the ground is to influence decision-

making processes at Novartis via a feedback loop. The aim is also to ensure that, within the company, Purchasing is more closely interlocked with the Corporate Citizenship team, Health, Safety & Environment, Human Resources and Quality Assurance. The process of dialogue now under way permits an assessment of the realities of Third Party Management. Associates responsible at the local level have the opportunity to engage in open discussion of problems and dilemmas. Only in consultation with all parties is it possible to strike a balance between the company’s commitment and everyday business activities. Together with the data on suppliers obtained through audits, the dialogue process has yielded important insights into dilemmas and potential conflicts. Experience to date indicates that audits alone do not represent a solution, and that more can be achieved through cooperative improvement programs. In this connection, Novartis is also discussing cooperation with other pharmaceutical companies and sector-wide initiatives. Sustainable solutions can only be achieved through concerted efforts by all parties to secure step-by-step improvements. This is the approach Novartis intends to pursue.

For further information, please visit:
www.novartis.com/supplier

Appendixes

- Policy on Corporate Citizenship
- Third Party Code of Conduct
- Corporate Citizenship Guideline No.5
- Questionnaire
- Third Party Classification Process

* Unternehmensethik konkret, M. König/M. Schmidt (Eds), Gabler, Wiesbaden, 2002, p. 124.

