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Business in the 21st Century: What's Ahead
World Affairs Council
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Thank you, Amanda, for that kind introduction. I'm delighted to be here and to have this opportunity to share my thoughts on the challenges facing business at this still early point in the 21st Century.

As Amanda mentioned, I'm responsible for the North America pharmaceuticals business of a global company. In that role, I serve on a global management team that is navigating the aftermath of a severe global economic recession, the European debt crisis, the rise of emerging markets, and our responsibility to address the health needs of developing nations.

These are big challenges, believe me. But the perspective I'd like to provide tonight is one that is a little closer to home. My thoughts are those of someone whose business career has been in healthcare, specifically in pharmaceuticals.

The pharmaceutical industry is incredibly important to the economy of this area. It is also an industry that makes a tremendous impact on the health and well being of people around the world, and it's one that needs to overcome a number of serious challenges if it is to continue to be successful.

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Let me start by framing this topic with some background on the economic contribution the biopharmaceutical industry makes to this region and our nation's economy.

Consider this:

- More than a dozen global research-based pharmaceutical companies are either headquartered or have major operations in the corridor that extends from New York City through New Jersey and into the suburbs west of Philadelphia
- These companies employ tens of thousands of people in highly-skilled, high paying jobs that contribute billions in state and local taxes
- Across the country, our industry employs 650,000 people directly and more than 3 million indirectly
- For every dollar generated by our industry, another \$1.40 in output is created in other sectors of the economy
- And, the overall economic impact of our sector totals more than \$918 billion annually.

While the economic contribution we make to the region is significant, equally important is the role we play in improving the health and well-being of people around the world.

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Our industry has discovered and developed hundreds of medicines and vaccines to treat or prevent diseases. Take these three examples:

- procedures that were once common, like ulcer surgery, have been practically eliminated
- the death rate from HIV/AIDS has fallen by more than 70% since 1995 because our industry has discovered and developed highly effective treatments
- and, in the last 20 years, overall survivor rates for cancer in the U.S. have increased by 25%, thanks largely to new oncology medicines.

So, I think you can see that we make a truly meaningful impact on the economy and to better health. But, to continue on that path, we have challenges we must overcome.

Many of these stem from changes in the healthcare marketplace. Some we've created for ourselves, and some are fueled by the evolving expectations of the society we serve. Regardless of their origin, we must address them if we are to continue to advance medicine, create valuable jobs and help patients.

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Let me talk briefly about two particular challenges that I feel our industry has to address as we move forward:

- one, is: how do we effectively and efficiently meet the needs of our customers in a rapidly evolving healthcare marketplace which is looking for improved quality and more affordable care?
- and the second is: how do we do that in a way that helps us regain the trust of those we serve?

Let me take a couple of minutes and talk about each of these, starting with the challenges posed by a rapidly evolving healthcare marketplace.

Driving change in our market is the desire for more affordable, accessible and higher quality care by patients, healthcare providers, and those who pay for healthcare – employers and the government.

In pursuit of better care and sustainable costs, the healthcare market is moving from one that delivers and pays for healthcare based on the volume of services provided, to one that rewards the quality of the care and the value delivered.

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In such a value-based system, information technology and economies of scale are increasingly necessary. These are needed in order to employ evidence-based medicine and to capture the health outcomes necessary to demonstrate value.

So, one of the trends we're seeing in response to this is significant consolidation in the marketplace. Physicians are increasingly joining group practices. Hospital organizations are buying up other hospitals and integrated delivery networks are acquiring hospital systems.

This is a market driven trend, but it's a trend that is being accelerated by the healthcare reform act passed in 2010.

In response to this consolidation, we at GSK have significantly transformed our business model in the United States to be more effective in how we work with our customers.

Rather than predominantly organizing our sales and marketing activities around our brands, we have moved to a model where we are organized around different customer types, such as corporate health systems, integrated delivery networks or hospital groups.

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In the past, we may have had multiple sales professionals calling on a physician or a health plan each assigned to different products.

Now, where appropriate, we are moving to a model where our sales professionals represent a portfolio of products in a particular therapy area. Or, in other cases, we have single individuals responsible for managing large accounts who work with specialists from our company to meet specific customer requests for information on topics such as disease education and care management strategies.

Essentially, we have become an account-based organization. This has been a significant change for us. And, as we all know, change is not easy.

And that brings me to the second challenge I want to talk about: how do we change the way we conduct our business in order to meet society's expectations and earn its trust?

Consider this: since January of 2009, the Department of Justice has reached legal settlements with healthcare companies totaling more than 10 billion dollars.

These cases involved alleged false claims, fraud, and FDA violations.

As someone who decided more than 25 years ago to pursue a career in the pharmaceutical industry, I ask myself: what's going on? Why is this happening?

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After all, as I mentioned earlier, our industry has made very important contributions to improve the health and well-being of people around the world.

Yet, an industry that should be hailed as one of the greatest contributors to health in our society actually ranks among the lowest in public trust. In a Harris survey, only 11% of people said the pharmaceutical industry is generally honest and trustworthy.

What explains this disconnect? The answer, I believe, is that, in some ways our industry lost its way, and failed to fully appreciate the evolving expectations of our society.

Yes, in the 90's and the early 2000s, the industry worked with its customers in ways that are common in many industries in which business-to-business selling takes place. We took customers on trips, like many industries, and our customers enjoyed that. Yes, we did bring pads, pens, textbooks, medical models and other items to customer's offices. And, like in many industries, those "gifts" were appreciated.

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This business model may still be OK for other industries, but we do not sell chocolates or cars. We bring life-altering and life-saving medicines to patients. Society holds our interactions with our customers to a higher standard. And it should. Society expects our business to be conducted openly and transparently, and in a way that does not create even a perception of inappropriate influence.

To be fair, our industry has made significant changes in the way we operate. For instance, in 2002 our industry adopted a code of conduct to govern our interactions with doctors and other healthcare professionals. That code serves as a baseline for how we should work with our stakeholders.

The industry strengthened that code in 2009, making additional changes in areas such as meals, continuing medical education, support for professional meetings, and in the use of consultants and speakers, among other things.

I'm proud to say that many companies in PhRMA, like GSK, have even taken actions that go beyond the code.

But negative perceptions still remain. Some of this has to do with long-running government investigations and litigation over past practices. The resulting news

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reports make it look like we still take doctors on trips to exotic locations – which we don't.

Some of it is because we haven't done enough to communicate what we do and don't do. Some of it is because we still make mistakes. No matter the reasons, at the end of the day, we are accountable and it is our responsibility to regain the public's trust.

So, what should we do?

Of course, we must comply with the laws and regulations that govern how we in the pharmaceutical industry are required to operate our business. That is not subject to debate or open to interpretation. It's a given.

But our customers need to understand – that beyond compliance – we operate from a core set of values that underpins every decision we make and every action we take. A values-based culture creates a framework and a mindset in which compliance with rules and regulations is not the ceiling, but the floor from which our organizations should operate.

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Some of you may be wondering why I would be talking about values, when my own company has borne its share of allegations and has been in the news for settlements and legal charges. I bring this up because my company and the people I work with are not what are often portrayed publicly. The people I work with are dedicated to meeting the needs of patients and those we serve based on our core values as a company.

And what are those values? There are four we strive to live by at GlaxoSmithKline:

- first, we focus on the best interests of the patient,
- second, we are transparent about our working relationships,
- third, we operate with integrity
- and, fourth, we respect those we work with and serve.

These values are not new to my company, and we don't always get it right. But, one of my goals in joining GSK three years ago was to ensure that if you stopped any GSK employee and asked them what are the company's values, they could tell you without hesitation. Most importantly, my goal is to ensure our customers see those values in each of our employees.

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It is my view that as long as we continue to incorporate these values into our daily conduct and decision-making we will meet the expectations society has for us, and we will be able to deliver value to our stakeholders in a values-based way.

So how do we incorporate those values in what we do?

First, we must be guided by what is in the best interest of the patient. When our GSK sales representatives talk with doctors, we require that they share the extensive knowledge they have about our drugs – including both who should, and importantly, who should not, take our medicines. This is something that my management team and I set as a fundamental requirement. Employees are trained to inform their customers when our products are not right for their patients.

To help ensure that the behavior of our sales professionals is consistent with our values, we've also changed the way we provide bonuses to our sales teams.

In the past, like other companies, we based bonuses for our sales force on the volume of prescriptions written in their sales territory. That is no longer the case.

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Last year we implemented a new incentive compensation system in which our sales representatives, who work directly with customers, are not bonused on scripts. Rather, they are measured on how effectively they provide information and support their customers. In essence, we have put the interests of patients first by aligning the incentives of our sales representatives with the interests of physicians and their patients.

I'd also like to talk about our values of transparency and integrity. Integrity is doing the right thing; transparency is being open about what we do. As I've said, some of the industry's financial relationships and practices from previous years are no longer viewed as appropriate. So, at GSK we've changed them. Other practices that the public sometimes views as inappropriate are actually very important to good healthcare.

For instance, we believe properly engaging doctors to share their knowledge with other physicians in peer-to-peer education programs helps them keep up with advances in medicine. Their knowledge and experience also helps GSK understand trends in the delivery of healthcare and the needs of patients so that we can more effectively develop new medicines and vaccines.

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We believe physicians should be fairly compensated for their time and expertise. Yet some patients, government officials, policy makers and even some in the medical community have questioned the integrity of these relationships.

This is where the value of transparency is important. In 2009, we began voluntarily posting our payments to US healthcare professionals for speaking and consulting services. To ensure that our interactions with physicians in these programs are appropriate, we've instituted a code on promotional practices. It specifies, among other things, the ways we can appropriately work with healthcare professionals, the types of information that we can provide them, where meetings can be conducted, and the fair market rates at which we compensate them for their time and service.

We also must be transparent in studying, understanding and communicating all the information we have on a medicine – both before and after approval so that regulators, payers and healthcare providers can make the best treatment decisions for patients.

At GSK we make an effort to publish all our data.

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Even if our papers are rejected by the medical journals, we post the data on our clinical trials website to ensure public visibility of both our safety and efficacy information.

Finally, let me talk about the value of respect. This guides our interactions with everyone we serve, and everyone we work with. We all know the golden rule: treat others as you would like to be treated. So, the changes we've made in how we conduct our business show our respect for those we serve.

[pause]

The challenges I've addressed tonight provide examples that are, on one level, particular to the pharmaceutical business and to healthcare. But the underlying issues – a rapidly evolving marketplace, changing customer expectations and the need to build trust among those we serve – are fairly universal.

Like healthcare, the transportation, energy, electronics and communications industries, to name a few, are navigating marketplaces that are rapidly evolving in response to the emergence of new technologies and changing customer expectations.

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And the need to regain the trust of consumers is also widespread. In the Harris survey I cited earlier, almost half of all adults said none of 17 different industries was generally honest and trustworthy. That's right, 48% felt that way. And those with the highest scores – supermarkets and hospitals – were only judged to be honest and trustworthy by about 30% of those asked.

So, everyone in business is facing significant challenges at this early point in the 21st Century.

I've shared with you some of the approaches my company, GSK, is taking to respond to an evolving market and to engage with our stakeholders. And, in my sector, I'm hopeful that we have the foresight, the intelligence, the resolve and, most importantly, the values to meet these challenges so that we can continue to deliver better health to the patients around the world who depend on us.

Thank you.