Business Ethics
PSCI Supplier Conference
Hyderabad, India

Presented by
Rincy Joseph
Supplier Sustainability Expert
Bayer AG
Bio

PSCI Role: PSCI Governance Committee member  
Supplier Capability Building Committee member

Company Role: Supplier Sustainability Expert (CHS)

Tasks: Supplier Sustainability Audit Program Management, Supplier development

06/2016 Bayer AG, Corporate Health, Safety & Sustainability - Supplier Sustainability Expert

02/2014 Bayer HealthCare AG Leverkusen, Germany Supplier Sustainability Expert (QHSE)

06/2009 Bayer Pharmaceuticals Private Limited; India - Sourcing Manager

05/2007 Vama Pharma - Quality control Executive

05/2005 Zim Laboratories Limited - Quality control chemist

Masters in Pharmaceutical Technology

Bachelor in Pharmacy

Rincy Joseph
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Why Business Ethics?
Agenda

1. PSCI Ethical Principles
   a. Business Integrity and Fair Competition
   b. Identification of concerns
   c. Privacy
   d. Animal Welfare

2. Compliance Case by Case

3. Toolbox
Agenda

1. PSCI Ethical Principles
   a. Business Integrity and Fair Competition
   b. Identification of concerns
   c. Privacy
   d. Animal Welfare

2. Compliance Case by Case

3. Toolbox
The PSCI Principles

PSCI created the Pharmaceutical Industry Principles for Responsible Supply Chain Management ("the Principles")

Our mission is to establish formal industry guidelines about ethics, labor, health & safety, the environment and management systems and support suppliers to build capacity to operate in a manner consistent with those expectations.
PSCI Principles: Ethics

Suppliers shall conduct their business in an ethical manner and act with integrity. The ethics elements include:

- Business integrity and fair competition
- Identification of concerns
- Animal welfare
- Privacy
Business Integrity
### Business Integrity and Fair Competition

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>14</strong> Does the facility have formal ethics policies or Codes of Conduct that govern company and employee business practices?</td>
<td>Yes</td>
<td>No</td>
<td>If yes, please indicate if the following are included:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Business integrity and fair competition</td>
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<td></td>
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<td>Investigation of employee concerns</td>
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<td></td>
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<td></td>
<td>Please provide a web link to the policy on your website, or alternatively attach a copy of the policy to this questionnaire.</td>
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<tr>
<td><strong>15</strong> Does the facility have tools or processes to prevent corruption and facilitation payments?</td>
<td>Yes</td>
<td>No</td>
<td>Please explain:</td>
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<td>If yes, are the following elements included:</td>
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<td></td>
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<td>- policy communicated to all employees</td>
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<td>- periodical training</td>
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<td></td>
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<td>- effective monitoring system</td>
</tr>
<tr>
<td><strong>17</strong> Does the facility have a policy about employees receiving gifts or favors from external companies with whom your company does business?</td>
<td>Yes</td>
<td>No</td>
<td>Please explain:</td>
</tr>
<tr>
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<td>Please provide a web link or attach a copy of the policy to this questionnaire.</td>
</tr>
<tr>
<td><strong>18</strong> Is there a company policy on giving gifts and favors to Government officials / external companies / individuals that your company does business with?</td>
<td>Yes</td>
<td>No</td>
<td>Please explain:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Please provide a web link or attach a copy of the policy to this questionnaire.</td>
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</table>
What is Corruption?

‘Corruption is the abuse of entrusted power for private gain’
Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs.

- Transparency International
Who is the Offender?

**OFFENDER**

Person who gives the bribe (Active)

- grants a benefit or
- promises a benefit or
- offers a benefit.

**OFFENDER**

Person who is bribed (Passive)

- accepts a benefit or
- requests a benefit or
- allows himself to be promised a benefit.
Why Corruption Prevention? - Consequences?

... for Employees and Supervisors
- Fines
- Imprisonment
- Consequences under labor law
- Loss of reputation
- Compensation claims

... Consequences ...

... for Companies
- Fines
- Confiscation of assets
- Criminal prosecution
- Entry in the register of corruption offenses
- Disqualification from participation in tenders
- Fall in sales
- Compensation claims
Why Corruption Prevention?  
- Where does India stand?
Legal Framework

Anti-Corruption laws in INDIA
- Prevention of Corruption Act, 1988
- The Companies Act, 2013
- Indian Penal Code, 1860
- Prevention of Money Laundering Act, 2002
- Right to Information Act, 2005
- Central Vigilance Commission Act, 2003
- State Lok Ayukta (Ombudsman) Acts and Rules

AND...
- US Foreign Corrupt Practices Act, 1977
- UK Bribery Act, 2010

OTHERS
- OECD Anti-Bribery Convention (1997)
- UN Convention against Corruption ratified by India in May, 2011
- G20 Anti-Corruption Action plan (2010)
Advantage/Gifts – Inacceptable Practices

These examples refer to both (supplier / customer):

- Cash
- Airline tickets
- Hotel accommodation
- Vacations
- Employment for family or friends
- Special personal favors
- Invitation in expensive / luxury restaurants
- Expensive food and drinks
Advantage / Gifts

• Providing gifts in a business environment is generally discouraged

• The granting or acceptance of gifts / advantages must take place in compliance with the national law, applicable industry codes as well as PSCI principles

• The strictest of the above mentioned need to be followed

• Gifts may be permitted under very limited conditions set by local laws, regulations, local industry codes or company regulations
What do you think?

What could be the maximum value of the gift that can be offered in a year to your business associate?

- [ ] Rs. 1,500
- [ ] Rs. 5,000
- [ ] Rs. 10,000
- [ ] NIL
- [ ] No Limit
What do you think?

What could be the maximum value of the gift that can be offered in a year to your business associate?

- Rs. 1,500
- Rs. 5,000
- Rs. 10,000
- NIL
- No Limit

As per PSCI member Gift Policy:

Gifts up to Rs. 5,000 can be offered to your business associate in a year, on socially acceptable occasions such as Diwali, New Year, Christmas etc. However, in case of government officials the above limit is Rs. 1,000 in case of officers in category “A” and “B” and Rs. 250 in case of officers in category “C” and “D”.


Asia Pacific - Fight against corruption (1/2)

March 2014  Blacklisting of Pharmaceutical companies (Asia Pacific) which payed bribes

September 2014  First trial against corrupt global pharmaceutical company

March 2015  Court decision:
  - systematic bribery
  - 400 Mio. € penalty
  - 110 employee fired
Asia Pacific - Fight against corruption (2/2)

Consequences for the company:

- **Loss of Reputation**

- Significant **deduction of business opportunities** e.g.
  - **Forbidden** to sell products of the company for 2 years in the region
  - 2 briberies in 5 years = **Complete debarment** from business for 2 years
  - no orders, no money, no workplaces
What do you think?

Which gift items are appropriate in a Business environment?
What do you think?
Fair Competition
PSCI Audit Questionnaire – Question around Fair Competition

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<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>Please explain</th>
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<tbody>
<tr>
<td>16</td>
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</table>

**Does the facility have tools or processes to support fair competition within the market of operation/business environment? (Please note, fair competition refers to competing companies, not competition between employees)**
PSCI Antitrust Statement – Why?

Anti-Trust Statement

While some activities among competitors are both legal and beneficial to the industry, group activities of competitors are inherently suspect under the antitrust/anti-competition laws of the US, UK and other countries in which our companies do business. Agreements between or among competitors need not be formal to raise questions under antitrust laws, but may include any kind of understanding, formal or informal, secretive or public, under which each of the participants can reasonably expect that another will follow a particular course of action or conduct. Each of the participants in this meeting is responsible for seeing that topics which may give an appearance of an agreement that would violate the antitrust laws are not discussed. It is the responsibility of each participant in the first instance to avoid raising improper subjects for discussion, such as those identified below.

It is the sole purpose of this meeting to provide a forum for expression of various points of view on topics described in the agenda and participants should adhere to that agenda. Under no circumstances shall this meeting be used as a means for competing companies to reach any understanding, expressed or implied, which tends to restrict competition, or in any way to impair the ability of members to exercise independent business judgment regarding matters affecting competition.
PSCI Antitrust Statement – Why?

Topics of discussion that should be specifically avoided are:

- Price fixing
- Product discounts, rebates, pricing policies, levels of production or sales and marketing terms customer and territorial allocation
- Standards setting (when its purpose is to limit the availability and selection of products, limit competition, restrict entry into an industry, inhibit innovation or inhibit the ability of competitors to compete)
- Codes of ethics administered in a way that could inhibit or restrict competition
- Group boycotts
- Validity of patents
- On-going litigation
- Specific R&D, sales or marketing activities or plans, or confidential product, product development, production or testing strategies or other proprietary knowledge or information
What is Fair Competition?

- **Competition** refers to the efforts of two or more commercial businesses to secure the same business from third parties.

- **Fair competition** means a just, open, and equitable competition between business competitors.

- U.S. antitrust laws aim to prohibit agreements or actions that reduce competition and harm customers.
Fair competition – Who are Competitors?

Competitors are active on the same relevant market:

- Customers see products/materials or services as interchangeable
- Products or services are sourced in the same geographic area
Advantages of Fair Competition

Healthy and fair competition

- **Better price**: helps customers to get a good deal
- **Better quality**: competition leads to the urge of being better than the rest in any field
- **Motivate Innovation**: encourages firms to innovate
- **More choice to consumers**: businesses will try to make their products different from the rest
Legal Framework Fair Competition

Indian regulation:
- The Competition Act, 2002

Other Global regulations:
Since the 20th century, competition law has become global. The two largest and most influential systems of competition regulation are:

- United States antitrust law
- European Union competition law
Types of Antitrust Violations

Antitrust laws are the free market’s most important tools for ensuring fair, unrestricted competition

Major types of antitrust violations:

• “under table dealings” during/before bidding processes
• price fixing
• allocating market shares
• agreements on production capacities
• allocating customers
• dictating or controlling a customer’s resale price
Consequences of Infringements

- Massive **fines**
- **Claims for damages** to customers, competitors or others
- In some countries, **disqualification** of directors guilty of anti-competitive activity
- Major internal and external legal and administrative **costs** in defending cases
- **Invalidity of contracts** or contract terms found to be in violation of antitrust laws
- Serious **loss of reputation** with potential exclusion from certain government programs for specific infringements
Sanctions for violating competition law are serious, some examples …

The Competition Commission of India (CCI) has imposed penalties up to 10% of the turnover and up to 50% of the profits of the guilty enterprises.

Coal India
INR 17.73 billion
(Abuse of dominance)

All India Organization of Chemists and Druggists
INR 4.74 million
(Cartel)

3 Aluminum Phosphide tablet manufacturers
(Cartel)
INR 317 billion

11 cement manufacturers, including the Cement Manufacturers Association
(Cartel)
INR 63.16 billion

Individual penalties:
Chemists & Druggists Association, Ferozepur and its office-bearers were fined INR 5.5 million (10% of turnover) for cartelization.
What Do You Think?

Representatives of three major API manufacturers, an Indian company, a Chinese company and an American company meet in Mumbai and agree that each company will raise prices for European customers.

What do you think about this agreement? Is this agreement acceptable and legal?

Please select your answer!

- The agreement does not infringe any antitrust laws.
- The agreement infringes the antitrust laws of the EU and potentially other Antitrust laws.
- The agreement only infringes the Indian, Chinese and Canadian antitrust laws.
What Do You Think?

All three manufacturers infringe EU competition law and are subject to EU sanctions because their anti-competitive agreement affects European markets. Most competition agencies apply laws to conduct which has an impact in their jurisdictions regardless of location or nationality of perpetrators. It is likely that the companies infringe the laws in their home countries as well.

- The agreement does not infringe any antitrust laws.

- The agreement infringes the antitrust laws of the EU and potentially other Antitrust laws.

- The agreement only infringes the Indian, Australian and Canadian antitrust laws.
Business Integrity and Fair Competition Summary (1)

• **Zero tolerance** to corruption (e.g. bribery, extortion, embezzlement)

• **Ethical culture** and **management** is understood and accepted within the organization

• **Integrity** in daily business dealings

• Support **fair business** practices

• Communicated and comprehensive **Code of Conduct or Policy** on business ethics
Business Integrity and Fair Competition Summary (2)

- **Mechanism** to predict, identify and resolve compliance conflicts
- Formal **process to investigate** violations to applicable policy
- Violations result in **disciplinary actions**
- Fair and adequate instances of non-compliance (**protection of whistleblowers**)
- Clearly defined **key terms** and expressions for “gifts ↔ advantage”
Identification of concerns

`He who passively accepts evil is as much involved in it as he who helps perpetrate it´

- Dr. Martin Luther King Jr.
PSCI Audit Questionnaire – Question around Identification of Concerns

<table>
<thead>
<tr>
<th>Identification of Concerns</th>
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<tbody>
<tr>
<td>19</td>
<td>Does the facility have practices to encourage employees to report concerns without fear of reprisal and ensure concerns are formally investigated?</td>
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</tr>
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</table>

- [ ] Yes
- [ ] No
- [ ] Please explain:
Identification of concerns - examples
What is Whistleblowing?

Transparency International defines whistleblowing as the disclosure or reporting of wrongdoing, which includes corruption, criminal offences, breaches of legal obligation, miscarriages of justice, specific dangers to public health, safety or the environment, abuse of authority, unauthorised use of public funds or property, gross waste or mismanagement, conflict of interest, and acts to cover up any of the aforementioned.
Who is a Whistleblower?

According to Transparency International, whistleblower is any public or private sector employee or worker who discloses information about these types of wrongdoing and who is at risk of retribution. This includes individuals who are outside the traditional employee-employer relationship, such as consultants, contractors, trainees or interns, volunteers, student workers, temporary workers, and former employees.

Protection of whistleblowers is an important focus for the legal system!
Legal Framework

Indian Regulations:

Whistle Blowers Protection Act, 2011

Other Global Regulations:

Whistleblower Protection Act of 1989 - United States federal law
Identification of Concerns
What we expect (1/2)

- Company management demonstrates commitment to encouraging employees to raise concerns regarding any aspect of business practice
- Policy statement or similar communication is in place which clearly states the organization's policy and procedures for internal reporting
- Employee training includes use of business-relevant examples of potential violations of ethical behavior
Identification of Concerns
What we expect (2/2)

• The organization strives to make it easy for all concerns / suggestions to be raised to the designated compliance function

• There is a facility-appropriate mechanism that workers trust as a credible and safe way to raise concerns
Identification of Concerns
How?

• Establish **formal ethics policy / code of conduct / compliance policy**

• Establish clear defined **process to report concerns**

• Clear management **commitment and communication**

• **Encourage** employees to report concerns **without threat of reprisal, harassment or intimidation**

• Ensure concerns are **formally investigated**

• Take each case **seriously**

• **Investigate each case** at every management level

• Take **corrective action** if needed
Privacy
PSCI Audit Questionnaire – Question around Privacy

<table>
<thead>
<tr>
<th>Privacy</th>
<th>Does the facility ensure confidentiality and privacy of information concerning companies, individuals, workers, patient rights and intellectual property?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes ☐</td>
<td>No ☐</td>
</tr>
<tr>
<td>Please explain:</td>
<td></td>
</tr>
</tbody>
</table>

[Diagram of someone checking the 'Yes' box]
Legal Framework

- The Copyright Act (1957)
- In an attempt to safeguard patients' privacy, the health ministry plans to bring out a law to protect health data and medical information. The proposed law will have specific provisions for collection, storage and dissemination of individual health data.

Other International regulations:
- EU Data Protection Directive (95/46/EC)
- Federal Trade Commission (‘FTC’)
- US – sector specific national privacy or data security laws
Protection of Privacy
How?

• Ensure confidentiality and privacy of information concerning companies and individuals
• Protect company and worker rights
• Respect legally recognized Intellectual property rights of third parties
• Use confidential information responsibly
• Avoid any unintentional transfer of intellectual property through careful handling of company information in public
• Protect business data against unauthorized access
Case 1: Protection of Privacy

Abhi collects new patient contact information and medical information in the clinic.

In order to facilitate the doctor / patient contact Abhi will generally ask for the patient’s preferred contact telephone number.

Please select your answer!

- [ ] Appropriate
- [ ] Not appropriate
Case 1: Protection of Privacy

Abhi collects new patient contact information and medical information in the clinic.

In order to facilitate doctor / patient contact Abhi will generally ask for the patient’s preferred contact telephone number.

Please select your answer!

- Appropriate
- Not appropriate

Correct!
By collecting data Abhi makes it possible for the patient to receive a fast follow-up and higher efficiency and therefore improves customer service.
Case 2: Protection of Privacy

While making a company presentation to a new customer, in order to convince how good your company is you refer to the Business you have with your other big customers (without their approval)

Is this in-line with ethical principles?

Please select your answer!

- Yes
- No

We also supply to Company XYZ
Case 2: Protection of Privacy

While making a company presentation to a new customer, in order to convince how good your company is your refer to the Business you have with your other big customers (without their approval)

Is this in-line with ethical principles?

- Yes
- No

Correct!
The supplier is not supposed to disclose it’s customer‘s identity or product/business related information to other customers without the permission of it‘s customer.
Case 3: Protection of Privacy

The laws in some countries control the use and processing of an individual’s personal data.

Which of the following items can be considered personal information?

Please select your answer!

A - Name and date of birth
B - Address and telephone number
C - Personal financial data and medical records
D - B and C
E - All the above
Case 3: Protection of Privacy

The laws in some countries control the use and processing of an individual’s personal data.

Which of the following items can be considered personal information?

A - Name and date of birth
B - Address and telephone number
C - Personal financial data and medical records
D - B and C

Correct!
Name, date of birth, address, telephone number, personal financial date and medical records are all categorized as personal information and must be protected!
Case 4: Protection of Privacy

True or false?

Sensitive information can be freely shared within an organization but should not be revealed to a third party outside of the organization’s employees.

Please select your answer!

- True
- False
Case 4: Protection of Privacy

True or false?

Sensitive information can be freely shared within an organization but should not be revealed to a third party outside of the organization’s employees.

Please select your answer!

- True
- False

Correct!

In the organization sensitive information should only be shared in a restricted manner (need to know basis). In certain cases it is appropriate to share sensitive information with an authorized third party under the umbrella of an adequate secrecy/non-disclosure environment.
Case 5: Protection of Privacy

Which of the following is **not** an optimal method for ensuring that sensitive information is safe?

**Please select your answer/s!**

- Placing the computer in a location away from people walking by
- Use a password-protected screensaver program
- Place the written logon ID and password inside the drawer of the desk
- Log off or turn off the computer after finishing work
- Leaving the workplace for a short period of time e.g. to pick a print-out from the printer, or for a cup of coffee without locking the computer
Case 5: Protection of Privacy

Which of the following is **not** an optimal method for ensuring that personal information is safe?  
**Please select your answer/s!**

- Place the computer in a location away from people walking by  
- Use a password-protected screensaver program  
- Place the written logon ID and password inside the drawer of the desk  
- Log off or turn off the computer after finishing work  
- Leaving the workplace for a short period of time e.g. to pick a print-out from the printer, without locking the computer

Correct!  
Protect the confidentiality of the logon ID and password;  
Place the computer in a location that is not easy to access. This is considered the best way to protect the safety of personal information.
Animal Welfare
<table>
<thead>
<tr>
<th>Animal Welfare</th>
<th>Question</th>
<th>Options</th>
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<tbody>
<tr>
<td>21</td>
<td>Does the facility work with animals as a part of their business?</td>
<td>Yes ☐ No ☐ If yes, do you follow an industry standard to ensure animals are treated humanely and to reduce the number of animal tests (e.g. Association for Assessment and Accreditation of Laboratory Animal Care International). Yes ☐ No ☐ If yes, please indicate the Standard utilized: ☐</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Yes ☐ No ☐ NA ☐ Comments ☐</td>
</tr>
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Animal Welfare - Important Legal Framework India

- The Animal Welfare Act, 2011
  - No person or institution shall perform an experiment on animals unless permitted by the Committee for the Purpose of Control and Supervision of Experiments on Animals, established under this Act.
  - Committee for control and supervision of experiments on animals

- Prevention of Cruelty to Animal (PCA) Act 1960
  - Animal Welfare Board of India
Animal Welfare some facts

• India is the first country in Asia to ban all cosmetics tested on animals

• The Ministry of Health & Family Welfare has passed an amendment to Schedule Y of the Drugs and Cosmetics Rules, 1945, which spares animals testing for new drug registrations when complete data from earlier toxicity experiments already exist for drugs approved abroad.

• Animal welfare is a fundamental part of the PSCI’s principles
Animal Welfare How?

• Ensure that animals are treated humanely also in your supply chain
• Reduce the number of animal tests – no more animals than legally required
• Transportation of animals shall be as lenient as possible
• Minimize pain and stress for the animals
• Housing conditions shall take into consideration the special needs of the animals in question
• Use alternatives wherever these are scientifically valid and acceptable
• Use only laboratory animals from qualified breeders
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<tbody>
<tr>
<td>1</td>
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<td>c</td>
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<td>d</td>
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<td>2</td>
<td>Compliance Case by Case</td>
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<td>3</td>
<td>Toolbox</td>
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Definition of a compliance related Red Flag

What is a Red flag?

All circumstances that indicate the potential risk of a violation of rules or laws are called red flags

Setting Red Flags – warning signals about a potential risk
Setting Red Flags

A supplier tells his customer that part of the invoice total should be paid not into the company account that is normally used but into a third party's account. Full service has been indeed provided, so the invoice is correct in every other respect.

How should the employee behave correctly?
Compliance – Case by Case 1

Setting Red Flags – warning signals about a potential risk

• For example: payments are to be made to a third party account rather than completely to the Company account. Risk that he or she might have a less than legitimate reason for this (tax avoidance, creation of illicit accounts, etc.)

Clear case for setting a “red flag”
Examples of Red Flags:

- request for cash payment
- request for payment to a person other than the contractual partner
- request for payment into a third-party account
- request for commissions, bonuses or advance payments above the market average or exceeding amounts typically
- request for payment without sufficient proof of the object or scope of the service performed
- request for revision of already issued invoices that are correct from your viewpoint
Compliance – Case by Case 1

...examples of Red Flags continued:

- contracts with vague or missing descriptions of the service provided
- requests that services be performed *without* a written contract although written contracts are the normal practice
- refusal to sign a required compliance declaration
- illicit accounts or offshore companies set up for the receipt of payments and the enabling of transactions
- request for anonymous business relationships
What presents could I give and receive?

You give:
• a collection of sweets worth Rs. 800
• a Rs. 10000 voucher for a luxury hotel

You receive:
• a Rs. 2000 gift voucher for a cricket event
• a pen set about Rs. 150

How would you evaluate this situation?

Which of the above presents could you give and which one is not allowed to offer?
Compliance – Case by Case 2

What presents can I give and receive?

Presents may be an usual part of business life, whether an invitation to enjoy an appropriate meal or a promotional gift given away at a trade fare, or indeed a collections of sweets, a pen, or a calendar.

The top priority is transparency!
The occasion for the present, its value and the identity of the giver and receiver must be clear and transparent.

In the example provided:

• it is allowed to give the collection of sweets (depending on company regulation)
• Giving and taking of vouchers is not permitted as it is a cash-equivalent gift
What presents can I give and receive?

However, there are important rules to observe in connection with gifts.

• Gifts must not have any influence on business decisions
• Even the appearance of an impermissible influence must be avoided
• The giving or receiving of gifts in the form of cash or cash-equivalent vouchers is fundamentally not allowed
• No gifts beyond a pure token of courtesy may be given to official representatives
Agenda

1. PSCI Ethical Principles
   a. Business Integrity and Fair Competition
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2. Group activity and group discussion

3. Compliance Case by Case

4. Toolbox
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3. Toolbox
Toolbox - PSCI

- PSCI Principles
- PSCI Implementation Guidance
- Self-Assessment Questionnaire and Audit Report template
- All above and further supporting documents can be found on the PSCI resources page https://pscinitiative.org/resources
Best practice from a PSCI Member Company: Do’s - Antitrust

- Report to Legal Counsel / Management / Compliance Officer immediately any disclosure or attempted disclosure by a competitor of commercially sensitive information.
- Object to any discussion or disclosure of commercially sensitive data at any meeting which you attend.
- End discussions that might constitute an unlawful exchange of information immediately and change the subject also in the case of family members, friends and acquaintances.
- If the discussion continues, leave the meeting and notify your Legal Counsel immediately – even if the person you are talking to is a friend or acquaintance.
- Make sure that an accurate, detailed record is taken of every meeting with competitors – for example at meetings of an association.
Best practice from a PSCI Member: Don’ts - Antitrust

- Do not initiate any contact with a competitor without prior approval of your supervisor/lawyer/Management.
- If you have contact to competitors by chance as part of your work, in working groups or as part of activities for an association: Do not disclose to a competitor any non-public data regarding the business of your company, products or customers without prior approval.
- Do not accept from a competitor any non-public data regarding its business, products or customers without prior approval.
- Do not stay at meetings where competitors discuss or exchange non-public information.
- Do not use customers or suppliers or any other third party as an indirect mean of passing non-public data to competitors.
Examples: Content of a Compliance Policy

- **Fair competition**: Antitrust law is the free market’s most important tool for ensuring fair, unrestricted competition.
- **Integrity in business dealings**: Don’t tolerate corruption.
- **Sustainability**: Environment, health and safety are extremely important to the way we conduct business.
- Be committed to upholding **all domestic and international foreign trade laws**
- **Fair and respectful** working conditions
- **Intellectual Property**: Protecting the fruits of our own endeavors and respecting the legally recognized rights of others
- **Keeping corporate and personal interests separate**
- **Cooperating with the authorities**
- **Proper record-keeping and transparent financial reporting**
Basic Considerations: Self test

1. Do I behave in sustainable interest of my company?

2. Am I free from any personal interest?

3. Am I sure that it is ok for me that this behavior is announced in the press?

YES!!!
Thank you!!
Group Discussion
The common audit findings in the area of Business Ethics

- No formal ethics policies or code of conducts around Ethical Business Practices
- Absence of Company policy and processes around giving gifts and favors to Government officials / external companies / individuals that the company does business with.
- Absence of effective tools/platform to identify concerns

1. What long-term impact does non-compliance have on a company?
2. What corrective measures would you propose for these audit findings?
3. What challenges does your company face in implementing the PSCI requirements?
Case 1: There is no formal ethics policy or code of conduct around Ethical Business Practices

<table>
<thead>
<tr>
<th>What impact could this have on a company?</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>What corrective measures would you propose for this situation?</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>What challenges might the company face to establishing an ethics policy or code of conduct?</th>
</tr>
</thead>
</table>
Case 2: Your company is involved in a tender for business, and during the bid a member gives Procurement team

What long-term impact does non-compliance have on a company?

What corrective measures would you propose for this audit finding?

What challenges does your company face in implementing the PSCI requirements?
Case 3:

What long-term impact does non-compliance have on a company?

What corrective measures would you propose for this audit finding?

What challenges does your company face in implementing the PSCI requirements?
Your company is developing a new product in partnership with one of your main customers. After completion, another customer approaches you with a similar product development request and offer them the data.
Compliance Checklist
Compliance Checklist – Organization

You can choose the answers: applicable, not applicable, in development and no entry.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is there a Compliance Organization in place?</td>
<td></td>
</tr>
<tr>
<td>Is there a Compliance Officer?</td>
<td></td>
</tr>
<tr>
<td>Are employees able to turn to the Compliance Officer anonymous</td>
<td></td>
</tr>
<tr>
<td>Is there a Compliance Service Line?</td>
<td></td>
</tr>
<tr>
<td>Is there a Compliance mail adress?</td>
<td></td>
</tr>
<tr>
<td>Management has Compliance responsibility?</td>
<td></td>
</tr>
<tr>
<td>External Contractor has Compliance responsibility?</td>
<td></td>
</tr>
<tr>
<td>Are the Compliance tasks written down and documented?</td>
<td></td>
</tr>
<tr>
<td>Does the executive board put compliance into practice and enforces its</td>
<td></td>
</tr>
<tr>
<td>regulations?</td>
<td></td>
</tr>
</tbody>
</table>
## Compliance Checklists - Organization

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the Management represent compliance and ensure its implementation?</td>
</tr>
<tr>
<td>Do employees know the Compliance regulations?</td>
</tr>
<tr>
<td>Were the employees informed about Compliance regulations in writing?</td>
</tr>
<tr>
<td>Are the employees regularly sensitized through Seminars/Training?</td>
</tr>
<tr>
<td>Do employees identify themselves with the company?</td>
</tr>
<tr>
<td>Were / are there any Compliance Cases in the Company?</td>
</tr>
<tr>
<td>Was each Compliance case fully evaluated?</td>
</tr>
<tr>
<td>Is there Software or other technology to document / monitor Compliance?</td>
</tr>
<tr>
<td>Are there reports for conducted Compliance tasks?</td>
</tr>
<tr>
<td>Is the management sufficiently informed about Compliance cases?</td>
</tr>
</tbody>
</table>
Compliance Checklists - Privacy

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are employees regularly made aware of company internal regulations on the use of internet, email and phone?</td>
<td></td>
</tr>
<tr>
<td>Were there any compliance related dismissals in the last 3 years?</td>
<td></td>
</tr>
<tr>
<td>Were there any compliance related notice of warning in the last 3 years?</td>
<td></td>
</tr>
<tr>
<td>Were there any compliance related salary cuts (bonuses, benefits, provisions etc.), in the last 3 years?</td>
<td></td>
</tr>
<tr>
<td>Were there any compliance related transfers in the last 3 years?</td>
<td></td>
</tr>
</tbody>
</table>
### Compliance Checklists - Privacy

<table>
<thead>
<tr>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is there a responsible person for data security?</td>
</tr>
<tr>
<td>Does the company save and back-up data?</td>
</tr>
<tr>
<td>Is the data saved automatically and regularly?</td>
</tr>
<tr>
<td>Is there an IT-emergency plan in place?</td>
</tr>
<tr>
<td>Is there an effective Spam-protection, Virus filter, Firewall?</td>
</tr>
<tr>
<td>Is there a regulation for the usage of USB-Drives, CDs, DVDs?</td>
</tr>
<tr>
<td>Is the private use of mail, internet, telephone or smartphone officially permitted by the company?</td>
</tr>
<tr>
<td>Question</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Is there a standardized process, how to handle first indications or evidence related to corruption?</td>
</tr>
<tr>
<td>Are cases of corruption or also the indication analyzed and are potential changes of steering and safety measurements for minimizing future risks developed and implemented?</td>
</tr>
<tr>
<td>Are there any regularly executed examinations (internal or external audits) related to corruption?</td>
</tr>
<tr>
<td>Are activities of the executive board at competitors explicitly prohibited?</td>
</tr>
<tr>
<td>If there is no restraint: Are activities of the executive board at competitors subject to authorization?</td>
</tr>
<tr>
<td>Is the acquisition of company shares by employees with special conditions regulated?</td>
</tr>
<tr>
<td>Is the private financial support of other companies, especially competitors or business partners subject to authorization?</td>
</tr>
<tr>
<td>The approval and allocation of credits for employees and/or business partners is regulated through explicit regulations and subject to authorization?</td>
</tr>
<tr>
<td>Do you do business with particularly corruption charged countries?</td>
</tr>
<tr>
<td>Question</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Are all employees at all sites obliged to comply with the company principles and code of behavior either written or through employment contract?</td>
</tr>
<tr>
<td>Are all employees and sales staff obliged to law-abiding? (national / local law)</td>
</tr>
<tr>
<td>Do you work with external contractors?</td>
</tr>
<tr>
<td>Are external contractors obligated to internal regulations and code of behaviour?</td>
</tr>
<tr>
<td>Are external contractors regularly participating at seminars / trainings related to regulations / code of behavior?</td>
</tr>
<tr>
<td>Do you support your internal employees with further education and professional qualifications related to business ethic topics?</td>
</tr>
<tr>
<td>Are there defined processes and criteria for recruitment and/or staffing?</td>
</tr>
<tr>
<td>Are there defined processes and criteria for promotion / pay raise?</td>
</tr>
<tr>
<td>Do you report all cases related to legal action to the responsible authority?</td>
</tr>
<tr>
<td>Does the company have a defined overtime regulation?</td>
</tr>
<tr>
<td>Do your employees obtain the statutory overtime surcharges?</td>
</tr>
<tr>
<td>Are the maximum working hours and resting hours observed in your company?</td>
</tr>
</tbody>
</table>
**Compliance Checklists - Payments**

Payment is only made according to the usage accounted on receipt.

Is payment only made for company expenses?

Are payment processes, which relate to presents, hospitality, lodging etc., especially examined?

Is there a 4-eye principle with each payment?

Is there an unambiguous, defined and coherent chart of accounts used throughout the whole company?

Is the invoice check and release of payment separately organized?

Is data safety, documentation and control of all transactions ensured and understandable at all times?

Are functions like procurement, logistic and dispatch part of a systematic control?

Are travel and lodging expenses checked by a third person?

Is there an examination related to fostering business relationships so that there are appropriate and viable?

Is there a cash register in your company?

Are all payments, made with the cash register, properly documented?

Is the actual cash balance accessible at all times?

Are subsequent changes in the cashbook recording excluded?
## Compliance Checklists - Procurement

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are Leaders and colleagues only able to give legally binding orders with an explicit purchasing competence?</td>
<td></td>
</tr>
<tr>
<td>Are business transactions based upon reciprocity prohibited?</td>
<td></td>
</tr>
<tr>
<td>Is the procurement process transparent and understandable regulated at all times?</td>
<td></td>
</tr>
<tr>
<td>Are your suppliers and other external partners obliged to maintain confidentiality?</td>
<td></td>
</tr>
<tr>
<td>Are all suppliers and other external partners required to sign a non-disclosure agreement?</td>
<td></td>
</tr>
<tr>
<td>Are suppliers examined to integrity, prior to conclusion of the contract?</td>
<td></td>
</tr>
<tr>
<td>Are offer processes (price calculation etc.) transparent and understandable at all times?</td>
<td></td>
</tr>
<tr>
<td>For proven statutory violation of suppliers and external partners: Do you exclude these for future orders?</td>
<td></td>
</tr>
<tr>
<td>Does the 4-eye principle apply to all areas of procurement?</td>
<td></td>
</tr>
<tr>
<td>Are the terms and conditions for procurement standardized and of legal certainty globally for the whole company?</td>
<td></td>
</tr>
<tr>
<td>Compliance Checklists</td>
<td></td>
</tr>
<tr>
<td>-----------------------</td>
<td></td>
</tr>
<tr>
<td>Are all contracts (customers, suppliers, external etc.) based on a standard form of contract?</td>
<td></td>
</tr>
<tr>
<td>Are standard contracts checked for legal certainty by an internal or external lawyer?</td>
<td></td>
</tr>
<tr>
<td>Are deviations from standard contracts, changes of existing contracts, special agreements and side agreements in principle subject to authorization, definite, transparent, in written form and regulated?</td>
<td></td>
</tr>
</tbody>
</table>
## Compliance Checklists –
Checking general attitude regarding compliance

<table>
<thead>
<tr>
<th>Statement</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing Compliance is cost intensive</td>
<td></td>
</tr>
<tr>
<td>Implementing Compliance is time consuming</td>
<td></td>
</tr>
<tr>
<td>Implementing Compliance has no benefit for the Company</td>
<td></td>
</tr>
<tr>
<td>Compliance limits the company's flexibility and field of action</td>
<td></td>
</tr>
<tr>
<td>Compliance raises the behaviour for being compliant to rules (sensitized)</td>
<td></td>
</tr>
<tr>
<td>Compliance contributes to risk identification and analysis</td>
<td></td>
</tr>
<tr>
<td>Compliance optimizes internal processes</td>
<td></td>
</tr>
<tr>
<td>Compliance ensures more security and transparency</td>
<td></td>
</tr>
<tr>
<td>Compliance raises the efficiency and effectiveness of the company</td>
<td></td>
</tr>
<tr>
<td>Compliance contributes to minimizing liability risks</td>
<td></td>
</tr>
<tr>
<td>Compliance ensures a positive reputation among the Stakeholders</td>
<td></td>
</tr>
<tr>
<td>Compliance binds customers and suppliers</td>
<td></td>
</tr>
<tr>
<td>Compliance strengths staff loyalty</td>
<td></td>
</tr>
<tr>
<td>Compliance raises the &quot;We&quot;-feeling</td>
<td></td>
</tr>
<tr>
<td>Compliance results in competitive advantage</td>
<td></td>
</tr>
</tbody>
</table>
The Pharmaceutical Supply Chain Initiative

Need more information?
Visit: http://pscinitiative.org
Email: the PSCI Secretariat at info@PSCIInitiative.org
Human Rights Outlook

Presented by

Sarah Kerrigan
Head of Human Rights Strategy
Verisk Maplecroft
Bio

**Verisk Maplecroft Role: Head of Human Rights Strategy**

Sarah is responsible for formulating and advancing Verisk Maplecroft’s content strategy. Sarah also provides project management and consultancy services on corporate human rights due diligence, ethical supply chain management and responsible sourcing.

**Company Role**

2014-Present: Verisk Maplecroft
Head of Human Rights Strategy
Managing Consultant, Human Rights
Senior Human Rights Analyst

2013: Commonwealth Secretariat
Project Assistant, Human Rights Unit

2012: LEADS Sri Lanka
Research Assistant

2011: Frontier Medex
Project Manager
Agenda

1. Executive summary

2. Top 10 human rights issues for 2017

3. Our people
Executive summary

Key findings

- More countries are adopting laws that require business to disclose, or to actually implement, human rights due diligence policies, procedures and processes.

- However, many key safeguards such as the social audit or worker voice, which businesses rely on to identify or prevent violations, are weak.

- Given the significant risks within supply chains that we identify in the Outlook, including in the traditionally lower risk economies, businesses enter 2017 increasingly exposed to human rights risks, and also under great scrutiny.

Human rights trends 2016-17

This visual compares the top 10 human rights issues identified in our Human Rights Outlook of 2016 and 2017.

Hot topic issues

2016

1. Labour brokers
2. Supply chains traceability
3. Moving beyond the audit
4. Mandatory reporting
5. Migration and refugee crisis
6. Living wage
7. Working conditions TPP
8. Social licence to operate: mining downturn
9. Gender parity: parental leave
10. COP 21 and human rights

2017

1. Social audits
2. Mandatory reporting
3. Supply chain blind spots
4. Migration and modern slavery
5. Corrupt recruitment
6. Privacy
7. Land rights
8. Worker voice
9. New technology
10. SDGs and UNGPs
Agenda

1 Executive summary
2 Top 10 human rights issues for 2017
3 Our people
Mandatory reporting: Disclosure & due diligence laws

Developments in mandatory reporting legislation mean that more large companies will be obliged to take steps to limit their human rights impacts and to disclose this to the public.

- New EU legislation signals a shift towards a legal requirement for business to conduct due diligence
- To be ready for new laws, companies will need to make human rights due diligence a standard procedure
- Failure to disclose information to the public may deter investors and damage brand reputation; French and Dutch laws introduce financial sanctions

Emerging national law on human rights due diligence

- 1976 OECD guidelines
- 1986 IFC Performance Standards
- 2000 Voluntary Principles on Security and Human Rights
- 2003 Equator Principles
- 2011 UN, Guiding Principles on Business and Human Rights
- 2010 California Transparency in Supply Chains Act
- 2015 UK Modern Slavery Act
- 2016 EU Non-Financial Reporting Directive
- 2010 US Dodd Frank Act 1502
- 2018 French Duty of Care Act
- 2020 Dutch Child Labour Due Diligence Act
- 2021 EU Conflict Minerals Regulation

Legend
- Voluntary guidelines
- Mandatory disclosure laws
- Mandatory due diligence and disclosure laws

Enhancing Supplier Capabilities: A Deeper Dive into Responsible Business Practices | Novartis Knowledge Center | Hyderabad, India | May 8 - 11, 2017 | All Conference Materials Intended for Attendees Only | Not For Broader Distribution
Businesses that improve the conditions of workers in supply chains will be directly contributing to achieving the Sustainable Development Goals (SDGs)

- Realigning annual reports with the SDGs is a new, though voluntary, reporting burden
- SDG 8 and SDG 5 give businesses an opportunity to publicise their efforts to promote decent working conditions and gender equality
- The core responsibility to respect human rights, set out in the UN Guiding Principles (UNGP), is a crucial step for any business wishing to contribute to the SDGs

SDGs and UNGPs: Changing the lives of 81% of all workers

The risk map of the world looks quite different when we consider risks by country and by the number of workers living in extreme or high risk countries.
Social audits: Strengthening trust in auditing

The inconsistent quality of social auditing poses a significant risk to businesses that are required by law to conduct human rights due diligence.

- Demand for social auditing is increasing in response to laws that require companies to disclose and take action to prevent human rights violations in supply chains
- A new accreditation scheme will certify professional auditors and improve trust in the audits they conduct
- No matter how well they are conducted, audits are only as good as the analysis and actions that businesses undertake in response

New laws increasing social auditing demand

<table>
<thead>
<tr>
<th>Audit limitations</th>
<th>Audit strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deception and fraud</td>
<td>Auditor accreditation</td>
</tr>
<tr>
<td>24-hour snapshots</td>
<td>Auditor training</td>
</tr>
<tr>
<td>Audit fatigue</td>
<td>Root cause analysis</td>
</tr>
<tr>
<td>Invisible violations</td>
<td>Phased solutions</td>
</tr>
<tr>
<td>Invisible subcontractors</td>
<td>Worker voice</td>
</tr>
</tbody>
</table>

Rona Starr
Executive Director, APSCA

- “The main problem is not the audit itself, but how it is executed and what happens next...For me, when we talk about ‘going beyond the audit’, it means what happens after the audit...Auditors identify the issues, the organisation requesting the audit needs to follow up”
Worker voice: Partnering with workers to prevent violations

Scrutiny of supply chains is increasing brand and NGO attention on how unions can prevent or warn of labour violations

- Workplace disasters, modern slavery and demands for a living wage have led NGOs to argue that unions should be partners in the effort to prevent labour abuses
- But unionisation is restricted in 42% of countries, which makes promoting social dialogue among suppliers difficult
- New technology is facilitating direct communication between brands and individual workers, but to prevent violations brands must ensure that unions and suppliers collaborate

Land violations and the number of land deals

Two-thirds of the world’s workers experience a serious restriction on their right to join or form an independent union. The problem is particularly severe in major garment producing countries.
3. Supply chain blind spots: Hidden workers at risk of modern slavery

Businesses have created supply chain by spots by their failure to address risks in non-core or ancillary business activities

- Workers who transport and distribute goods are invisible on supply chain maps, yet they are highly vulnerable to labour exploitation
- Subcontractors providing support services – such as cleaning, catering and security – for business HQs are rarely subject to the same oversight applied to Tier 1 suppliers
- Since the production of promotional materials such as leaflets or free gifts is not a core business activity, it may be outsourced to subcontractors without the usual due diligence

Germany case study on flags of convenience (FoC)

This chart shows how businesses are exposed to hidden labour rights risks through the use of flags of convenience.

- Total German-owned ships (1,000 GRT or over): 3,841 / 3,841
- Ships registered in Germany: 427 / 3,841
- Ships registered in other countries: 344 / 3,841
- Ships registered in flag of convenience (FoC) countries: 3,070 / 3,841

Germany Maritime Labour Rights Index - ships registered in Germany

- Maritime Labour Rights Index: 8.48 (low risk)

Germany Maritime Labour Rights Index - ships registered under FoC

- Maritime Labour Rights Index: 5.23 (medium risk)

Note: A flag of convenience (FoC) ship flies the flag of a country other than the country of ownership. The ITF Seafarers classifies 35 countries as FoC because they fail to enforce basic labour standards onboard their registered ships.

Approximately 80% of global trade moves by sea, but seafarers can lack state protection because many ship owners register ships under a foreign flag of convenience, where enforcement of labour standards is less stringent.
Agenda

1. Executive summary
2. Top 10 human rights issues for 2017
3. Our people
Our people: Human rights team

- With over 10 years in the field, Verisk Maplecroft is an internationally recognised source of human rights data, research and consultancy services.

- The world’s largest companies work with our trusted team of experts to develop and execute human rights due diligence strategies that have a tangible impact on the way they source goods and conduct business.

- Our human rights team is divided into three areas: Analytics specialists lead the production of our 31 human rights and development risk indices; expert consultants work with clients to scope out tailored solutions; and our researchers apply in-depth analysis to help companies identify and understand their risk.
Why and how do we approach Labor Rights?

Presented by
Dr. Stephan Tschudin
Global Head Compliance in Procurement
Novartis
Bio

Company Role

since 12/2005: Novartis, HQ Basel, Switzerland – Global Head Compliance for Procurement

Previous Roles:
Internal Audit
Finance
Process Improvement (Six Sigma)

12/2002 IBM Business Consulting Services, Switzerland – Management Consultant,

01/2002 PricewaterhouseCoopers, Switzerland – Management Consultant

01/1998 Ciba Specialty Chemicals, Switzerland – Process Engineer and Project Leader for the Additives Division

2001 MBA, Warwick Business School, Coventry UK

1997 PhD in technical sciences, Swiss Federal Institute of Technology ETH, Zurich, Switzerland
## Agenda

1. Context
2. PSCI Labor Right Principles
3. The Novartis Approach
4. Risk Screening
5. Future Trends
Labor Rights Issues – The News

- Walmart Accused of Violating Workers’ Rights
- Samsung and Panasonic accused over supply chain labor abuses in Malaysia
- India: Workers’ and trade union rights violated at Maruti Suzuki India Ltd, Intl. Commission for Labour Rights reports
- Pharmaceutical Companies Sued For Overtime Violations
- Labor Rights Violations Continue in the Toy Industry
- Tanzanian Government Struggling to End Child Labor
Labor Rights violations are present... 

...Across Borders

...Across Industries

...Across Supply Chains
Global commitments have been established to respect and monitor labor rights...

...with clear standards across borders defined for every type of industry...

...and becoming a “must” rather than a “nice to have”...

...where cooperation to enforce and apply regulations in the industry is needed
Agenda

1. Context
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The PSCI Principles

The Principles

The Pharmaceutical Industry Principles for Responsible Supply Chain Management set the standard for ethics, labor, health and safety, environment and related management systems. The Principles may be voluntarily supported by any business in the pharmaceutical industry.

Guidance For Implementing The Principles

The Implementation Guidance Document provides examples of business practices and performance related to the Principles.
1. Freely Chosen Employment
   Suppliers shall not use forced, bonded or indentured labor or involuntary prison labor

2. Child Labor and Young Workers
   Suppliers shall not use child labor

3. Non Discrimination
   Suppliers shall provide a workplace free of harassment and discrimination

4. Fair Treatment
   Suppliers shall provide a workplace free of harsh and inhumane treatment, including any sexual harassment, sexual abuse, corporal punishment, mental or physical coercion or verbal abuse of workers and no threat of any such treatment

5. Wages, Benefits and Working Hours
   Suppliers shall pay workers according to applicable wage laws, including minimum wages, overtime hours and mandated benefits

6. Freedom of Association
   Open communication and direct engagement with workers to resolve workplace and compensation issues is encouraged
Agenda

1. Context
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Setting Clear Standards – Novartis

The Procurement of goods and services is covered by the Company’s **Code of Conduct** and by **clear company policies and standards** on how we buy and who we buy from.
Corporate Responsibility – Novartis

The Key to Responsibility is Accountability:
Accountability is being aware of the positive/negative impacts of the business and being responsible to drive change and innovation

Corporate Responsibility focuses on two key areas:

1. Expanding access to healthcare
   - Reaching more patients
   - Control and eliminate diseases
   - Pioneer new business approaches
   - Find new treatments

2. Doing business responsibly
   - Striving for ethical and sustainable business practices
   - Caring for our associates
   - Protecting the environment
   - Promoting ethics and strengthening governance
Responsible Procurement – Novartis

With the breadth and diversity of our supply chain, we must ensure our goods and services are ethically sourced.

Responsible Procurement ensures that the commitment to corporate responsibility is reflected in...

How we select and work with our suppliers

- Promoting **ethical behavior** and **social responsibility**
- Identifying suppliers who have potential **ethical risk**
- Identifying **opportunities** to improve conditions at suppliers
- Fostering mutually beneficial **relationships**
- Managing **reputational risk**

2. **Doing business responsibly**

Striving for ethical and sustainable business practices

- Caring for our associates
- Protecting the environment
- Promoting ethics and strengthening governance
Agenda

1. Context
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3. The Novartis Approach
4. Risk Screening
5. Future Trends
Risk Screening: Novartis Approach

With thousands of Suppliers being incorporated to the Supply Chain, Novartis has defined three parameters to filter the Suppliers that will go through an Assessment process.

- Country Risk
- Category Risk
- Contract Value

Regional Risk Expert performs Assessment/Audit
3-Step Risk Assessment Process

Step 1
New supplier or existing supplier with new product / service

Automated Risk Indication
Screening criteria defined by functional (Labor Relations, Animal Welfare, Anti-Bribery and HSE) experts and programmed into supplier onboarding process
Criteria used: material code, location, contract value

Step 2
Suppliers posing a potential RP risk

Risk Expert Evaluation
Function-driven supplier questionnaire e.g. policy, management systems and training
Evaluation by functional risk experts

Step 3
Suppliers posing potential RP risk

Drive On site Audit
Audits initiated, executed either via expert function or third party
CAPA follow up led by functions
Agenda

1. Context
2. PSCI Labor Right Principles
3. The Novartis Approach
4. Risk Screening
5. Future Trends
An effective third-party risk management (TPRM) framework should highlight the business objectives of using third parties, the types of risk for which exposure is to be measured when using third parties, and the operating model components that must be in place for effective third party risk management. An illustrative framework is shown below:

### Third Party Risk Management Framework

<table>
<thead>
<tr>
<th>Business Objectives</th>
<th>Growth and Innovation</th>
<th>Better Patient Outcomes</th>
<th>Cost Reduction</th>
<th>Improved Time to Market</th>
<th>Risk and Compliance Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Model Components</td>
<td>Privacy and Data Protection</td>
<td>Pharma-covigilance</td>
<td>Animal Welfare</td>
<td>Corporate Responsibility</td>
<td>Solvency</td>
</tr>
<tr>
<td>Management Process Detail</td>
<td>Governance and Oversight</td>
<td>Policies and Standards</td>
<td>Management Processes</td>
<td>Tools and Technology</td>
<td>Risk Metrics and Reporting</td>
</tr>
<tr>
<td></td>
<td>The organisational structure, committees, and roles and responsibilities for managing third parties</td>
<td>Management expectations for the management of third parties and related risks</td>
<td>Processes to manage risks across the third-party lifecycle, such as the Responsible Procurement process.</td>
<td>Tools and technology that support TPRM processes, such as SIM and the Supplier Portal.</td>
<td>Reports identifying risks and performance associated with third parties, tailored towards multiple levels of management</td>
</tr>
</tbody>
</table>

Controls and risk assessment processes are embedded in each of the four phases of the lifecycle:

- Evaluate and Select
- Contract and On-board
- Manage and Monitor
- Terminate or Renew
Community Approaches

**Acting as Individual Buyers**

- **Without: One-to-One**
  - Narrow market view – excluding qualified new suppliers
  - Duplication of supplier information and audit management
  - Inefficient and costly for both buyer and supplier to maintain
  - Best practice opportunities missed

- **With Community: Many-to-Many**
  - Shared information – driving greater efficiencies
  - Increased sourcing opportunities for buyers
  - Increased supply opportunities for suppliers
  - Up-to-date validated information
  - A tried, tested and trusted business model
  - Solution investment shared across multiple suppliers and buyers
Engaging Suppliers

Engaging with suppliers through e.g. community models BEFORE entering in a business relationship, and BEYOND, is beneficial for both sides:

- Trust and capability building
- Avoidance of (cost) for lawsuits, fines, settlements, etc.
- Supply continuity
- Avoidance of reputational hits

It also helps to avoid some of the pitfalls that most Procurement functions have to deal with within their own companies:

- **Critical Suppliers** – “It’s the only supplier offering the Service, no point on wasting time assessing”
- **One Time Purchase** – “It’s just a one time purchase, I don’t see why we should engage in more paperwork”
- **Time (Urgency)** – “I need the supplier by tomorrow, there’s just no time for an assessment”
Labour Rights

Presented by

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Bio

Novartis Role: Responsible Procurement (India Cluster).
June 2016 Novartis Healthcare Pvt. Limited, Hyderabad, INDIA.
April 2004 – May 2016 HSBC Software Development India Pvt. Limited, India
Head of Procurement (India) & Group Sustainability Development (APAC Region).
October 2005 - Kirloskar Brothers Limited, INDIA.
March 2004 Internal Controls and Audits (Materials Management).
June 2010: Certified SA 8000 Auditor, Certified ISO 14001 Auditor
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National assessor for Business and Human Resource Excellence – CII Exim Excellence award.
2015: CCA: Certified Coach for Alliance, USA (Business Excellence).
1996: Masters in Management of Science
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Agenda

1 Introduction
2 Forced Labour – a global challenge...
3 Migrant Workers
4 Working Conditions
ILO Fundamental Conventions

**Labour Practices? Need for Social Justice...**

The ILO's Governing Body has identified eight conventions as "fundamental", principles and rights at work.

- Freedom of Association and Protection of the Right to Organize
- Right to Organize and Collective Bargaining
- Forced Labour
- Abolition of Forced Labour
- Minimum Age
- Worst Forms of Child Labour
- Equal Remuneration
- Discrimination (Employment and Occupation)
Forced Labour
### Forced Labour

- **Work or Service**
- **Menace of any penalty**
- **Voluntary offer**
- **Historical Background**
- **Exceptions to definition**

- “forced or compulsory labour” is defined as “all work or service which is exacted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily”.

- **Modern Slavery Act**
Forced Labour

History and interpretation - *ILO Convention 29 and 105*

Privatization of “prisons and prison labour”

Abolition of forced labour as a “means of social, racial discrimination”

- Trafficking a person
- Sentence of “Community Work”
Business case Forced Labour
Migrant Workers

A person who migrates from one country to another with a view to being employed otherwise than on his own account and includes any person regularly admitted as a migrant for employment.

Protection of the rights of all migrant workers and members of their families.

A primary objective is to “protect” migrant workers and their families, a particularly vulnerable population, from exploitation and the violation of their human rights.

a) Human rights of migrant workers and members of their families.

b) Other rights of migrant workers and members of their families.
The Global Commission on International Migration identified Six principles for action.

- right to work
- freedom of association
- exchange of instruments, good practices, social dialogue and international cooperation
- decent working conditions
- non discrimination
- social security etc.,

Exceptions to the definition
Migrant Workers Population across Globe

- 2000: 172 M.
- 2015: 243 M.

Source: ILO Publications
Migrant Workers

Linkage with other instruments – Forced labour, freedom of association

Diverse ways to categorize differences in the extent of established law for different countries

Broad approach – Permanent, Temporary and season migrations

Family members protection including for Refugees

Governance of international migrant workers

- Labour Inspection Convention
- Employment Policy Convention
- Labour Inspection (Agriculture) Convention
- Tripartite Consultation (International Labour Standards)
Fair Working Conditions

Décent Work

- **Promoting Social dialogue, protection, dignity and safety**
- **Formulating orderly and fair migration schemes in regional integration processes**
- **Instituting fair recruitment processes**
- **Countering unacceptable situations**
- **Realizing the rights-based approach**
- **Socio Economic context**
Fair Working Conditions
Fair working conditions

- Procurement, categorization of agents and employers – ethical business model
- Labour Market Information System
- Labour market access - free mobility
- Reforming the contractual processes
- A resolution - Skill recognition
- Research study on private security industry
- Zimbabwe, Africa region.
Fair working conditions

### Exploitation Value by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Value 2011 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brick making</td>
<td>4,911</td>
</tr>
<tr>
<td>Mining</td>
<td>3,425</td>
</tr>
<tr>
<td>Stonebreaking</td>
<td>3,310</td>
</tr>
<tr>
<td>Glass bangles</td>
<td>2,079</td>
</tr>
<tr>
<td>Carpet weaving</td>
<td>1,779</td>
</tr>
<tr>
<td>Bidi rolling</td>
<td>1,432</td>
</tr>
<tr>
<td>Kamaiya</td>
<td>848</td>
</tr>
</tbody>
</table>

- **South Asia weighted average**: 2,585
- **Global weighted average**: 2,778

*Thanks to MGNREGA No bonded Labour anymore*
Igor Bosc
Chief Technical Adviser - ILO
Thank You
Opportunities across the supply chain