

PSCI BENCHMARKING SURVEY INSIGHTS REPORT

WHAT CAN WE LEARN FROM THE PSCI BENCHMARKING DATA
ABOUT RESPONSIBLE PROCUREMENT IN THE PHARMACEUTICAL
& HEALTHCARE SECTOR AND THE PSCI'S IMPACT?

MARCH 2021



FOREWORD

In 2020, we invited the PSCI members to participate in our third formal Member Benchmarking Survey. 29 companies – 64% of the member base – responded, and we are pleased to present the results in this Insights Report. We have used the data collected over the years to share year-on-year trends, as well as provide a snapshot from 2020.

The PSCI member base has grown by over 40 companies since it was founded in 2005, highlighting the increasing importance of the initiative's work – to continuously improve social, health, safety and environmentally sustainable outcomes for pharmaceutical and healthcare sector supply chains. The relevance of supply chain sustainability has never been more obvious than last year, when the Covid-19 pandemic had expansive and disruptive impacts on supply chains and procurement around the world. Mitigating supplier challenges against a backdrop of significant disruption to teams, workers and local communities, became a focal point for pharmaceutical and healthcare companies – particularly as a number of them found themselves at the forefront of the fight against the virus.

Some of the data in this report was gathered before the onset of the global pandemic. Nonetheless, snapshots of the effects of the pandemic have begun to percolate down into this report, in particular as organisations look to increase focus on supply chain resilience and business continuity.

This report paints a picture of rising engagement and increasing focus on responsible procurement which I am delighted to see. We hope that you find it useful and insightful.

MANJIT SINGH

PSCI CHAIR

Associate Director-Corporate Sustainability
Centrient Pharmaceuticals

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The relevance of supply chain sustainability has never been more obvious than last year, when the Covid-19 pandemic had expansive and disruptive impacts on supply chains and procurement around the world. ”

STRUCTURE OF THIS REPORT

We have organised the report into six key themes and where relevant, indicated how the findings show progress towards achieving the PSCI's 2018-20 Strategic Objectives.



A NOTE ON THE DATA

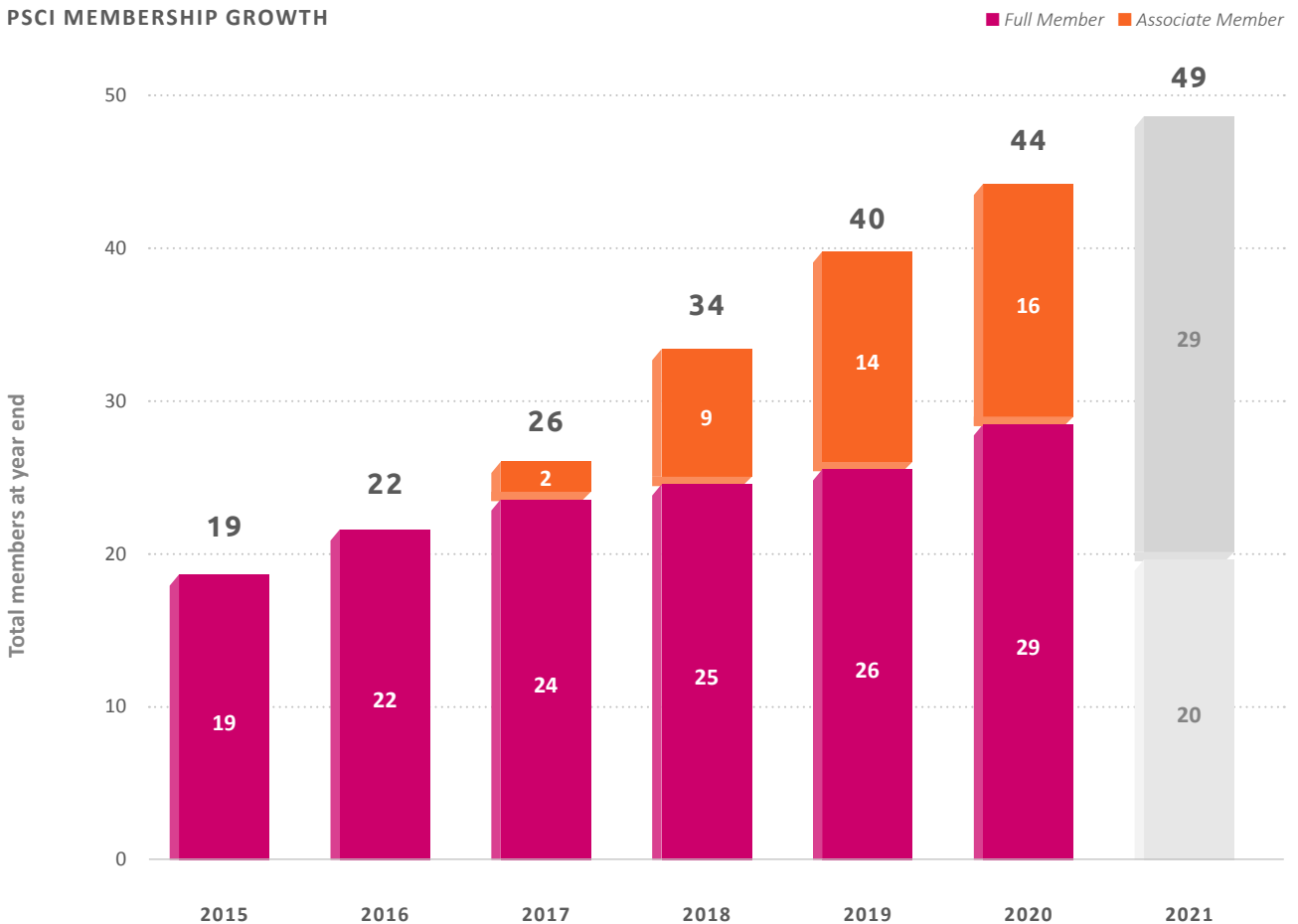
While providing a snapshot of current trends, this report also gives insight into how themes have evolved over the last few years, as issues like climate change, human rights, and supply chain legislation all climb up the agenda. We have comparable data for 2017-2020 which forms the basis of this report. (We also completed a survey in 2016 but the method changed, and the data isn't comparable. In 2019, we skipped the survey since that year saw the launch of the Impact Survey and we chose not to over-survey our members.)

The proportion of Associate Members in the PSCI has risen over the years. Associate membership is designed for those companies that are 'learning' rather than 'leading'. This means that the average maturity of PSCI member responsible procurement (RP) programs has reduced; a trend that is set to continue with all 20 of the top 20 pharmaceutical and healthcare companies already in membership. We ask the reader to bear this in mind when reading this report.

At times, the conclusions we draw would be more pronounced had they not been 'diluted' by the (welcome) arrival of smaller, less mature companies into membership.



PSCI MEMBERSHIP GROWTH



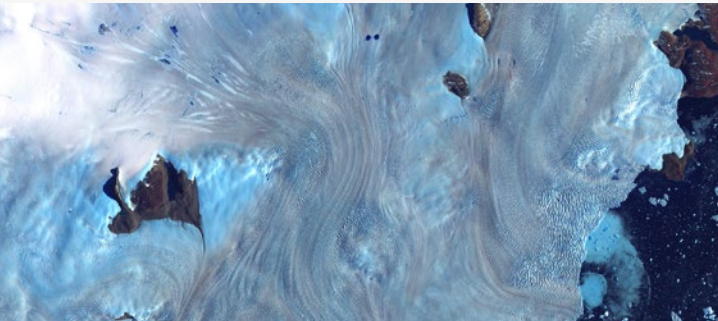
STRATEGIC PILLARS AND OBJECTIVES

1. LEADERSHIP
 1.2 Secure a higher profile for PSCI within member companies

THE PSCI'S PROFILE IS GROWING WITHIN MEMBER COMPANIES

The PSCI has focused on securing a higher profile within member companies, which includes higher levels of senior management engagement.

Over the years, the **highest management level engaged in the work of the PSCI has risen**. In 2017, approximately one quarter of respondents reported that Middle Management was the highest management level engaged in the work of the PSCI, while 9% engaged their Board or Executive Management. 2020 saw this trend flip to more than a quarter of respondents reporting that they engage their Board/Executive Management, while only 14% have Middle Management as the highest management level engaged (Fig. 1). Since an increasing number of member companies are engaging their Board/Executive management in the work of the PSCI, the percentage of companies where Senior Management is the highest management level engaged has decreased slightly over the years, from 66% in 2017 to 59% in 2020.



This trend is no surprise given the rise in commitment to Corporate Responsibility in general amongst Senior Executives in recent years¹. The trend chimes with the growing involvement of the Board on a range of CR issues including human rights (e.g. approving modern slavery statements) and climate risk assessment and reporting via mechanisms such as the Task Force on Climate-Related Financial Disclosures.”



ANNABEL BUCHAN
 PSCI Secretariat,
 Partner Manager
 Carnstone Partners Ltd

FIG. 1
HIGHEST MANAGEMENT LEVEL ENGAGED* IN THE WORK OF PSCI

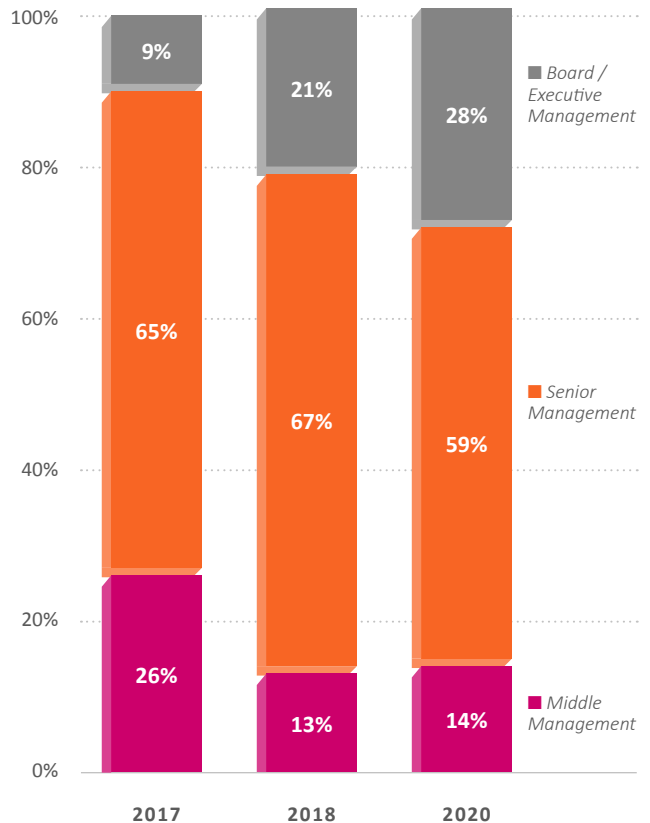


Figure 1. Note that * ‘Engagement’ implies familiarity with the organization, a commitment to its mission and active enquiry into the progress that the member company is making towards furthering the PSCI Principles.

¹ “The CR and Sustainability Salary Survey 2020”, Acre, Carnstone, Flag, <https://crsalarysurvey.com/home>

STRATEGIC PILLARS AND OBJECTIVES

- 2. A COMMUNITY OF IMPROVING SUPPLIERS
 - 2.1 Deliver excellence in supplier capability building
 - 2.2 Enhance collaboration among members and suppliers

COLLABORATION BETWEEN MEMBERS AND SUPPLIERS IS EXPANDING

The PSCI helps member companies share their expertise with suppliers to embed fair labor practices and environmental responsibility throughout the supplier network. Recently we have taken a major step to advance dialogue and collaboration between members and suppliers by launching ‘The Link’ – our online member and supplier community platform – in 2019, to give member representatives a stronger voice and enable faster and easier sharing of resources.

This year, a quarter (24%) of survey respondents were in regular contact with suppliers about responsible supply chain issues such as new legislation, updates to the PSCI Principles, and changes to their Codes of Conduct. Nearly half (45%) of respondents said that they encourage suppliers to attend PSCI events and conferences to stay up to date, while a quarter (24%) encourage suppliers to register with and regularly visit The Link.

The survey data also told us that the **scope of member responsible procurement programs is expanding.**

In 2020, the proportion of companies who replied that their responsible procurement program was applicable to both direct and indirect suppliers increased compared to 2018 and 2017 (83%, vs 78% and 78%) (Fig. 2).

This year, 43% of responding organisations replied that responsible procurement is applied beyond Tier-1 suppliers to lower tiers, creating a cascade of sustainable practices throughout the supply network (Fig. 3). Company size has an influence on the degree to which responsible procurement programs are implemented beyond Tier-1 suppliers: for larger companies, all suppliers are expected to apply at least some elements of the responsible procurement program to lower tier suppliers, while for medium and small companies, 17% did not apply their responsible procurement program beyond Tier-1 suppliers.

Member organisations collaborate with Tier-1 suppliers to promote social and environmental performance in a variety of ways, including through audits, surveys, and periodic dialogue.

FIG. 2
DOES YOUR RESPONSIBLE PROCUREMENT PROGRAM APPLY TO BOTH INDIRECT AND DIRECT SUPPLIERS?

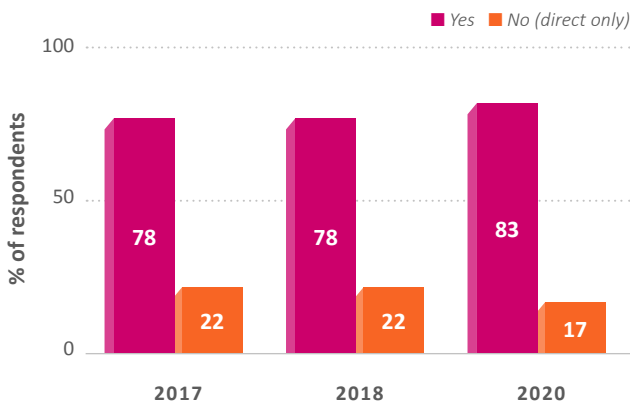
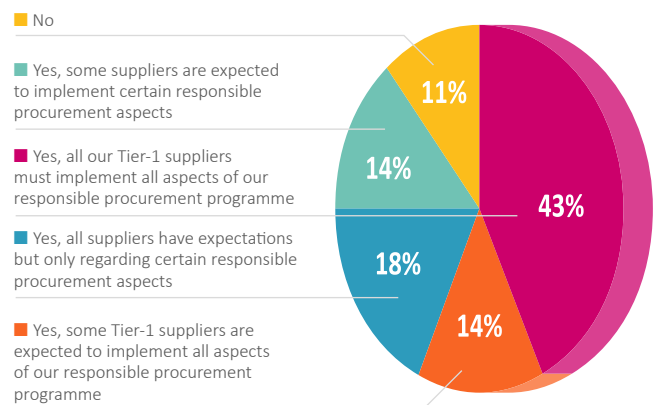


FIG. 3
IS YOUR RESPONSIBLE PROCUREMENT APPLIED BEYOND TIER-1 SUPPLIERS?



It’s great to see that more of our members are including lower tiers in their responsible procurement programs. Companies tend to focus on the top tier but lower tier suppliers are unquestionably riskier² and poor sustainability performance can, of course, endanger our members’ reputations and ability to deliver lifesaving medicines. We know from other sectors that reaching deep into the supply chain is universally challenging. The PSCI can play a critical role in helping its members spread best practices to lower tiers by offering training, peer-learning opportunities, and recognition for those that perform well. ”



ZELIA KRANICH | Sustainable Sourcing Director | Merck, known as MSD outside the U.S. and Canada

² “A more sustainable supply chain”, *Harvard Business Review*, March-April 2020, <https://hbr.org/2020/03/a-more-sustainable-supply-chain>

STRATEGIC PILLARS AND OBJECTIVES

1. LEADERSHIP

1.1 Promote the PSCI Principles, audit and methodology to define the industry's expectations

WE ARE SEEING HIGHER UPTAKE OF THE PSCI AUDIT AND WIDER COMMUNICATION OF THE PSCI PRINCIPLES

One of the PSCI's core tools is the PSCI Audit Template and it is the PSCI's objective to promote this within the industry.

The proportion of members using the PSCI audit tools increased from 67% in 2017 to 81% in 2018 (Fig. 4). Even with the PSCI's rapid membership growth across the last two years from 34 members at the end of 2018 to 45 at the end of 2020, the percentage of member companies using the PSCI audit tools has remained constant at 80%. Therefore, in absolute terms, **uptake of the PSCI audit**

has increased over the past three years in line with the increase in PSCI membership (Fig. 5). If this trend were extrapolated to all member companies, we estimate that nine additional companies have started using the PSCI audit in the past two years (36 member companies in 2020 compared to 27 in 2018).

In 2020, a higher percentage of member companies has indicated that they expect the **number of responsible procurement audits to fall**, anticipating the impact of the Covid-19 pandemic (Fig. 6).

FIG. 4
USE OF PSCI AND OTHER AUDIT PROTOCOLS (%)

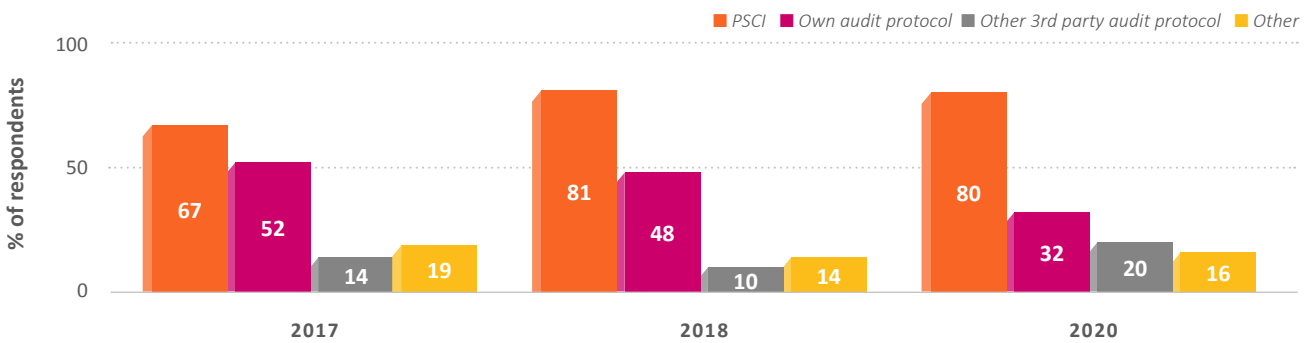


FIG. 5
USE OF PSCI AUDIT PROTOCOLS

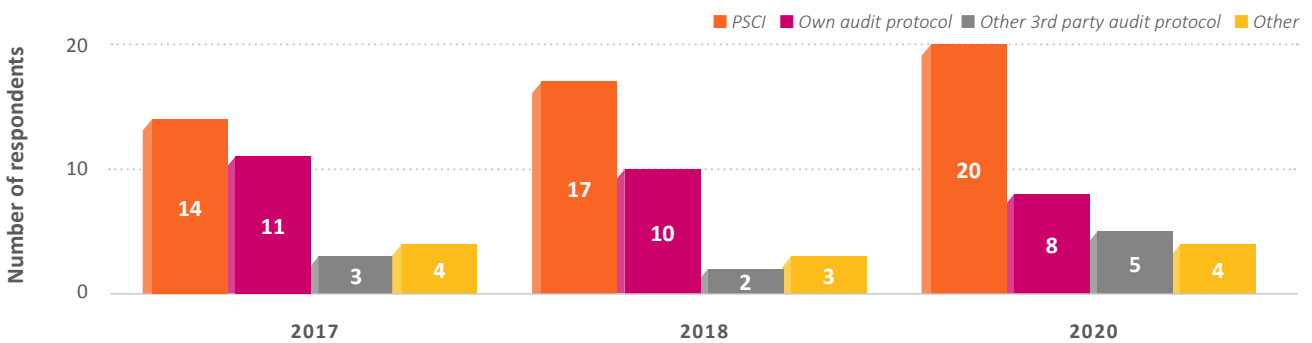
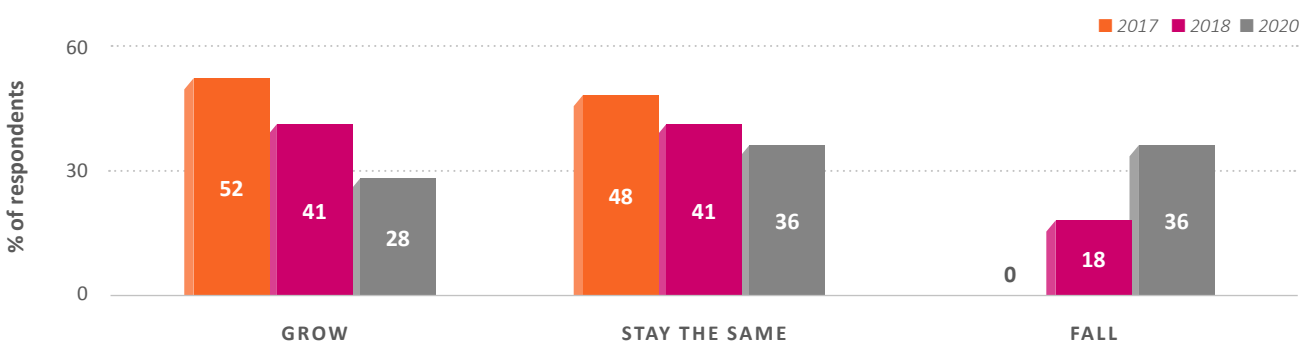


FIG. 6
EXPECTATIONS OF CHANGE IN RESPONSIBLE PROCUREMENT AUDIT NUMBERS



Over the years, **India, China, the USA and Europe have consistently been the regions where most responsible procurement audits are conducted.** In 2020, the countries where most responsible procurement audits were conducted were India (average ranking = 13.23), China (average ranking = 12.08), the USA (average ranking = 11.56), and Europe (average ranking = Europe)³. Other important regions included South America (especially Brazil).

In general, there has been a **trend towards using 3rd party audit protocols** (including the PSCI's) as the

percentage of companies that use their own audit protocol has decreased over the years (52% in 2017, 48% in 2018 and 32% in 2020) (Fig. 4).

Finally, it is worth noting that the overwhelming majority of respondents (27 out of 29 in 2020) have a supplier Code of Conduct (CoC) or Supplier Standards that adopt the PSCI Principles. This has been true across the years (Fig. 7). Almost 2/3 of member companies apply this CoC or Supplier Standards to all suppliers and enforce it universally, while approximately 1/3 applies it to all suppliers but enforce it differentially based on risk (Fig. 8).

FIG. 7
DOES YOUR ORGANISATION HAVE A SUPPLIER COC/SUPPLIER STANDARDS BEYOND SIMPLY ADOPTING THE PSCI PRINCIPLES?

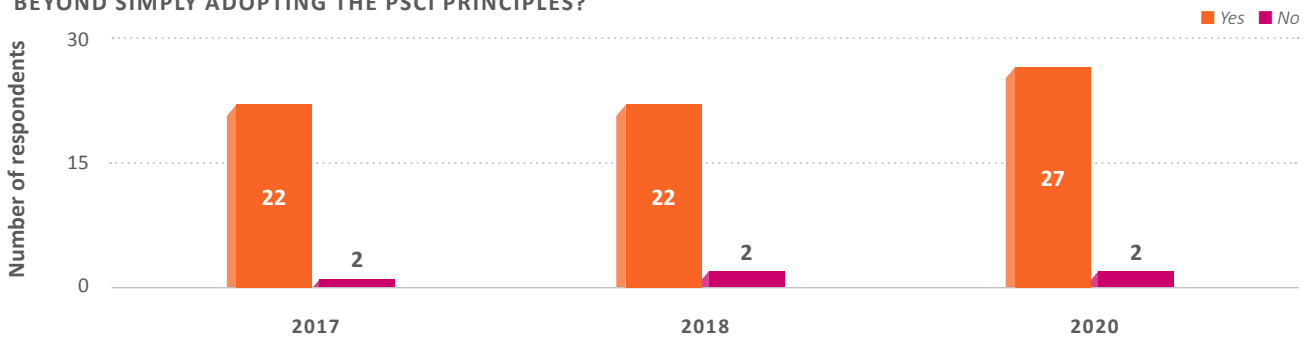
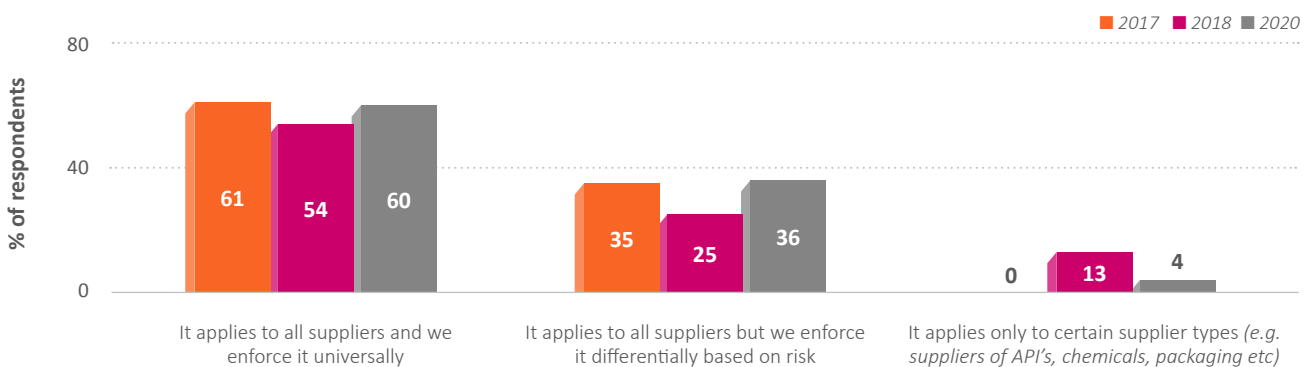


FIG. 8
APPLICATION OF COC/SUPPLIER STANDARD



I'm excited to see that uptake of the PSCI audit is increasing. Providing a common, industry-wide, assessment tool is one of the PSCI's very valuable contributions. It helps us identify issues that need resolution and use the information to target training where it's needed. Critically, through the PSCI Audit Sharing Program we reduce burden on members and suppliers by reducing duplication, and that means that we all can dedicate more time and energy to actually making improvements. ”



RIKKE CHRISTENSEN | Head of Sustainable Procurement | LEO Pharma

³ Countries where more responsible procurement audits were conducted were calculated using average weightings, where a higher average weighting indicates that more respondents ranked that option highly.

THE IMPORTANCE OF RESPONSIBLE PROCUREMENT IS INCREASING

In 2020, most member companies reported that the lead responsibility for responsible procurement lies either in the Procurement team (45%) or in a cross-functional team (28%) (Fig.9) In the minority of companies, this responsibility is divided up and located for each topic in an expert function (10%), sitting with the Corporate Health, Safety & Environment (HSE) team (3%) or elsewhere (14%). This division is broadly replicated across the years, with responsible procurement consistently being lead for a majority of member companies by Procurement or a cross-functional team (58% in 2017 and 69% in 2018). Furthermore, there is a **trend towards rooting responsible procurement in the Procurement function**; are for a large majority of respondents (86% in 2020), employees with responsibility for responsible procurement were located in the Procurement function. With Procurement being a core business function, this highlights that **responsible procurement is gaining more importance in member companies’ business activity.**

Further demonstrating the increasing importance of responsible procurement is the fact that, over the years, **higher levels of management are actively engaged in companies’ Responsible Procurement Program** (Fig. 10).



FIG. 9
LEAD RESPONSIBILITY FOR RESPONSIBLE PROCUREMENT

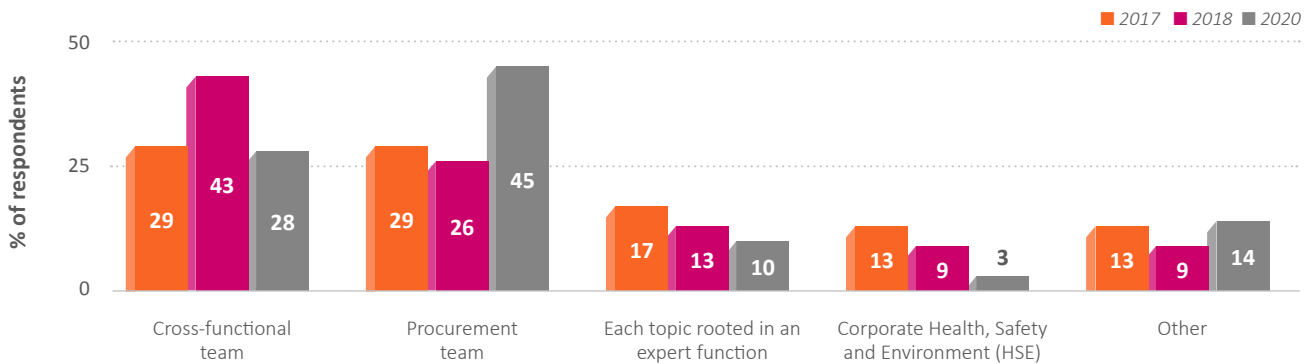
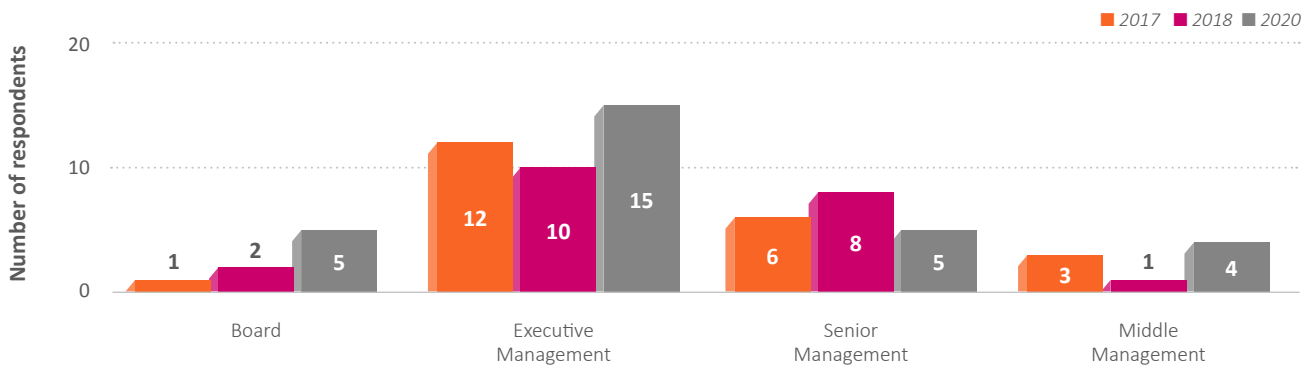


FIG. 10
HIGHEST MANAGEMENT LEVEL ACTIVELY ENGAGED IN RESPONSIBLE PROCUREMENT PROGRAM



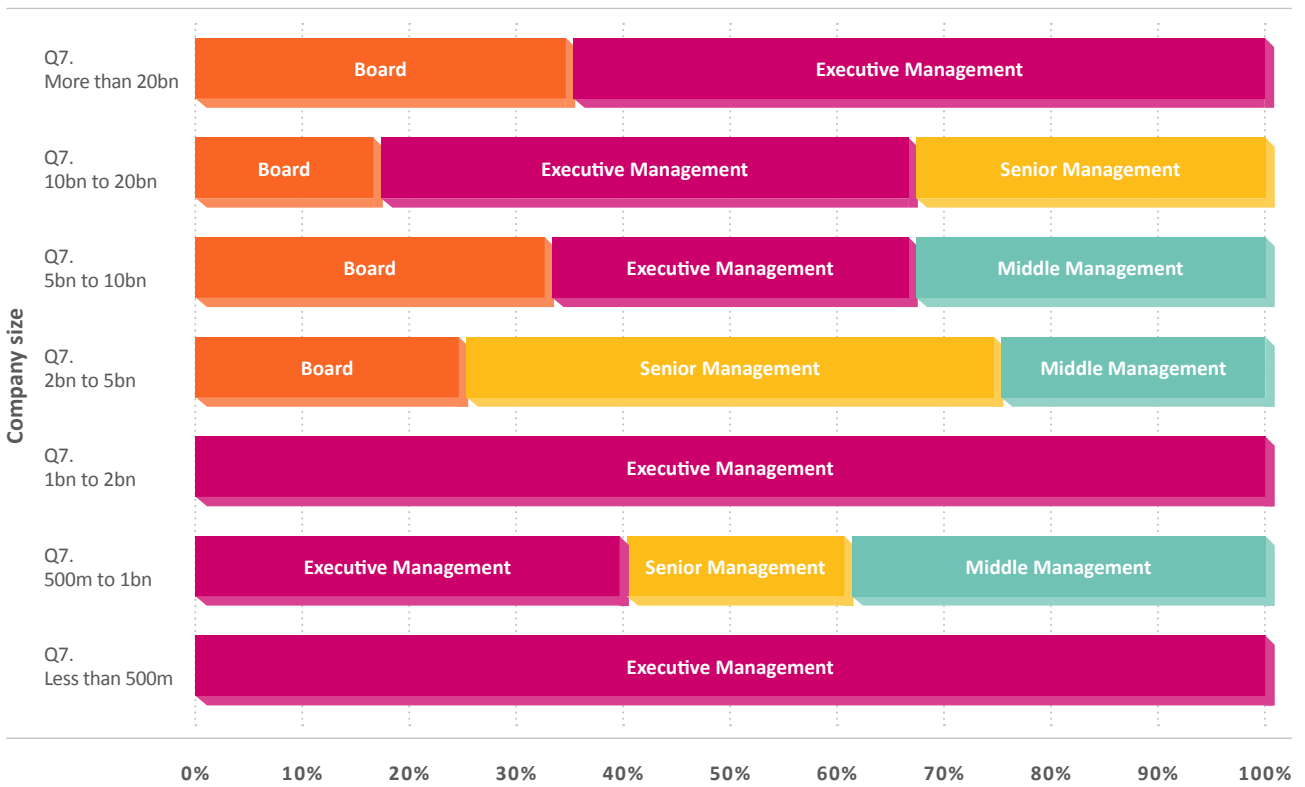
A look at the 2020 data shows that this is especially true for PSCI's larger member companies (i.e. those with a large procurement spend) (Fig. 11).

Compared to 2018 and 2017, a larger share of PSCI member companies have smaller responsible procurement teams in 2020 with 50% of member companies having team sizes of 1-2 FTE in 2020,

compared to 36% in 2018 (Fig. 12). This is likely due to the increase in the number of smaller organisations with smaller teams that have joined the PSCI in these years, rather than an actual decrease in team size.

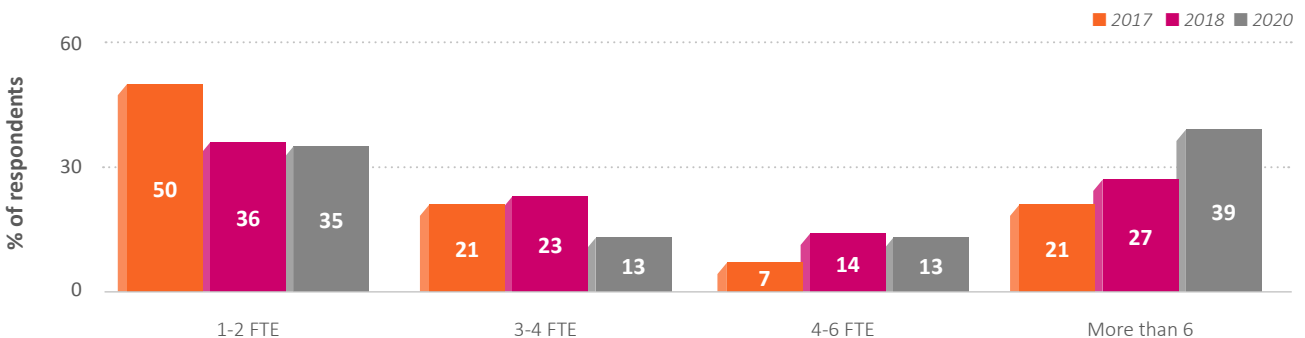
As in 2018 and 2017, the majority (79%) of these employees were located in Europe, followed by USA and China.

FIG. 11
WHAT IS THE HIGHEST MANAGEMENT LEVEL ACTIVELY ENGAGED* IN YOUR RESPONSIBLE PROCUREMENT PROGRAM?



Note that *Active engagement would include chairing working groups, line managing direct reports with responsible procurement roles or hosting periodic reviews of the program. Data from 2020.

FIG. 12
EMPLOYEES (FTE) ALLOCATED TO RESPONSIBLE PROCUREMENT



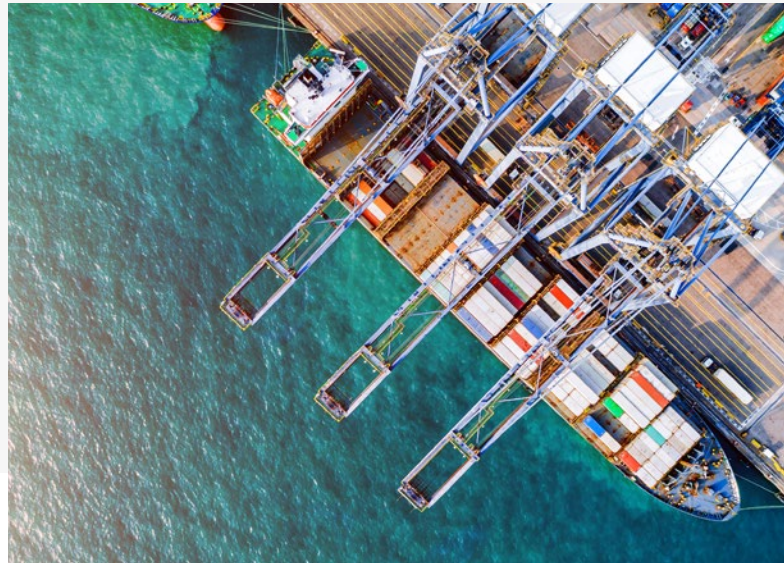
RISK BASED APPROACHES TO RESPONSIBLE PROCUREMENT HAVE GAINED TRACTION

Supply chains have rarely had to grapple with more complex, changing conditions than during the Covid-19 pandemic. Even prior to the pandemic, however, there was an increasing understanding that having an overview of the risks present in a supply chain can help prevent business interruption and ensure resilience.

In 2020, more companies segmented their supply base based on responsible procurement risk (19 in 2020 vs 18 in 2018).

As reported previously, the overwhelming majority of member companies (93%) have a supplier Code of Conduct (CoC) or supplier standards that adopt the PSCI Principles (Fig. 7). **For suppliers that are expected to conform to the organisation's standards, a higher proportion of members are now using a risk-based approach to assess these suppliers than previously;** in 2020, 52% of organisations stated that they formally risk-assessed 100% of their suppliers, compared to 39% in 2018 and 33% in 2017 (Fig. 13).

A higher proportion of member companies now also perform responsible procurement audits for suppliers assessed as high risk: in 2020, 43% stated that they perform responsible procurement audits on over 50% of suppliers assessed as high risk; this is compared to 35% in 2018 and 36% in 2017.

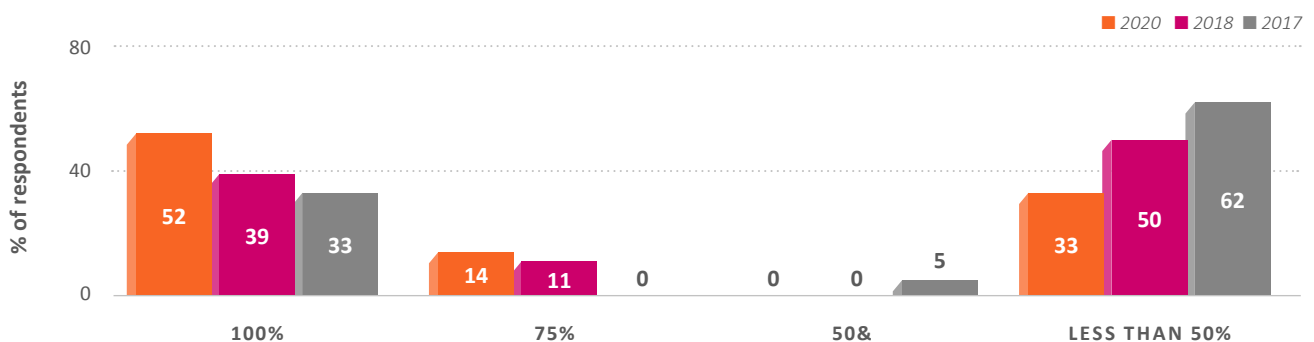


The World Economic Forum reports that responsible procurement practices can raise revenue by 5-20%, reduce supply chain costs by 9-16% and increase brand value by 15-30%⁴. It's excellent to see that a high proportion of PSCI members are adopting mature risk-based approaches to responsible procurement since responsible procurement programs bring such tangible benefits to companies. ”

LAMY BAO | EHS Associate Director External Manufacturing | BMS

FIG. 13

FOR SUPPLIERS THAT ARE EXPECTED TO CONFORM TO YOUR CODE/STANDARDS, WHAT % DO YOU FORMALLY RISK-ASSESS?



⁴ "Beyond Supply Chains", World Economic Forum, January 2015, http://www3.weforum.org/docs/WEFUSA_BeyondSupplyChains_Report2015.pdf

SUPPLY CHAIN RESILIENCE AND HUMAN RIGHTS HAVE RISEN UP CORPORATE AGENDAS

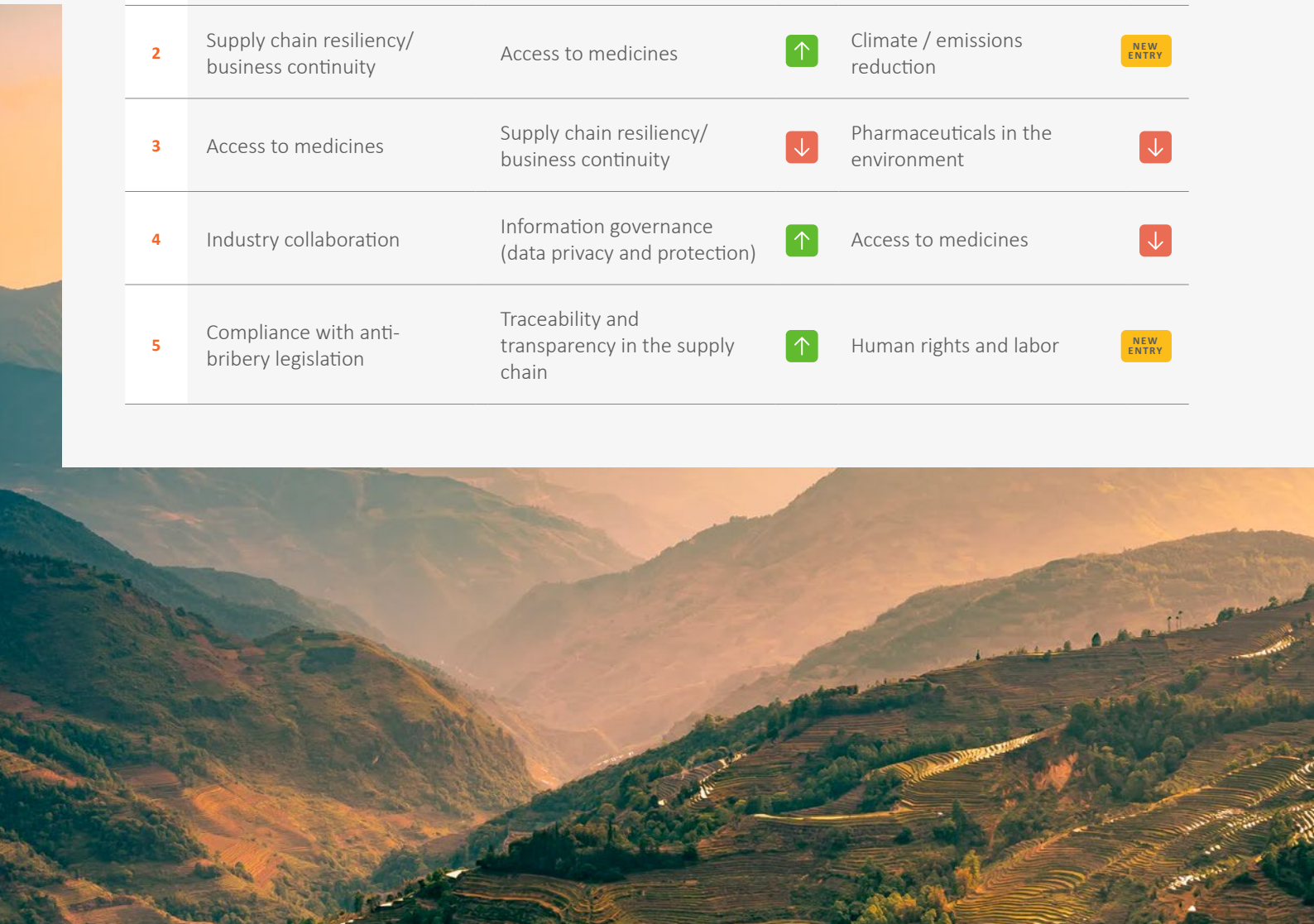
Supply chain resilience/business continuity emerged as the most relevant topic for member companies; in 2020, 73% of respondents saw it as an important topic or trend, compared to 58% in 2018 (Fig. 14). The increase in importance of this topic reflects widespread concern that the outbreak of the global pandemic and its consequent impact on the supply chains of pharmaceutical companies would expose weaknesses within organisational business models and supply chains. This is also in alignment with the views of the PSCI's stakeholders; in a recent materiality assessment from summer 2019, supply chain resilience/business continuity was identified as a top priority for the pharmaceutical sector.

The topic of human rights has also risen in importance compared to previous years. In 2017/18, roughly a third of PSCI member companies considered modern slavery an important topic, while in 2020, more than half (54%) of respondents believed that human and labour rights (including modern slavery disclosure) was relevant. This mirrors the trend of increasing legislation on the topic in Europe as several countries introduce new legislation (e.g. Loi de Vigilance in France, Child Labour Due Diligence Law in the Netherlands) or are considering doing so (e.g. potential Supply Chain Due Diligence Law in Germany).

FIG. 14

MOST IMPORTANT TOPICS AND TRENDS FOR PSCI MEMBER COMPANIES

	2017	2018		2020	
1	Pharmaceuticals in the environment	Pharmaceuticals in the environment	<	Supply chain resilience / business continuity	↑
2	Supply chain resiliency/ business continuity	Access to medicines	↑	Climate / emissions reduction	NEW ENTRY
3	Access to medicines	Supply chain resiliency/ business continuity	↓	Pharmaceuticals in the environment	↓
4	Industry collaboration	Information governance (data privacy and protection)	↑	Access to medicines	↓
5	Compliance with anti-bribery legislation	Traceability and transparency in the supply chain	↑	Human rights and labor	NEW ENTRY



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