

RAYTHEON
LECTURESHIP IN
BUSINESS ETHICS

Ethics and the Corporate Culture

RAYMOND V. GILMARTIN
PRESIDENT AND CEO
MERCK & CO., INC.

CENTER FOR
BUSINESS ETHICS

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BENTLEY



It was an honor for the Bentley community to welcome Raymond Gilmartin, chairman, president and chief executive officer of Merck & Co., as the second Raytheon Lecturer in Business Ethics. The number of people eager to hear him address “Ethics and the Corporate Culture” set a campus record, with two auditoriums required for seating! Bentley’s new partnership with WGBH takes Mr. Gilmartin’s lecture to an even wider audience, via the WGBH Forum web site: www.wgbh.org/forum.

As a business university, Bentley strives to be at the frontier of business practice in its teaching, scholarship and co-curricular activities. An emphasis on ethics and social responsibility is infused through every facet of campus life — from case studies introducing freshmen to the world of business to a concentration in the MBA; from research on corporate governance and compliance with the Sarbanes-Oxley Act to studies of Internet shopping in the workplace; from a culture that promotes student engagement in community service to a play that explores ethical dilemmas in accounting practice to a student-faculty partnership that designed a model academic integrity policy.

Since its founding at Bentley College 28 years ago, the Center for Business Ethics has worked tirelessly to generate thought-provoking discourse. The corporate leader lecture series is a hallmark of that aim. With Raytheon as the new series sponsor, I am confident that our students and faculty, as well as the business community at large, will continue to draw inspiration, understanding and new insight from the lectures.

Joseph G. Morone
President
Bentley

The Raytheon Lectureship in Business Ethics at Bentley College is made possible through the generous support of the Raytheon Company. Raytheon is an industry leader in defense and government electronics, space, information technology, technical services, and business aviation and special mission aircraft, with annual revenues of more than \$18 billion. The company employs 78,000 people worldwide. Raytheon aspires to be the most admired defense and aerospace systems supplier, through its world-class people and technology. It has built a reputation for adhering to the highest ethical standards in the industry. The lectureship series aims to illuminate and promote ethical values and conduct in business, highlighting best practices in corporations throughout the United States.

Learn more about Raytheon online at www.raytheon.com.



Ethics in business is about so much more than following rules.

Fundamentally, it is a matter of creating the right culture in our organizations, so that people have the ability and support to make decisions that are not only effective but are consistent with the values and principles we hold dear. It is about trust, about what you do when no one is watching, about treating the name of one's company as if it were one's own. The leaders of a business or an organization need to set the example. Leaders need to beg for the bad news. Raytheon has worked very hard in establishing an ethical business culture that is accepted by our employees and woven into the fabric of the way in which we work. Our continued growth and profitability depend on our ability to protect our reputation.

Raytheon has supported the Center for Business Ethics at Bentley College for many years. We are honored now to sponsor its Lectureship in Business Ethics. We recognize the enormous value of the leadership given by the center for nearly 30 years, to promote ethical business practices and values in the United States and around the world. Ethical leadership — illuminating and inspiring ethical conduct and values — is what the Raytheon Lectureship in Business Ethics is about. The series will bring to Bentley College highly respected corporate leaders who have a deep-rooted commitment to doing business in the right way. They will share ideas and engage in discussion about how all of us in the business community can encourage ethical excellence. I hope you find this lecture series useful. Please let us know.

William H. Swanson
Chairman and Chief Executive Officer
Raytheon Company

MERCK is one of the world's largest research-driven pharmaceutical companies. The company employs nearly 64,000 people worldwide and is headquartered in New Jersey. Some of Merck's discoveries and developments over the past century have become household names. In 2003, *Fortune* magazine included Merck in its list of "Blue Ribbon Companies," a recognition of those companies that have made five or more of *Fortune's* lists throughout the year. Merck was named to the following Fortune lists: "Fortune 500;" "100 Best Companies to Work For;" "Global 500;" "America's Most Admired Companies;" "World's Most Admired Companies;" and "MBAs' Top 50 Employers." Merck is widely recognized for its efforts to improve global health and access to medicines. In its first annual ranking of America's most philanthropic companies, *BusinessWeek* magazine recently named Merck to its list, placing the company fourth on its ranking of "The Most Generous In-Kind Givers." *The Economist* stated that Merck has "won the admiration of advocates of corporate responsibility," and is considered the "acceptable face of capitalism."



RAYMOND V. GILMARTIN is Chairman, President, and Chief Executive Officer of Merck & Co., Inc, one of the world's largest research-driven pharmaceutical companies.

Merck employs nearly 64,000 people worldwide and is headquartered in New Jersey. Some of Merck's discoveries and developments over the past century have become household names: vitamins; antibiotics such as penicillin and streptomycin; cortisone; also vaccines and medicines in some 20 therapeutic areas. Merck's more modern medicines include *Vioxx*, for arthritis and pain; *Fosamax*, for osteoporosis, *Singulair* for asthma and seasonal allergic rhinitis, and *Emend*, which treats nausea and vomiting associated with chemotherapy.

Last year, *Business Week* ranked Merck Number 20 out of 50 top-performing companies. The magazine has been ranking the top-performing companies in the S&P 500 Index for seven years. Merck is the *only* company to make the list all seven out of seven years.

Merck is widely recognized for its efforts to improve global health and access to medicines. In September 2002, Merck earned one of only two Triple-A ratings for ethics by the Management & Excellence group.¹ And a recent issue of the *Economist* stated that Merck has "won the admiration of advocates of corporate responsibility," and is considered the "acceptable face of capitalism."

Ray Gilmartin joined Merck as president and chief executive officer in June 1994 — the first president and CEO hired from outside the company. He was named chairman of the board in November 1994. He joined Merck after serving as chairman, president, and CEO of Becton Dickinson.

Mr. Gilmartin earned a degree in electrical engineering from Union College in 1963, and moved to Boston in 1966 to attend Harvard Business School. After he earned his MBA, Mr. Gilmartin worked for eight years at Arthur D. Little in Cambridge.

Mr. Gilmartin is active in issues that involve the pharmaceutical industry, both globally and domestically. In 2003, he was sworn in as a member of President Bush's Export Council. He was asked to chair the Subcommittee on Stewardship to emphasize that America's companies not only bring their capital, but also their values to world markets.

He serves on the boards of General Mills, Inc., and the Microsoft Corporation. He also serves on boards of several organizations involved with health care and health policy, including the International Federation of Pharmaceutical Manufacturers Association. He is a director of The College Fund/UNCF and a trustee of the Health Care Leadership Council.

Raymond V. Gilmartin
President, Chairman and Chief Executive Officer
Merck & Co., Inc.

¹Management and Excellence, S.A. is an international consultancy that rates the management quality of blue-chip companies around the world by analyzing criteria such as products; donations and contributions, organizational justice, hiring and promotion policies, complaint-handling policies, humane layoff policies, effective communication of ethical policies, recall, rebate and other goodwill policies.



Raymond V. Gilmartin, President and CEO, Merck & Co.; W. Michael Hoffman, Executive Director, Center for Business Ethics, Bentley College.

Ethics and the Corporate Culture

THE RAYTHEON LECTURESHIP IN BUSINESS ETHICS
AT BENTLEY COLLEGE

Monday, November 10, 2003

Raymond V. Gilmartin
President and CEO
Merck & Co., Inc.

One of the great places to be in America is on a college campus. Colleges are filled with intellectual energy, enthusiasm for questioning old ideas and exploring new ones, and with a commitment to finding ways to make the world a better place. So, thank you for inviting me to be with you and thanks to your Center for Business Ethics for sponsoring this event.

In thinking about what I would say to you today, the first thing that came to mind is something I heard at one of my class reunions at the Harvard Business School. I always try to attend my reunions — this year was my 35th. Not only am I glad to see my old classmates, but I also like to attend the lectures that today's professors offer as part of the program for the weekend. I really enjoy the intellectual stimulation — and I don't have to pay tuition.

Several years ago, one of the reunion lectures focused on teaching ethics to business school students. The professor talked about the effort the school was making to integrate ethics into every aspect of its curriculum, so that students would learn to integrate ethical standards into their day-to-day decision-making as business leaders.

The professor went on to tell us about a discussion question he always asked his students — most of whom had been out in the workforce before coming to Harvard — early each semester. He posed this question, in part, to help him gauge their views on the relevance of teaching business ethics in an integrated way.

His question was simple: “Have you ever found yourself in a situation where you were asked to do something, unethical, and, if so, describe it.” He reported that a surprising number of his students said they had been asked to do something they knew was unethical — wrong. He also reported that the experience was devastating — not disturbing, devastating — especially when it happens to people early in their careers.

Not having ever been in such a situation myself, I was fascinated by what he reported. But it’s what he told us next that really caught my attention. Most of the students, he said, believed that if the CEO of their organization had known what was going on, he or she would not have permitted it.

As a CEO myself, I found this observation very illuminating. It reinforced my own belief and experience that in a corporation, it is not enough to say you are an ethical company that hires ethical people, who are expected to do the right thing. You must go beyond that. You must also ensure that the environment in which your people work not only expects, but supports, ethical behavior and not only opposes, but roots out, unethical behavior.

But what is ethical behavior — how do you define it? It’s not easy. There are entire courses on ethics — in fact, I counted six courses with “ethics” in their titles offered by your Philosophy department. Ethical behavior is not just what goes on every day — simply complying with the rules. It demands a higher standard. It means that instead of looking for loopholes, you see the rules as the foundation of moral behavior. As Plato put it, “Good people do not need laws to tell them to act responsibly while bad people will find a way around the laws.”

These days, it seems that the only time you read about business ethics is in the context of the Enrons, WorldComs, and Tycos of the world. They make the news for the outrageous ways in which they flouted even their own ethical standards. But, even though you won’t read about it, there are also companies on the opposite end of that spectrum, corporations that are fiercely determined to hold themselves to

the highest standards of ethics and integrity. And, as on any continuum, there are many companies that fall somewhere in between.

The Ethics Resource Center, a nonprofit organization which, since 1977 has been promoting the creation of ethical work environments, has been tracking for the past decade the ethical environment in corporate America. I served as chairman of the center several years ago. Earlier this year, the center released its latest scientific survey of 1,500 workers across the country. I'd like to share with you some of the results.

The survey showed that over the past ten years, the percentage of employees who observed misconduct has dropped from 31 to 22 percent. It also showed that employee reporting of misconduct increased from 48 percent to 65 percent, and those who said they felt pressured to compromise their ethical standards dropped to a new low of ten percent. This is encouraging news.

Yet despite this improvement, the survey also found that nearly half of all non-management employees are still reluctant to report misconduct. This reluctance stems from concern that reported misconduct would be ignored or that the report would not be kept confidential. However, in those companies in which a strong ethics program is in place, employees are more likely to report misconduct and to believe those reports will be taken seriously. That's why strong ethics programs are key to creating a strong ethical corporate culture.

But what constitutes a strong ethical culture? I believe a company proves its commitment to the highest standards of ethics and integrity by meeting three very important goals.

First, its top leaders must set the right tone and that tone must be echoed throughout the organization. In thought, word and deed, a company's leaders must clearly and unambiguously both advocate and model ethical behavior.

Next, it must offer formal training in ethics and standards of conduct, not just so that people will know what's expected of them, but so they can learn how to identify a potential ethical dilemma and prevent it from actually becoming one. Employees should also have a place to turn for advice about concerns or doubts that they may have regarding a situation they may be facing.

Third, it must provide formal mechanisms, both inside and outside one's organizational structure, for reporting any wrongdoing, should it occur or be suspected of occurring.

We have embraced these goals at Merck, and I would like to tell you why I believe that's important and detail for you what we have done to meet these goals.

In the pharmaceutical industry, one of the most valuable assets a company has is its reputation. The work we do is a public trust. When you are researching, developing, and manufacturing drugs that people rely on to prevent or treat disease in themselves or their families, you should be expected to maintain the highest standards of ethics and integrity. At Merck, that is the standard to which we hold ourselves.

The foundation of our commitment to ethics at Merck is our culture and tradition. Merck is proud of its long history of strict adherence to the highest standards of integrity and ethics. In a very real sense, the people of Merck are our own best watchdog, for unethical behavior by any would tarnish the hard-won reputation of all.

That's why we train our managers in ethical behavior; why we include ethics as part of our annual performance reviews; and why it's one of the measures we use to make decisions about advancement. For a company that cares a lot about results — how many new drugs we've developed, the growth of sales and earnings, the price of our stock — we also care a lot about how we achieved those results.

But as effective as that is, it is clearly not enough.

That is why in 1995, shortly after I came to Merck, I created Merck's first Office of Ethics. This office is responsible for carrying out every aspect of our ethics policies, both here in the United States and abroad. The office has been headed since its founding by Jacqueline Brevard, a long-time Merck lawyer, who is today a nationally recognized expert in this field.

When we established the Office of Ethics, I charged it with several important objectives, all of which complemented the overarching goals I mentioned a moment ago:

First, develop one global code of conduct for every Merck employee in every office in every country in which we operate;

Second, develop the training needed to ensure that all Merck employees were not only familiar with the Code of Conduct, but know how to apply it in their work.

Third, establish fully staffed and supported confidential structures that our employees could use to ask questions about ethical dilemmas they faced, or report unethical behavior they knew or suspected was taking place;

Fourth develop a strategic communications plan, to ensure that all of our employees knew not only what resources were available to them, but how to access those resources.

We also gave our new Office of Ethics complete independence within the company. Jacquie Brevard reports directly to me, and we meet at least once a quarter so she can keep me fully apprised of what her office is doing and finding.

It's important to point out that when I decided to establish the ethics office, it wasn't because I had any doubt about the integrity and ethics of Merck employees. Quite the contrary; as I said a moment ago, Merck has a long history of adhering to the highest standards of conduct and behavior.

But one cannot rely on past performance, which is, after all, no guarantee of future results. And when a company is growing as ours is, adding new employees and expanding operations around the world, it's important to ensure that every Merck employee knows that meeting the highest ethical standards is not just a *part* of how we do business, it is at the *heart* of how we do business.

The first test our new office faced was developing a global set of standards. As those of you who have read Thomas Friedman's book, *The Lexus and the Olive Tree*, know, the rapid globalization of the world economy is posing many new challenges to nations, corporations, and individuals in a whole host of areas, including ethics.

Traditionally, companies have drafted standards of conduct designed just for use in the United States, and then have exported those codes to their overseas operations. Typically, such codes will cite chapter and verse of American laws against price-fixing or anti-competitive practices, for example, but they won't address the values that underlie the laws.

For a company like Merck, with operations on every continent in the world, (except, of course, Antarctica), that doesn't work. That is why Merck's guide to *Our Values and Standards* deliberately does not read like an obscure legal document, it reads more like a moral document.

Our code of conduct says such things as: "We compete fairly and honestly;" "We strive to maintain an environment free of harassment, where all employees are

respected;” and “We may not buy or sell Merck securities, on the basis of non-public, material information.” Because they are based on the fundamental question of right and wrong, these standards can and do apply everywhere and to everyone.

I should also point out that our Code of Conduct was the work product of people from every part of the company in every part of the world. Interviews and focus groups were held both here in the United States and abroad and anonymous questionnaires were distributed worldwide. We did this, not because basic concepts of right and wrong vary around the world but rather because the best ways in which to talk about them do. We wanted to find universal language to communicate universal values.

If you were to visit our Ethics Office at our headquarters in New Jersey, the first thing you would notice is a wall full of electric blue and purple rectangles. While they look like a piece of modern art, they are, in fact, identical copies of our *Values and Standards* brochure, written in 25 different languages. That’s as clear a representation of the globalization of ethics as I think you’ll find.

Of course, creating rigorous ethical standards is just the first step. Any company that’s serious about its standards has to make every effort to train their employees in what the standards mean to them on a day-to-day basis and how they apply to their business life.

As someone at the Ethics Resource Center said recently, “To be effective, codes of conduct need to be actual living documents, not just framed pieces of paper hanging on company walls.” So while we are proud to display on our walls our code of conduct in 25 different languages, that is where our commitment begins, not ends.

At Merck, every new employee receives, as part of their orientation training, a section that covers our *Values and Standards* and that gives employees all the information they need about the resources available to them through our Office of Ethics. Similarly, when employees move up the corporate ladder and become managers, for example, our ethical standards are reinforced as part of the training they receive for their new position.

And while our *Values and Standards* document is the same in every language, we recognize that our training must take into account the various situations people face in different parts of the world. We knew that we would, in some cases, be asking people to act in ways that were contrary to prevailing cultural practices, such as how women in the workplace are treated or what constitutes a bribe. So we tar-

get our training in different countries or regions to assist our employees in meeting the real-world challenges they are likely to face.

Let me give you an example. In some of the countries in which Merck does business, our employees occasionally interact with people who are so uncomfortable doing business with women that they want them removed from a project. And some companies might say, well, when in Rome, do as the Romans. But at Merck, we strongly believe in equal opportunity for women, no matter where they work, and we would never honor such a request. So in those countries, we will give our employees tips on how to deal with this attitude, without in any way compromising our commitment to gender equality.

We have found that when people see that we will stand behind our female employees, they change their attitude and will work with our women on an equal footing. Pragmatic self-interest takes over. Their desire to do business with us overrides their reluctance to work with a woman. But we wouldn't have found that out had we compromised our ethical commitment to equal opportunity for our female employees in every part of the world.

In addition, we tailor our training to meet the needs of people holding different jobs within the company. The real-world dilemmas a pharmaceutical sales rep will face are different from those likely to confront someone who works in a research lab. Our training takes that into account.

It's also important that training offers more than just theory — it must provide practical advice. Through our Ethics Awareness Workshops, we provide our employees with practical advice that will help them recognize and then deal with a potential ethical dilemma.

These workshops teach people how to apply our values and standards in the real world. We recognize that when people are striving to succeed, they may be tempted to take an occasional ethical shortcut. These workshops give our employees practical advice on how to short-circuit that temptation.

Of course, no amount of training is ever sufficient to prepare people to meet every ethical question they confront at work. There is plenty of gray area in ethics, and sometimes certain ethical imperatives may appear to be in conflict. Most people who get caught up in unethical behavior are not fundamentally bad. More often than not, they are good people who are doing something unethical in the mistaken belief they are helping the company. That is why it is crucial to give employees a place where they can turn for guidance.

At Merck, we have several such mechanisms in place. Our Office of Ethics is always available to provide advice, either by phone, e-mail, fax, or even regular mail.

In addition, we have established what we call the Merck AdviceLine, a toll-free number that employees can contact anonymously to seek advice on an ethical dilemma or report actual or suspected violations of our Code of Conduct. To assure employees of the confidential nature of the AdviceLine, it rings off-site at an independent third-party vendor, so no one needs worry about being identified by Caller ID.

A further resource is our Merck ombudsman program. Every one of our locations in the United States has an ombudsman on site, to whom people can turn. This is yet another confidential alternative that people can use to help them navigate a potential ethical minefield.

It is interesting to note that most of the calls that come into our AdviceLine are about supervisor-employee relationships. And we have found that this has provided us with an unintended benefit. Finding out about an issue between a supervisor and his or her employee gives us the opportunity, not just to address the specific situation itself, but to also help develop the skills of the supervisor. Let me give you an example.

Our AdviceLine — and I should mention that we changed its name from a hot line to AdviceLine because we wanted to encourage its use to include seeking advice as well as reporting suspected or actual wrongdoing — but our AdviceLine received a call from a woman sales representative who had a problem with her manager. She felt she was doing a good job, yet her manager was highly critical of her, really giving her a hard time. After a while, she began to suspect that her manager might have been discriminating against her because of her gender. She called the AdviceLine for help.

When we followed up with the manager, by first asking him, “What do you think of so-and-so?” He immediately replied, “Oh, she’s one of the best people I have working for me; she’s great.” When we then told him about the situation from her perspective, he was shocked — he was apparently unaware of how his management style was affecting his staff — both women and men, as it turns out.

By gaining this insight into his own management style, this supervisor was able to develop new skills that made him both a better manager and more valued employee to Merck. And, because of the AdviceLine, a problem that could have festered and grown was surfaced and dealt with.

Of course, all of this effort is worth nothing if our employees don't know it's available. An advice line that never rings isn't doing any one any good. That's why it's vitally important to effectively communicate information about the full scope of resources available to support our commitment to the highest standards of ethics and integrity.

For example, we need to be sure that the phone numbers of our Office of Ethics and our AdviceLine are readily available, that employees know who their ombudsman is, that they know where to find a copy of our code of conduct, and that managers at every level reinforce the importance of ethics.

Of course, communicating the importance of ethical behavior requires much more than words alone. Actions always speak louder than words. That's why, as I mentioned earlier, we make ethical behavior, including treating others with dignity and respect, an integral part of performance reviews and advancement decisions.

As I travel, I am always pleased to hear from employees how useful they find our clear set of value-laden standards in doing business and how proud they are of Merck's commitment to doing what is right over doing what may seem expedient. I especially hear that when I'm overseas, where some of the norms of acceptable business conduct may differ from our own expectations and where our competitors may not adhere to the same high set of standards we expect of Merck employees.

Our employees not only feel good about being part of a company that values doing the right thing, they also find it affords us a long-term competitive advantage. Dealing with people honestly and fairly, treating all those with whom you work (both inside and outside the company) with dignity and respect, meeting your commitments — those are the foundations on which strong business relationships are built.

It is also the way strong businesses are built. At Merck, our ability to succeed is directly tied to our ability to attract the best young talent available. When you work on the cutting edge of science — and your future depends on your ability to develop novel medicines that offer true advance in patient care and offer real value to the consumer — you must be able to attract the best and the brightest. We have found that our clear commitment to ethics and integrity helps us attract — and retain — exactly the sort of talented people we need to meet our goals.

In my experience, the way to succeed in business is to do something worthwhile in a way that makes you proud of what you do. You don't want to find yourself

in the position those students I mentioned earlier did — of being asked to compromise your values for the sake of your job. No job is worth that.

So when you complete your education and are weighing several job offers, as I'm sure you will be, I urge you to integrate into your calculations each company's commitment to ethics and integrity. You will find that a company that honors its obligation to nurture an ethical environment is a better place in which to work and succeed.

Thank you.

Below are highlights from Raymond Gilmartin's question and answer session with Bentley College students, faculty and guests.

Question:

Bentley College maintains a web poll on legal accountability for corporate values and operating principles. If I may, I'd like to read you the question that is asked in that poll so that you might share your response with the audience. The question is: Should corporate executives and/or their companies be held legally accountable for violating and/or misrepresenting corporately declared operating principles and values the outcome of which results in physical, mental, and financial harm to employees, customers and stockholders?

RAYMOND GILMARTIN:

Well, I think that since we're talking about ethics, we should make a clear distinction between what is legal (which, as far as we're concerned, sets the floor for things and gives rise to all the training we do for compliance) and what is ethical, which is a higher standard. As you ratchet up what people should be held legally accountable for, you will always be left with the necessity of filling in the gray area through conduct that is consistent with the values and traditions of the company and its commitment to high standards of high integrity. So, I think that creating legal liability as a way of getting more ethical behavior has real limitations. Ethical behavior goes beyond looking for loopholes in the laws, bending them or looking for precise definitions. I think that the way to go, as I said in my remarks, is to create an environment that supports ethical behavior. And, because all of these things are such a gray area, simply creating more legal liability will not do this.

Question:

In discussions on campus about ethics, it emerged that what really promotes unethical behavior is when people perceive that following the rules puts them at a disadvantage. You mentioned the example of women doing business in a culture where there might be a strong hierarchy of male and female roles. Do you think maybe you're putting a woman at a disadvantage by making her work in that situation — almost setting her up for failure? And can you give a specific example of Merck being supportive of women in such circumstances?

RAYMOND GILMARTIN:

I think that it all boils down to how much support you provide for your people in terms of awareness training and advice about how to deal with situations in which they feel that they're at a disadvantage. You're absolutely right that, as we set very high standards of behavior (and what is expected can vary in different parts of the world), we're holding our people to higher standards of behavior than some of our competitors. At least, if our competitors impose higher standards, their people aren't necessarily following them. So, that's why ethics awareness workshops are so important and that's why being able to seek advice is so important. People can see for themselves how to be successful in these environments and see that they're not really at a disadvantage compared to the competition. If you don't provide that kind of support, there's a real risk of people trying to counter a perceived disadvantage by bending the rules or doing something unethical. Training is therefore a crucial part of our [ethics] program. Just sending out a code of conduct and saying "these are the rules, follow them and do the right thing" is far from sufficient. You really have to help people understand what is expected, and show them in a very practical, real-world way how to be ethical and still be successful.

Question:

I have a question regarding global competitive advantage. You have given some concrete examples of how Merck supports and sustains ethical business practices. Have you been able to measure the impact of this on your global competitive positioning? As a researcher, I would be interested to know how you measure the payoff for ethical behavior.

RAYMOND GILMARTIN:

As you might imagine, it is difficult to measure precisely how ethical business practices promote competitive advantage. But I will give you some anecdotal evidence that I think demonstrates the link. I was sitting in Shanghai with government officials from the Ministry of Health. They complimented me on the behavior of Merck sales representatives — and Merck employees generally — in terms on how they conduct themselves. Specifically, the officials were talking about how ethical the employees' behavior was. Right away this sent a signal that our behavior is seen as being consistent with our values. Clearly, it made a big impression on these government officials, inspiring confidence and trust in our people, which is a source of competitive advantage. Secondly, there is the kind of people that Merck is able to attract and keep, and also the degree of motivation I can sense when I am visiting company locations in different parts of the world. Their sense of pride and, consequently, the level of commitment to the company's success are

also important sources of competitive advantage. Our people are required to act — and do so — in a way that inspires confidence and trust on the part of physicians who prescribe our medicines; confidence and trust on the part of patients who take them; confidence and trust on the part of regulators who regulate our manufacturing facilities and approve our drugs; and we have the confidence and trust of the people who pay for our medicines. That we can do this suggests we are a company that can be counted on to do the right thing and to portray our products in a way that is honest and ethical. My first-hand experience encountering all of these constituencies is that ethics is clearly a source of competitive advantage for us.

MICHAEL HOFFMAN:

Mr. Gilmartin, I'd like to come back to your point about how proud Merck employees feel about working for a company that stresses ethics and the importance of doing the right thing. In the surveys I've seen, including the fairly recent one by the Ethics Resource Center, employees indicate that this is an extremely important criterion in deciding on which company to work for, or to continue working for. That's another example of ethics providing a competitive advantage.

Question:

One of the things I found most interesting about your lecture is the fact that ethics is built into employee performance evaluations at Merck. It seems to me that if you don't do this then ethics is not really inculcated into the corporate culture like it should be.

RAYMOND GILMARTIN:

I agree with you completely. That's why within a year or two after we established the ethics office, we started a formal leadership development program. It's built on the foundations of character. For example, does this person or that one display ethical behavior, treating people with dignity and respect? Obviously, it is critical for leaders to be competent in business. But it is also very important that they have the capacity to care for and support the people that work for them and are effective communicators of our values and what we're trying to accomplish. To advance at Merck you need to have the conceptual and strategic capability to see what needs to be done, the ability to get it done and, most importantly, get it done in the right way. We've instituted a program for evaluating our people. It's our version of what some companies call "360s" — we call it "Stakeholder Feedback." Each person is evaluated and I will be doing it myself so that I can understand the areas in which I need to develop. One of the key questions asked of direct reports

and stakeholders throughout the company is about ethical behavior: the standards that are set and how the person being evaluated conducts himself or herself. The survey is confidential. It's done by a third party and is online. Therefore people can feel comfortable and be honest and straightforward in answering this question. So it's not just the subjective view of a supervisor, for example. We have hard information. This sends a clear message about how strongly we feel about this.

Question:

How do you cope with doing business in places like my country, India, where giving bribes is a way of doing business?

RAYMOND GILMARTIN:

The answer is straightforward: we don't give bribes. First of all, it's against the law. The position may be very clear in terms of legal liability but, beyond that, we equip ourselves with people who are trained to handle these situations. We instill the confidence in our people to say "no." So it's really fascinating to us that when our people have such confidence, more often than not, those asking for bribes back down immediately. Now, there are instances where we lose business. I'll gladly lose that business because we have a long-term deal here. Certainly, we're not going to break the law under any circumstances, but there are times when I'm sure we lose business when things are at the margin and it is an ethical question rather than a purely legal question.

Question:

I'd like to pick up on an earlier question about the business benefits of being an ethical company. Johnson & Johnson's handling of the Tylenol tampering crisis [in 1982] demonstrated an instinctive response that put the well-being of the public above all else. The company's conduct earned it huge respect. Although the circumstances are rather different, it seems that Merck has put human wellbeing ahead of profits with its river blindness program. Would you like to tell us a little about it?

RAYMOND GILMARTIN:

In 1985, Merck's research discovered an anti-parasitic medicine that we called Mectizan. We found it was effective in killing the parasites that caused river blindness in sub-Saharan Africa and parts of Latin America. River blindness is caused by the bite of a fly which transmits parasites under the skin. This causes unbearable itching and eventually the parasites make it into the eyes. In a lot of the areas

where the disease is endemic, it leads to blindness. In some parts of Tanzania, for example, it's not uncommon to see children leading someone in their 20s or 30s through the village with a stick. Having discovered the drug, Merck attempted to get funding so that it could be made available in the areas that needed it. No funding was available so the company made the decision to give it away free as long as it was needed. It didn't stop there as we took on the responsibility for developing what has become one of the world's most successful global healthcare collaborations between the public and private sectors. The World Health Organization, World Bank, and The Carter Center (Jimmy Carter's organization) are all key partners, as well as a number of non-governmental organizations that are involved on the ground to get this medicine to the people. In fact, the decision to give it away was relatively straightforward compared to the degree of difficulty to getting it to people. I had the chance to experience this first hand last September when I flew to Tanzania. I was visiting a small village called Bombani, about an hour's plane ride north of the capital, Dar es Salaam, and another hour's ride in an SUV on a dirt road. There, the people have very little in the way of material possessions. I was visiting on the occasion of the 15th Anniversary of Merck's Mectizan Donation Program and I had the honor to deliver the 250 millionth dose to a woman in that small village.

From there I went on to Botswana where, in 2000, we formed a partnership with the Bill and Melinda Gates Foundation and the Republic of Botswana in order to attack HIV/AIDS in a comprehensive way, all the way from preventative measures to anti-retroviral drugs. The Merck Foundation put up \$50 million and the Gates Foundation put up another \$50 million. We're making our medicines available free.

There are at least three factors that explain why Merck is involved in programs like this. First, it is in our interest to have our medicines widely available. Secondly, our ability to innovate is honed by the need to respond to pressing global health issues. Finally (and I've talked about this earlier), there's an immense amount of pride in the company because of our involvement in such programs. Our sense of social responsibility comes from our values and traditions but also recognizes a very strong measure of self interest as well. This is a sustainable approach that is important to our shareholders and is a source of strong competitive advantage. We have relationships in various parts of the world that is hard for any other company to equal at this point.

Question:

When introducing and pricing new products, how do you balance patient needs with your responsibilities to your shareholders to create a return on their investment?

RAYMOND GILMARTIN:

Well, given the competitive nature of the marketplace and the influence of health plans and prescription benefit managers, we price at a competitive level compared to what else is out there. Increasingly the demand on our industry, and Merck in particular, is for novelty drugs that really make a difference in people's lives and are better than the drugs that are already available. We have a distinguished record as a company of being able to do that. We are well known for operating on the leading edge of science. Some of the advances that we've introduced, such as a drug for osteoporosis, a one-a-day tablet for controlling asthma, and a new way for treating pain from arthritis, have made significant differences in people's lives and are backed up by clinical studies that show they have real health outcomes.

Whatever innovations we can introduce, there is no escaping demand for increasingly competitive prices. State governments are under pressure from their Medicaid programs; the public is concerned about the rising cost of drugs; and governments all over the world are under budget pressure to support their health systems. So we have to be as efficient as we can be. This can present us with some tough choices. We just announced two weeks ago that we are reducing our employee base by about 4,400 positions worldwide as a way to fundamentally lower our cost structure. This is not a response to any concerns about short term earnings or the demands of Wall Street; it is responding to the long-term need to be much more efficient as well as excellent in science.

So I would say we fulfill our responsibilities to patients first, and basically that is how we take care of our shareholders. Our leadership principles, which I covered before, rest on the four pillars of character, competence, developing people and communicating. In a speech at the University of Virginia Medical School in 1950, George W. Merck said, "Medicine is for the people, not the profits." From a business point of view, the concept is simple: if we serve the needs of patients with safe and effective drugs that really make a difference in their lives, then we serve our shareholders as well. There are no inherent conflicts in that at all.

Thank you.

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