

# **PHARMACEUTICAL COMPANIES BEHIND CLOSED DOORS: Corporate Responsibility Gone Awry**



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Prepared by  
***Bridges to Health***  
A Project of The Greenlining Institute

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# PHARMACEUTICAL COMPANIES BEHIND CLOSED DOORS: Corporate Responsibility Gone Awry

Who We Are:

*Bridges to Health*, a project of Greenlining Institute, seeks to improve the quality of life for all Californians by exploring the underlying systemic issues of ill health affecting low-income and communities of color. Our work is grounded in the vision that health is a shared responsibility between all sectors of a community. Greenlining seeks to address individual and community health by promoting a socio-economic strategy that coordinates efforts between public, private and non-profit institutions and individuals.

**Greenlining Institute** is a public policy and advocacy non-profit whose mission is to empower communities of color and other disadvantaged groups through multi-ethnic economic and leadership development, civil rights and anti-redlining activities.

**/Greenlining/v.**

The business practice of investing energy, products and services in low-income, minority and disabled communities to increase profits and expand the economic pie

**ant. /Redlining/**

The discriminatory and unprofitable practice of avoiding or refusing investment in inner city and minority neighborhoods.

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## **Executive Summary**

As a consequence of artificial price inflation and excessive marketing, the U.S. pharmaceutical industry generated an all-time high \$215 billion in revenue last year<sup>1</sup>, making it the most profitable industry in the world. This report examines what the ten highest grossing pharmaceutical companies have done with their profits and power across three corporate practice areas; executive compensation, philanthropic giving, and marketing and advertising. A disturbing theme emerges: these ten pharmaceutical companies have consistently used their profits and power to protect their executive compensation and excessive marketing expenditures but do little to serve the communities in which they do business especially in the vulnerable, low-income and ethnically diverse communities. In fact, the only ones who seem to benefit are the executives and Board members of these companies. Consider:

- In 2001, the top executives for five (five companies failed to disclose their philanthropic giving) of the ten highest grossing pharmaceutical companies were each compensated at an average of about \$81 million<sup>2</sup>. In contrast, these same five pharmaceutical companies donated an average of less than half that amount or \$33 million in cash.
- The pharmaceutical industry claims that drug prices need to be high in order to recuperate research and development investments. However, on average, the top ten U.S. pharmaceutical companies reported only 14% of their total revenues going towards research and development. In comparison, more than twice that amount, about 33%, is dedicated to marketing, advertising and administration<sup>3</sup>.

In researching this report, Greenlining staff received less than full cooperation from the ten pharmaceutical companies. In general, they were not forthcoming in their responses to the many requests made by Greenlining for data and information on corporate practices. Most companies designated corporate practice information as “proprietary” and would not disclose them.

These hidden corporate practices have already led to U.S. drug prices for many prescriptions that are two to three times higher than those in Canada<sup>4</sup>. Drugs with such price tags are simply not available to millions of seniors, children, and working poor, many who are not covered by any health insurance at all. Thus, drug companies that have the influence to drive up the cost of health insurance premiums through the pricing schemes for their “life saving” medications deprive those who most need these medications and do not have the resources to pay for necessary medications and to also pay for rent, utilities and food. This is an unconscionable corporate practice.

In summary, the examination of these ten top grossing pharmaceutical companies has led Greenlining to the conclusion that further research must be undertaken to learn more about the corporate practices of the pharmaceutical industry that leads to making needed drugs economically inaccessible for underserved and minority communities. In the meantime, Greenlining offers the following recommendations that can be implemented to assist communities in need and to lower the cost of drugs:

- Corporate cash philanthropy should be at least 2% of pharmaceutical companies' pretax profits and no executive should be compensated more than the amount the company is giving back to the community.
- The FDA should require that pharmaceutical companies spend twice as much on research and development as they spend to advertise drugs.

## **Executive Compensation versus Corporate Philanthropy**

The pharmaceutical industry is the *most* profitable industry in America<sup>5</sup>. This tremendous wealth gives the industry a unique opportunity, unparalleled in other industries, to give back to the community.

To determine the level of pharmaceutical companies' "corporate citizenship" and efforts to give back to the community, Greenlining compared the compensation packages of their top executives to the pharmaceutical companies' history of philanthropy.

- **Methodology:**

Executive compensation figures were gathered from pharmaceutical companies' 2001 Securities and Exchange Commission (SEC) filings. This data included an executive's salary, bonus, other compensation (such as travel allowances, cars, relocation expenses, retirement plans, and value of life insurance), incentive payouts, and exercised stock options. Additional information on pharmaceutical executives' compensation was obtained from Families First USA, a national health advocacy organization.

In addition, Greenlining made written requests to the 2001 ten highest grossing pharmaceutical companies (Abbott, Amgen, Bristol-Myers Squibb, Eli Lilly, Johnson & Johnson, Merck, Pharmacia, Pfizer, Schering-Plough, and Wyeth) to obtain information on corporate philanthropy. Specifically, Greenlining wanted to know the cash philanthropy of each company.

Companies often volunteered information on corporate product donations to show corporate philanthropy. Greenlining did not include product donation as philanthropy in our analysis for a number of reasons. Pharmaceutical companies receive tax write-offs and free advertising for product donations. Furthermore, the products are already the result of taxpayer-funded research. Finally, the donation is a marketing tool rather than a charitable contribution.

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***I think that it is important to create a consciousness among big industry that we are the people who buy their products. We are the ones who keep them alive. Because of this, it is important that they give back to us; that they invest money—Wilfred, community member***

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- **Pharmaceutical Companies Give More to Executives Than Communities**

Only five of the companies provided limited, albeit somewhat relevant, information. Additional information had to be obtained from annual reports and company foundation websites. In the end, the cash philanthropy could only be compiled for five of the ten pharmaceutical companies; Bristol-Myers Squibb (BMS), Eli Lilly, Merck, Pfizer and Schering-Plough.

**Figure 1.1 Executive Compensation v. Cash Philanthropy in 2001**

	Executive's Total Compensation	Company's Annual Cash Philanthropy	Ratio of CEO Compensation to Philanthropy (rounded)
<b>Pfizer:</b> <i>William Steere, Former Chairman</i>	\$88,451,301	\$52,000,000	1.7:1
<b>Merck:</b> <i>Raymond Gilmartin, President &amp; CEO</i>	\$96,147,762	\$37,000,000	2.6:1
<b>Eli Lilly:</b> <i>Sidney Taurel, Chairman, President &amp; CEO</i>	\$50,485,544	\$38,000,000	1.3:1
<b>Bristol-Myers Squibb:</b> <i>Charles Heimbold Jr., Former Chairman &amp; CEO</i>	\$150,986,529	\$30,646,695	4.9:1
<b>Schering-Plough:</b> <i>Raul Cesan*, Former President</i>	\$24,429,908	\$8,500,000	2.9:1
<b>Wyeth:</b> <i>John R. Stafford, Chairman</i>	\$81,150,470	Fail to Disclose	Not Applicable
<b>Abbott:</b> <i>Miles D. White, Chairman, CEO, &amp; Director</i>	\$52,185,180	Fail to Disclose	Not Applicable
<b>Johnson &amp; Johnson:</b> <i>R.S. Larson, Chairman &amp; CEO</i>	\$23,924,437	Fail to Disclose	Not Applicable
<b>Pharmacia:</b> <i>Fred Hassan, Chairman &amp; CEO</i>	\$27,261,064	Fail to Disclose	Not Applicable
<b>Amgen:</b> <i>Kevin W. Sharer, Chairman, President &amp; CEO</i>	\$37,580,497	Fail to Disclose	Not Applicable

Source: Compensation figures from company's filing to the Security and Exchange Commission, [www.sec.gov](http://www.sec.gov). Philanthropy figures self-reported on companies' website and/or 2001 annual report.

\*Cesan, 's SEC stock options filing was not publicly available, Executive Vice President Joseph Connor's stock option used.

In 2001, the average compensation of the top five executives from Bristol-Myers Squibb, Eli Lilly, Merck, Pfizer and Schering-Plough was \$82,100,209<sup>6</sup>. In comparison, these same five companies averaged only about \$33,400,000 each in cash philanthropy<sup>7 8</sup>.

For example, Pfizer's former Chairman, William Steere, was compensated a total of \$88,451,301 in 2001 alone. Compare this with Pfizer's entire community reinvestment efforts for that entire year. Pfizer gave back \$52 million, *35 million less than what they paid one individual* (see Figure 1.1).

Pfizer's practices are the norm and not the exception among the ten highest grossing pharmaceutical companies. In 2001, Charles Heimbald, Jr., former Chairman & CEO of Bristol-Myers Squibb was compensated \$150,986,529. Bristol-Myers Squibb gave back \$31 million in philanthropy, about one-fifth of what Heimbald earned. (see Figure 1.1).

- **Conclusion**

Pharmaceutical companies are profiting but low-income and minority communities are not. If improved health is truly the goal of the pharmaceutical companies, they can donate half their profits to community clinics and organizations that work with low-income and minority communities, work to establish corporate policies that direct that executives are never compensated more than the companies' philanthropic giving, and voluntarily disclose information on corporate philanthropy and compensation.

## **Research and Development versus Marketing and Advertising**

In 2001, the top ten pharmaceutical companies generated revenues averaging \$20 billion each with the help of the high cost of prescription drugs<sup>9</sup>. The most common argument by these companies for high prescription prices is the need to recuperate the cost of research and development (R & D) of new drugs.

According to Alan Holmer, the president of the Pharmaceutical Researchers and Manufacturers of America (PhRMA)\*, the lobbying arm and trade association of the brand-name pharmaceutical companies, it costs \$500 million in research and development to bring just one drug into the market<sup>10</sup>. PhRMA and all the major pharmaceutical companies claim to be "research-based", suggesting that medical research is their first priority. As a result of having to invest large sums of money for R & D, PhRMA claims that it is justifiable to charge, in the United States, prescription prices that are two to three times higher than those in Canada<sup>11</sup>.

- **Methodology:**

To determine the validity of PhRMA and the pharmaceutical companies' claim, Greenlining compared the amounts that pharmaceutical companies actually spent on 1) research and development, 2) marketing, advertising and administration and 3) profit as a percentage of revenue in 2001.

Pharmaceutical companies often lump administration budgets with marketing & advertising budgets in their annual reports and this makes it difficult to assess the actual amount allocated to marketing. To rectify this and further analyze PhRMA's claim, Greenlining also compared the number of people working in research & development versus marketing & advertising for the ten highest grossing pharmaceutical companies.

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\* PhRMA represents many of the highest grossing U.S. brand-name pharmaceutical companies, including the top ten surveyed in this report

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***The most frequently cited reason for soaring drug prices is the amount of money spent for research and development***

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• **Pharmaceutical Companies Spent More on Advertising than Research**

In 2001, an average of 14% of the revenue generated by the top ten U.S. pharmaceutical companies was dedicated to research and development. In comparison, 33%, or more than twice the amount was dedicated to marketing, advertising and administration (Figure 2.1). Even profit (20% of the revenue) outranked the amount spent on research and development.

**Figure 2.1. Breakdown of Pharmaceutical Companies' Budgets**

Pharmaceutical Company	Revenue (in \$ millions)	Marketing as % of Revenue*	Research as % of Revenue	Profit <sup>3</sup> as % of Revenue
Abbott Laboratories	16,285	23%	10%	10%
Amgen	3,511	28%	25%	32%
Bristol-Myers Squibb	19,423	27%	12%	27%
Eli Lilly	11,543	50%	19%	24%
Johnson and Johnson	33,004	36%	11%	17%
Merck	47,716	13%	5%	15%
Pfizer	32,259	35%	15%	24%
Pharmacia	13,837	44%	16%	11%
Schering-Plough	9,802	36%	13%	20%
Wyeth	14,129	37%	13%	16%
<b>Average</b>		<b>33%</b>	<b>14%</b>	<b>20%</b>

Source: 2001 Annual Reports

\* includes advertising, marketing, and administrative costs as reported by the top ten companies

<sup>3</sup> Net profit after taxes

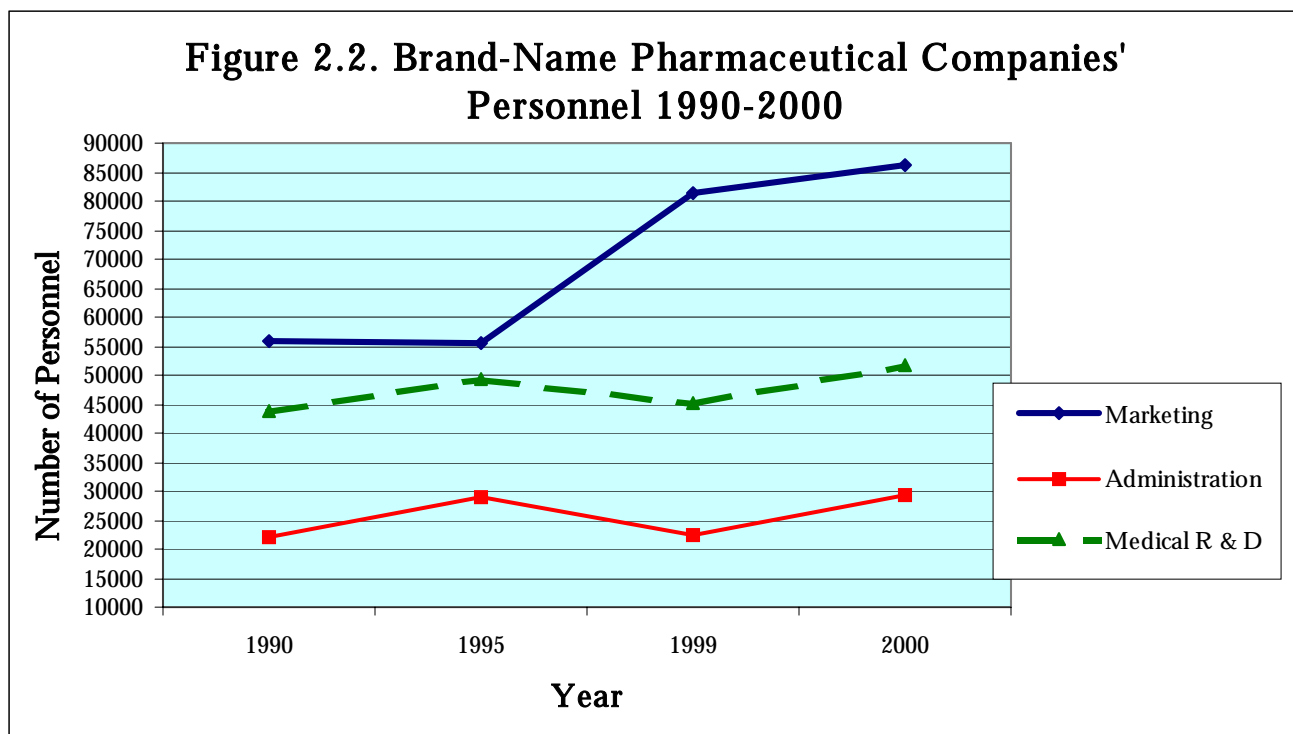
For example, Eli Lilly allocated half of its total revenue to marketing, advertising and administration, or about \$5.7 billion. In comparison, Eli Lilly spent just under \$2.2 billion, or 19% of its total revenue in research and development and drugs.

Again, this kind of corporate trend is not company specific, but extends across these companies. In another case, Johnson & Johnson allocated about \$11.9 billion, or about 36% of its total revenue to marketing and advertising, but only put back \$3.6 billion into research and development. This figure is \$2 billion less than Johnson & Johnson's profit in 2001.

• **More Staff Going Towards Advertising than Research**

Because these pharmaceutical companies did not separately track the amount of money spent on “administration” from the amount spent on marketing in their 2001 annual reports, Greenlining also examined the number of pharmaceutical personnel dedicated to research and development versus the number of personnel dedicated to marketing to provide another indicator for measuring the accuracy of the claim that research is the driving force behind the high cost of drugs.

According to PhRMA's own membership survey, in 2000 there were almost twice as many pharmaceutical staff working in marketing than in “Medical R & D”<sup>12</sup>. Although this survey included all brand-name members of the PhRMA trade organization, not just the ten top grossing companies, it is believed that the data is also representative of these ten top grossing companies. In the last decade, the number of people working in “Medical R & D” and “Administration” has basically remained constant, but the number of people working in “Marketing” has skyrocketed to more than 80,000, almost twice as many as those working in “Medical R & D” (Figure 2.2).



Source: Pharmaceutical Manufacturers and Researchers of America (PhRMA), 2002

Our findings leave little reason to believe that the priority of the brand-name pharmaceutical companies is the research and development of new drugs. By their own records, it is clear that much more money and staff are allocated to marketing and advertising than to research and development.

Furthermore, there is evidence to suggest that as much as 55% of pharmaceutical research is subsidized by taxpayers and government research scientists, cutting the pharmaceutical companies' research and development budget claims by half.<sup>13</sup>

- **Conclusion**

With more money and staff going towards marketing and advertising, it is obvious that these pharmaceutical companies are “marketing-based”, not “research-based” as PhRMA and large brand-name pharmaceutical companies claim<sup>14</sup>. Investments in more research and development are what are required for the long-term sustainability of pharmaceutical companies. Advertising and marketing will not lead to the development of new life-saving drugs or larger pharmaceutical pipelines. At a minimum, pharmaceutical companies should be spending twice as much on research and development than on marketing and advertising.

## **Recommendations**

There should be little doubt that pharmaceutical companies, and the industry as a whole, are profiting at the expense of our health. If corporate practices were changed, Americans could stand to save over \$100 billion—and see their prescription costs go down by as much as fifty percent<sup>15</sup>. Greenlining recommends the following to make medicine affordable and improve health outcome for ethnically diverse and low-income communities:

- If pharmaceutical sales are profitable for executives and drug companies, then it should be profitable for the community as well. Corporate cash philanthropy should be at least 2% of pharmaceutical companies' pretax profits and no executive should be compensated more than the amount the company is giving back to the community.
- FDA regulation of pharmaceutical advertising must be strengthened. “Research-based” pharmaceutical companies need to make research, not marketing, the basis of their business. The FDA should require that pharmaceutical companies spend twice as much on research and development as they spend to advertise drugs. Improved regulation of pharmaceutical advertisements is also needed to ensure that pharmaceutical companies present a balance between benefits and risks of the drugs shown in their ads.

## **Endnotes**

- <sup>1</sup> Fortune Magazine “Top Performing Industries”, November 2002  
[http://www.fortune.com/fortune/fortune500/topperformers/industrysnapshot/0.15156.prof\\_pct\\_rev.00.htm](http://www.fortune.com/fortune/fortune500/topperformers/industrysnapshot/0.15156.prof_pct_rev.00.htm)
- <sup>2</sup> United States Security and Exchange Commission 2001 Filings [www.sec.gov](http://www.sec.gov)
- <sup>3</sup> Abbott, Amgen, Bristol-Myers Squibb, Eli-Lilly, Johnson & Johnson, Merck, Pfizer, Pharmacia, Schering-Plough, Wyeth 2001 Annual Report
- <sup>4</sup> Wall Street Journal October 10, 2002
- <sup>5</sup> See n. 1.
- <sup>6</sup> See n. 2.
- <sup>7</sup> See n. 3.
- <sup>8</sup> Abbott, Amgen, Bristol-Myers Squibb, Eli-Lilly, Johnson & Johnson, Merck, Pfizer, Pharmacia, Schering-Plough, Wyeth company website
- <sup>9</sup> Fortune Magazine “Top Pharmaceutical Companies”, October 2002  
<http://www.fortune.com/fortune/fortune500/industrysnapshot/0.14969.41.00.html>
- <sup>10</sup> National Public Radio “Talk of the Nation” Transcript January 2, 2001
- <sup>11</sup> See n. 4.
- <sup>12</sup> PhRMA 2001 Annual Membership Survey  
<http://www.phrma.org/publications/publications/profile02/appendtables.pdf>
- <sup>13</sup> Public Citizen “Rx R&D Myths: The Case Against the Drug Industry’s R&D ‘Scare Card’” Congress Watch July 2001
- <sup>14</sup> See n. 9. and PhRMA website <http://www.phrma.org/whoware/>
- <sup>15</sup> See n. 4.