Over the last century our economic system has created tremendous financial wealth. This lead to significant improvements also for the poorest people of the world. The latest report from the United Nations about the Sustainable Development Goals shows rapid decreases of extreme poverty, malnutrition and child mortality. Unfortunately, at the same time, inequalities have increased and climate change challenges societies. For businesses, technical disruption as brought along by digitalization and artificial intelligence can turn out as risk and opportunity. Inequality and social tensions, however, are expected to further increase due to these technological advancements.

The narrow view of a company’s impact as defined by our accounting principles and concepts (codified in the 1970s), now poses a challenge for the stability of our social, environmental, and economic systems. In that view, a company focuses solely on optimizing the financial output of its own operations – defined by immediate ownership and control rather than considering the value generation of its business activities along the entire value chain. Novartis realizes that long-term business success not only depends on innovation, operational excellence, and financial success but also on how environmentally sustainable and socially responsible it operates. Delivering on our purpose to reimagine medicine to improve and extend people’s lives, is therefore much about understanding our comprehensive impacts and how we manage them.

We need to address currently unseen aspects

But which frameworks and concepts can we use for these broader impacts? Financial accounting is still the universal language of business, and it has definite advantages. Financial statements express in monetary terms complex matters that are comparable and can be evaluated in relation to one another. Therefore, they are making information accessible to support decision-making. Acknowledging that a company is not a stand-alone body but embedded in an ecosystem, decision-making should be based upon information across all impact dimensions, both positive and negative. We need to overcome the shortcomings of the persisting business language broadening it to address currently unseen aspects.

But this is more challenging than it sounds. Social and environmental impacts are not easy to grasp. They need to be identified, defined, and prioritized before we can even think about measuring them. By now, we may have learned how to measure CO2 emissions, but we still need to quantify the actual outcomes and impacts of companies’ actions. Our goal is to prepare the grounds for systematic holistic decision making considering all aspects and trade-offs. This becomes much easier when social and environmental impacts are monetized and thus made comparable.

“What gets measured gets done” is a famous saying in business. Its practical relevance applies also to these additional elements. Understanding the nature of important social and environmental issues is to quantify the impacts of our business activities. By looking at impact pathways, we translate positive and negative, direct, indirect, and induced; intended and unintended impacts into financial terms. With this, we not only consider the impacts of our direct operations but also impacts caused by our supply chain.

Due to the complexity of many issues, our approach to impact valuation is still evolving as we are not yet able to capture and calculate impacts for all dimensions of our issue areas identified by the Materiality Assessment. However, the current indicators already give us a lot of information on a global as well as a country level and help inform our business strategy. They also serve us when discussing our priorities and impacts with external stakeholders. Novartis plans to continue to add additional areas to the analysis to get closer to a full understanding of our impacts on society, both positive as well as negative.

By Denise Weger
# 2017 Novartis Materiality Assessment Results

## ACCESS TO HEALTHCARE
1. Pricing
2. Availability of medicines
3. Intellectual property
4. Health system strengthening
5. Patient assistance programs

## ECONOMIC SUSTAINABILITY
6. Financial health & performance
7. Recruitment & retention of employees
8. Fair contribution to society

## ENVIRONMENTAL PROTECTION
9. Pharmaceuticals in the environment
10. Pollution, waste & effluents
11. Sustainable use of resources

## ETHICAL BUSINESS PRACTICES
12. Ethical & compliant behavior
13. Respect for human rights
14. Responsible supply chain management
15. Responsible use of new technologies
16. Animal testing

## GOOD GOVERNANCE
17. Corporate governance
18. Transparency

## INNOVATION
20. Innovative technologies
21. R&D for unmet medical needs
22. Business model innovation
23. Drug resistance
24. R&D for neglected diseases

## OUR PEOPLE
25. Health & safety
26. Fair working conditions
27. Diversity & inclusion

## PATIENT HEALTH & SAFETY
28. Pharmacovigilance, safety profile & quality of drugs
29. Counterfeit medicines
30. Health education & prevention

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