

Understanding the Factors Promoting Sustainability in the Indian Pharmaceutical Sector Through ESG Approach

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Abstract: The ESG model, which stands for Environmental, Social, and Governance, is becoming increasingly important in the pharmaceutical sector. The pharmaceutical industry is under scrutiny from various stakeholders, including customers, investors, and regulatory bodies, to improve their ESG practices. The ESG model is a framework that helps companies assess and report on their performance in these three areas. ESG approach of operation brings stakeholders' faith in organizational affairs. Indian pharmaceutical companies are facing big challenges in several fronts in meeting ESG principles for balancing social, environmental and economic goals. The balancing of these three goals by following ESG approach of operation will bring sustainability in organizational existence. Several broad areas need serious look-over. Sourcing of raw ingredients, clinical trials and associated costs, product quality and information, product pricing, internal infrastructure robustness and security, organizational culture and disclosure and compliances are areas where pharma companies are confronting ESG principles. In the pharmaceutical sector, the Environmental aspect of the ESG model focuses on reducing the environmental impact of their operations and products, such as reducing carbon emissions, waste management, and water conservation. The Social aspect involves ensuring ethical business practices, such as fair labor practices, supply chain management, and community engagement. Finally, Governance involves ensuring transparency and accountability in decision-making processes, as well as maintaining high ethical standards and preventing corruption. Pharmaceutical companies that implement ESG practices can not only benefit from improved reputations but can also attract investors who prioritize ethical and sustainable investing. Additionally, companies that prioritize ESG practices are better positioned to adapt to changes in the regulatory landscape, such as the increasing focus on sustainability and social responsibility. Overall, the ESG model provides a comprehensive framework for pharmaceutical companies to assess their environmental, social, and governance practices and ensure they are operating ethically and sustainably, which can lead to long-term success and positive impact on society.

Keywords: ESG, Pharmaceutical Sector, Sustainability, India

1. Introduction

Pharmaceutical sector contributes around 2% of India's GDP and around 8% of the country's merchandise export in 2020-2021. Sector faces huge ethical dilemmas in balancing societal and economic objectives in various operational areas. Considering the size and versatility of the sector it is very clear that good governance system of the sector is very vital for the country's long term interest. Good corporate governance brings best balance among social, environmental and economic goals of the organization. Hence, Indian

pharmaceutical sector need to follow robust Environmental, Social and Governance (ESG) principles to ensure sustainable operations. Exploring of the factors on which sustainable performance of the India's pharmaceutical sector is depending is very important. It will help regulators, governments, individual companies and industry bodies to be more proactive in this respect.

2. Review of Literatures

In India the financial performance of the business organizations are positively associated with performance on

ESG parameters, [1] The credit worthiness of small and medium Indian firms are highly dependent on positive ESG performance. Whereas, for big companies no such relationship exists, [2] The investors over the world, especially in Europe and America consider organizational ESG performance as the most vital factor for taking investment decisions, [3] ESG related disclosures increases stakeholders reliability and it minimize detrimental impact of weak ESG mechanisms and maximize positive impact of strong ESG mechanisms in case of organizations, Existing literatures in this area have not yet get through in a concise manner the sustainability factors determining the success of ESG approach in Indian pharmaceutical sector under current context. Hence, through this study researcher tried to narrow down this gap.

3. Research Methodology

The study is descriptive and exploratory in nature. It tries to explore the areas where pharmaceutical companies faces ethical dilemma in balancing economic, social and environmental interest through ESG approach. The researcher try to identify the broad areas in this context based on extensive review of existing literatures of the concerned area. The individual factors has been explained to discuss how it acts as an important factor in judging the sustainable performance of the individual organizations.

4. Research Objectives

The concerned study has tried to explore the factors which are main determinants of India's pharmaceutical sector's performance in context of sustainability through ESG approach. The study also tried to put light on how individual companies and industry stakeholders will act in ensuring this.

5. Analysis

5.1. Factors Promoting Sustainability

The vitality of the concept of sustainability is undoubtedly huge in Indian Pharmaceutical sector. The sector which is acting as one of the backbones of the world health systems requires serious importance in several areas. These areas define the success of the sector in terms of sustainability through ESG approach.

5.2. Sourcing of Raw Ingredients

One of the biggest challenges of the Pharmaceutical sector in any part of the world is sourcing of ingredients without hampering environmental and social balance. Pharma ingredients are basically sourced from living and natural resources. Good governance by the individual companies is of utmost requirement here in ensuring best balance among social, environmental and economic interests while sourcing ingredients. Social uproar is a huge economic and existential threat for companies miserably failing in achieving the said

balance.

5.3. Clinical Trials and Associated Costs

The most vital path to economic success for Pharmaceutical companies is robust clinical trials of new medicines. The strongest contender for denying the success of ESG mechanism of the sector lies here. Individual companies or conglomerates in cases; faced hardest ethical dilemma in deciding the whole mechanism of clinical trials for medicines. Pre-testing of medicines either on "human subject" or "non-human subject" is a very serious and complicated issue in terms of respecting basic rights of every living creature. There are hundreds of examples all over the world; where for the sake of clinical trials; human rights and animal rights have been massacred. In all these cases companies consider only economic interests while totally withholding the social and environmental interests and here the core concept of sustainability get lost. It is extremely true that for clinical trials lives are always at risk, but individual organizations should take enough care in conducting it. Proper sequences should be maintained for trials, animals should be treated in a kind manner as far as possible, "human-subjects" should well informed about the possible health consequences after the trial, there should not be any forced subjects, etc. Good governance is very vital here in maintaining the trio balance. Many pharmaceutical companies lost the social licenses to operate for neglecting this vital factor.

5.4. Product Quality and Information

Importance of product quality and information in terms of both impacts on individual health and in societal perspective is huge. Even here product specification has a direct association with long term environmental balance. The medicines not only have adverse impact on individual health, but the permanent changes it brings in individual bodies and in environment; engraved a long lasting detrimental footprint on the civilization. The individual organizations must have strong internal governance mechanisms to promote product quality and to ensure requisite dissemination of product related information among targeted users and medical professionals groups. Product quality should consider, immediate and future consequences of the use, precautionary measures to be taken for use, groups on which it is to be administered, etc. Pharmaceutical companies faced serious governance challenges in balancing social, environmental and economic interests in this aspect. Undoubtedly, success in this aspect can be ensured through well set ESG mechanisms.

5.5. Product Pricing

Product pricing is also an important area where companies faced huge ethical dilemma. Especially; in case of life saving drugs every company find it very challenging to satisfy the ESG principles. The product pricing should in be incoherent with societal needs as far as practicable, as most of the

pharma products are life saving in nature. The societal bargaining powers are basically not so much huge here, still individual companies must try to make a balance between social, economic and environmental interests; here. Organizational governance mechanisms are a serious determinant in maintaining this balance.

5.6. Internal Infrastructure Robustness and Security

Robustness of the Internal infrastructure and concerned security mechanisms for individual pharmaceutical companies is a very vital thing in maintaining the ESG principles successfully. Robustness of the internal infrastructure and security mechanisms adopted for maintaining the systems safely is indispensable for protecting the economic, social and environmental interests of the organizations and of the stakeholders. Organizations should develop concerned infrastructure and security mechanisms in such a manner that it protects any accidental or intentional theft or damage of information and physical assets.

5.7. Organizational Culture

Culture is becoming a big thing day by day in every organization, especially in large organizations. Organizational culture is such a thing that it try to integrate or harmonize the individual values of those individuals who are working in a same organization. Desired human resource management practices is the only gateway to desired organizational behaviour. Robust organizational culture is the reflection of good organizational behaviour and creates avenue for strong corporate governance from top to bottom. It is the responsibility of every level of managements, especially top level; to develop organizational value systems and targets in such a way that organizational interests and group interests stands above the personal interests to every employees. Organizational sustainability and performance is highly depending upon organizational culture. For building good organizational culture there is need for proper guidance and motivation, requisite compensation packages, unambiguous organizational structures, balanced boards, employees from dynamic racial backgrounds, performance based reward, quick grievance redressal systems, etc.

5.8. Disclosures and Compliances

Disclosure is another important area for most of the organizations, especially for large organizations. Extent of disclosures and its fairness is an important parameter for judging the operational efficiency of an organization in terms sustainability. Pharmaceutical companies in India have various disclosure requirements depending on size and nature of operations under various state and central laws. Fair and adequate disclosures have multi sided advantages to the stakeholders. Firstly, it creates a thrust in the organization to have everything in its place through strong corporate governance. Secondly, it enhance the stakeholders' reliance on the organization and also helps to take correct decisions whenever required. Disclosure also increases the compliance

culture in the organization and its a very serious thing for protecting social and environmental interests, especially in the context of pharma companies. Disclosure is a very big issue in keeping present investors and in inviting future investors through successful maintaining of ESG principles.

6. Recommendation and Conclusion

The Environmental, Social and Governance (ESG) mechanisms or principles are very vital for Indian pharmaceutical companies to ensure sustainable existence. The strong organizational corporate governance systems create a thrust for balancing economic objectives of the organization with the social and environmental objectives. This vital balance or successful carrying out of ESG principles is becoming extremely vital for Indian pharmaceutical companies; day by day. The institutional and non institutional investors day by day started to rely more on companies ESG performance to set out investment plans. Any serious social or environmental interest breaches on the part of individual pharma companies; will be judged as a governance failure in running the organizations by following the ESG approach. Moreover, for Indian pharmaceutical companies any breach of social or environmental interests due to serious failures in any of the above discussed areas would challenge the legal existence of the business itself. Other external stakeholders of the sector apart from investors are also becoming more reliant on sustainability parameters in judging organizational performance.

Not only the individual organizations but also the industry associations, societal platforms, regulatory bodies, organizational stakeholders and governments itself bear the responsibility of putting Indian pharma companies in right track; in the context of ESG approach of operation. Every Indian pharmaceutical company should put utmost importance to above discussed seven factors for ensuring business sustainability through ESG approach.

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