

# Building Trust

LEADING CEOs SPEAK OUT:  
HOW THEY CREATE IT,  
STRENGTHEN IT, AND SUSTAIN IT.



## Hank McKinnell

CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
PFIZER, INC.

*“Shareholder interests are best served when management leads employees to think and act generation-to-generation, as well as quarter-to-quarter.”*

– Hank McKinnell

## INTEGRITY: KEY TO SUCCESS

**P**fizer is now the world's largest and most valuable pharmaceutical company. We have been in business since 1849 and remain headquartered in New York City, the city of our founding. We are proud of the fact that we have not missed a dividend since the Hoover Administration, and we are one of America's best performing and most widely held companies. As only the twelfth chief executive in Pfizer's 155-year history, I am keenly aware of the responsibilities we have to all our stakeholders, starting with our patients. Pfizer is one of the crown jewels in American business, and the bedrock of our century-and-a-half of success lies in our integrity.

Pfizer is unique in that not only is our stock both widely held by individuals, but is also a favored investment by institutions. We, and companies like us in American business, owe a debt of gratitude for the current quest to reform the excesses of corporate governance. I know it was not easy to keep the pressure for such reform going at full bore during the 1990s, when companies routinely announced that they had “new business models” that no one else could understand. As Pfizer’s Chairman and Chief Executive, and in my new role leading The Business Roundtable, I am passionate about fairness for all stakeholders. I am also anxious to restore public confidence in American corporate leadership.

**P**fizer has been a strong voice for better corporate governance, long before it became a fashionable issue. We believe in transparency and fairness for all investors. We’ve lived and thrived on the maxim that an independent, inquisitive, hardworking and highly intelligent board of directors is ultimately the best guarantor of that transparency and fairness. Over the long term, such a board makes managing a major company such as Pfizer easier.

We insist on making it easy for our board to get the information they need and to ask the hard questions that challenge and sharpen management’s thinking. Some chief executives shy away from the hard issues of governance. I do not. I believe that a company overseen by an active, committed and strongly independent board of directors is much easier to manage than a company where the board is passive or remote. It takes thorough analysis and a strong case to get buy-in for management’s strategies from our board. But once plans pass muster, the

board is highly supportive of our actions. This approach to oversight made it possible for us to pursue and win Warner-Lambert in 2000. This was an unprecedented move in our industry, and represented a departure from our longtime strategy. Following the most stringent analysis and severe questioning that you could envision, we earned the board's complete and unstinting support. That made it possible to go forward with a bid for Warner-Lambert and, ultimately, to win the company, a move that propelled us to the lead in our industry.

Pfizer's board is routinely given accolades for its strength and independence. The board has won the Spencer Stuart/Wharton School Board Excellence Award, perhaps the most prestigious honor a board of directors can garner. We at Pfizer are all justifiably proud of that, but more to the point of good corporate governance, such a board and the dynamics it engenders allows us in management to think and plan long-term. In that respect we agree with Arthur Page, who said that for a business to succeed, it must manage for tomorrow.

This license to think and plan long-term is particularly critical in Pfizer's business of discovering and developing important medicines. The road to a new medicine is never easy. It may take up to 15 years and require an investment in excess of \$800 million. We test some 5,000 compounds to find one that ultimately becomes, after years of rigorous study and testing, a prescribed medicine. Even then, only three of every 10 medicines we put into the hands of patients will pay back its investment. Those that do go to market must pay for the hundreds that never make it to the starting gate. The risks involved with drug discovery and development place even more focus on our corporate governance and our ability, as managers, to be responsive to the needs of all stakeholders.

Our insistence on good corporate governance adds to our competitive advantage. This is especially evident now, when many businesses are finding themselves at a crossroads, experiencing a crisis of confidence, the likes of which have not been seen in decades.

I have three points to underscore in discussing corporate governance. First and foremost, I remain extremely angry with the so-called “corporate leaders” who abused their powers. We have seen managers put greed, ego and personal gain ahead of their obligations to those with stakes in their companies. These people have also inflicted immense pain on those who believed in them, particularly their employees.

When people (especially employees) believe in a company, they are disposed to invest heavily in it. This crisis in corporate governance weighs most heavily on the people whom I, as CEO, want most on my side—committed and passionate employees.

I am also angry because those who abused the public trust affected my ability to lead Pfizer, a company where I have worked for more than 32 years, and a company I have believed in from Day One.

Those who abused America’s trust poisoned the well for me and for the vast majority of my counterparts in other companies—leaders who want to do the right thing for all stakeholders. The corporate criminals among us, few as they might be, have made it difficult for honest executives to credibly speak about core values such as quality, integrity and teamwork.

No matter what the color of one’s collar, criminal wrongdoing is criminal wrongdoing. Stealing is stealing, whether it happens on the street or in corporate suites. I am glad the time has come for a full and fair accounting of what happened in the Enrons and Tycos of the world. Let justice be done—the faster, the better.

Angry as I am, and angry as I know the American public is, let's take some heart in the willingness of so many corporate leaders to stand up for accuracy and fairness in their public financial statements and disclosures.

**W**e are now at Sarbanes-Oxley, year two. While Sarbanes-Oxley is a long, complex and sometimes confusing act of law, passed in haste, America's corporate leaders have stood up to follow its spirit and intent. Thanks to Sarbanes-Oxley and other reforms, the leaders of more than 1,000 American-traded companies attested to the accuracy and integrity of their financial statements and financial disclosures. I challenge the corporate leaders of any other nation to do the same.

The performance of American business in this post-Sarbanes-Oxley era confirms what President George W. Bush said to me during the Waco summit in 2002. When asked about his confidence in American management, the President said, "Ninety-nine percent of Americans are honest and hardworking. The same is true of their CEOs."

We may run different kinds of businesses, and take different approaches to the businesses we lead. But I believe, as the President does, that 99 percent of CEOs know the difference between right and wrong, and that they set the right tone, right from the top.

This leads me to my second point. While good corporate governance takes place in a framework of laws and regulations, simply changing that framework does not ensure a higher standard of governance.

With Sarbanes-Oxley, we have seen an historic re-adjustment of the framework of laws and regulations. More changes are undoubtedly on the way, even though I personally believe America would benefit

from calling a “time out” on additional major changes until the performance of Sarbanes-Oxley can be thoughtfully evaluated.

**T**he reality is that companies that always took good corporate governance seriously were more than willing to work hard to comply with new laws and regulations, no matter how confusing or overlapping they may have been.

In fact, at Pfizer, we used Sarbanes-Oxley as yet another opening to make certain that our board was ready to ask the most difficult questions and get unstinting answers from management.

In the wake of Enron, for example, we in management went to our Audit Committee with a list of questions—along with our answers.

We said, “We know that, as independent directors, you might want to consider asking these questions of us. We want you to have the answers, even before you ask the questions.”

We did the same after Sarbanes-Oxley was passed. We had no real difficulties complying with the spirit and intent of this law, but we did go through every provision, to make certain that any question by our directors could be fully answered.

I think what really makes a difference in good corporate governance isn’t so much the rules and regulations, but rather, attitude of management and board members. As a company leader, you have to seek excellence in corporate oversight in order to achieve it.

As the chairman of a publicly held company, and as an independent board member of other major companies, I have found that the most significant variable in board performance is the commitment of board members to excellence in performing their work.

We at Pfizer tell our board members, upfront, to expect to spend a minimum of 200 hours per board member on the very important work of independent oversight. As a company, we invest heavily in director education, and give the board plenty of opportunity to consult without management present.

Yet, what truly distinguishes Pfizer's board and other excellent boards is an overarching commitment to good corporate governance. It's mindset over mandate. Actions speak louder than credos, and even louder than rules and regulations. Companies that truly want to govern themselves well usually do so no matter what the regulatory environment. They also understand that corporate governance doesn't start and stop with the interests of investors. Good corporate governance shapes how a company deals with all of its key stakeholders.

This brings me to my third point. It is time to revisit the concept that corporations exist primarily to maximize shareholder value.

The modern corporation does exist to serve shareholders. But blindly ascribing our existence only to investors will, over time, alienate the other stakeholders, upon whom we must rely for value creation.

Ultimately, shareholder interests are best served when management leads employees to think and act generation-to-generation, as well as quarter-to-quarter. Shareholders are also best served when customers, employees, communities, and regulatory bodies see that they too, have a real stake in the company's long-term success.

With this in mind, in 2001, Pfizer adopted a new mission: To become the most valued company to patients, customers, colleagues, investors, business partners and the communities where we work and live.

We could have put shareholders above all and simply said, “We want to be the world’s most valuable company!” We didn’t, and for a reason. We believe that if we work towards this “most valued” ideal, we will be a company built to last. This is the best way to produce sustainable value for shareholders.

All of us, whether we be corporate leaders, directors, or investors, can be justifiably angry with those who abused corporate power. Ultimately, we must get past the anger at wrongdoers, anxiety over new regulations and arrogance over our roles in spinning the flywheel of business.

We need to begin to repair the damage done by a relative few. That means changes in the mindsets of corporate leadership, with all of us working to restore confidence in the integrity of American business.

It’s time to show, without question, that American business can make money the old-fashioned way, the way Pfizer and so many companies have done it for decades—by earning it with valued products and services, created by competent, ethical people, and sustained by investors who know that just about everything worth doing takes time, passion and commitment.

Thank you for your faith in us. We will continue to earn it, every day.

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## Hank McKinnell

CHAIRMAN AND CHIEF EXECUTIVE OFFICER  
 PFIZER, INC.

*Hank McKinnell is chairman and CEO of Pfizer, Inc. Born in western Canada, McKinnell earned his bachelor's degree in business from the University of British Columbia and earned both his master's and doctorate in business from Stanford University Graduate School of Business. He joined Pfizer Japan in 1971. He was then asked to become a regional manager for Pfizer in Iran/Afghanistan, starting a string of promotions that brought him to the leadership of Pfizer Asia in the early 1980s.*

*Moving to Pfizer headquarters in New York City, he led the company's strategic planning group and then its medical technologies operation. He then served as chief financial officer before being named as head of Pfizer's largest operation, prescription pharmaceuticals, in the early 1990s.*

*In 1999, McKinnell became president and chief operating officer of Pfizer, Inc. He helped lead the acquisition and integration of Warner-Lambert in 2000. In 2001, he was elected chairman of the board and CEO.*

*After becoming Pfizer's CEO, he acquired Pharmacia and cemented Pfizer's position as the world's largest pharmaceutical company. He established Pfizer as an innovator in opening access to healthcare to people with limited incomes, launching programs such as the Pfizer Global Health Fellows and the Pfizer for Living Share Card.*

*McKinnell serves on the boards of ExxonMobil, Moody's, and John Wiley & Sons. He is the only pharmaceutical company executive to serve on the Presidential Advisory Council on HIV/AIDS. He chairs The Business Roundtable and is a fellow of the New York Academy of Medicine. McKinnell serves on the board of trustees for both the New York City Public Library and the New York City Police Foundation. He is the 2003 winner of the Cleveland Dodge Medal from Columbia University and the 2003 recipient of the United Nations Association's Global Leadership Award.*

**PFIZER, INC.**

Founded in 1849 in Brooklyn, New York, Pfizer, Inc. is the world's largest research-based pharmaceutical company. More than 120,000 colleagues, operating in some 150 nations, bring Pfizer products to people and their prized animals, all in pursuit of longer, happier, healthier lives.

Pfizer is the number one medicines company in every region of the world. Its product portfolio includes 14 number one products, serving patients suffering from some of the world's most devastating diseases. Pfizer's key prescription medicines include Lipitor, the world's largest selling medication for lipid lowering, and Viagra for male erectile dysfunction.

Pfizer Global Research and Development is the world's largest privately funded biomedical research group. Pfizer has more than 200 medicines in development, and more than 400 more projects in earlier discovery stages.

Pfizer Global Manufacturing encompasses 93 manufacturing facilities and 54 logistics centers in more than 40 nations. It builds on a heritage that includes the broad-scale production of penicillin and the commercialization of the Sabin polio vaccine.

Pfizer Consumer Healthcare provides a range of products including Listerine for oral care, Nicorette/Nicotrol for smoking cessation, Neosporin ointment, and Benadryl allergy medications.

Pfizer Animal Health is the world's leading discoverer and marketer of products to prevent and treat diseases in livestock and companion animals.

The company donates more than \$2 million, in cash and products, per day to help people worldwide. Pfizer has been instrumental in some of the world's most effective public/private partnerships for healthcare access, including the International Trachoma Initiative, the Florida: A Healthy State Initiative, the Diflucan Initiative, and Sharing the Care. Pfizer is headquartered in New York City.

*For more information, visit: [www.pfizer.com](http://www.pfizer.com).*

*Stock Symbol: PFE*