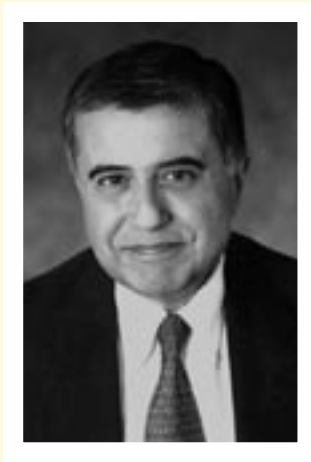


Building Trust

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



Fred Hassan

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
SCHERING-PLOUGH CORPORATION

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of the laws and regulations wherever we operate.”*

– Fred Hassan

BUSINESS INTEGRITY

In my more than 30 years as an executive in the pharmaceutical industry, I have seen a simple but elusive truth proved many times over: By doing the right thing when it comes to business integrity, you will also be doing the right thing to grow your business for the long term.

The reason for this is also simple, but still can elude many people. In the end, business success is not about numbers. It is about building trust. You must develop mutual trust among the people in your organization for everyone to do his or her best. An essential element of trust is being truthful. And when you have the trust of your customers and shareowners, you have an exceptional competitive advantage.

I use the term “business integrity,” rather than “business ethics,” for a reason. In my experience working across many cultures, the language of “ethics” can unintentionally be divisive. It can imply that one culture’s ethics are better or more profound than another’s. By contrast, I have found that business integrity is something that people around the world can understand and own. In many ways, business integrity is also a broader concept than ethics. I explain it very simply to the people I lead in a complex, global industry. Business integrity means living up to the intent, and not just the letter, of the laws and regulations wherever we operate. It also means more. It means obeying the internal moral compass that we all have, so that in each situation we face in our business life, we consciously choose to do what we believe is right and reject what we believe is wrong. There will always be shades of gray in life, but we must evaluate them and make our choices in line with the direction of this internal compass.

Operating in this way builds trust. By building trust, you also build business success for the long term. Business integrity, and the trust it generates, is not merely a matter of words. It is about behavior. I see 80 percent of my role as a leader consisting of modeling the right behaviors—in other words, leading by example. The good news is that people are very quick to learn from example. They can change their behavior. They can learn that listening more intently to their moral compass is the right thing to do and see that by doing so they are not in conflict with business success. They are in fact enhancing business performance by building trust.

In my relatively new role leading Schering-Plough Corporation, a global science-based pharmaceutical company, I inherit an array of challenges. Among the biggest of these challenges are serious issues of

compliance with manufacturing standards and the integrity of business practices. These issues have been featured repeatedly in media headlines and have undermined the trust of stakeholders interested in the success of Schering-Plough, most notably our employees, customers, and shareowners. They have also caused great disruption to business processes and the supply of medicines to our customers. At the same time, we confront major long-term challenges in the core business, including the need to enhance the flow of new medicines that are the lifeblood of our industry, sub-optimal business processes, and many other problems. To turn this downward spiral of poor performance into an upward spiral of success, we have set out to reinvent the company through a dramatic change process that will affect every person and every component of our organization.

Fundamental to this change process, and a cornerstone of Schering-Plough, is the expectation that everyone who works for the company, from the Chairman and CEO on down, will conduct all corporate activities with business integrity. A big part of this expectation is quite simple: Be honest with yourself and with other people.

Many times in my career I have found that decisions based on business integrity can catalyze positive and dramatic change. Six years ago, I was the new Chairman and CEO of another global pharmaceutical company. I had been on the job for just a few weeks. There was a meeting of the board of directors and, unfortunately, I had bad news to share. It was clear to me that the company was operating under a dysfunctional business model. Three separate units were each doing their own thing and not working together. The model had to change. If we were going to compete, we had to come together as one global unit.

Unfortunately, the business model had been carefully crafted by the previous CEO and board. Many of these people, including the former CEO, were now members of my board. For a moment I considered whether it might be smarter to let a few meetings go by before I “lowered the boom.” After all, wouldn’t it be easier to convince the board after they’d seen me in action for a few months? The answer, I quickly decided, was no. The truth is the truth, regardless of when it’s delivered. And in this case, it needed to be delivered quickly. So I spoke my mind at the board meeting and waited for the board’s reaction. I was actually surprised when they agreed with me. It was a reluctant agreement, but agreement nonetheless. In hindsight, I believe this decision saved the company. Had we waited another six months, the downward spiral would almost certainly have reached a point where we could not have rescued the company.

I soon shared another observation with the board. Our headquarters was overseas. It was in the wrong location. The United States was, and still is, the only free market for pharmaceuticals. If the company wanted to be a long-term global player, we had to make a trans-Atlantic move to the United States. This was simply the truth. But, again, this change would dismantle plans put in place by the previous administration and the board. Although shocked at my proposal, the board again agreed with my recommendation. We soon moved—lock, stock, and pharmaceutical barrel—to New Jersey. It was the right move. Innovation goes where you have free markets, as opposed to price controls. The United States was where pharmaceutical research and basic science was gravitating, and the move here allowed us to hire some of the brightest scientists and management professionals in the world.

Earlier in my career, I was faced with another challenge where business integrity could have taken a back seat to financial expediency. It concerned an important product in the business entity I was responsible for. The product was being made in a slightly different manner from the New Drug Application (NDA) that had originally been written on it. The issue was not product quality. But, because the NDA was poorly written, technically, an argument could have been made that we were not making the product to specifications. I was advised to ignore the discrepancy. Nobody would notice, they told me. I responded that if our company had high aspirations, we were going to disclose this information as a matter of integrity. We should file a report with the Food & Drug Administration (FDA) and, essentially, tell on ourselves. We did file the report. The FDA reviewed our notice, determined that the discrepancy was inconsequential, and did not penalize us. But, had the FDA discovered the discrepancy on its own, the trust between my company and a major regulatory body would have been damaged.

Within the first hours of my arrival on the Schering-Plough campus, I began to hear rumors about corporate layoffs and whether I would be bringing in new people. There is no question that I could have made loyal, hard-working employees feel a lot better if I had responded that, no, we would not be bringing in new people. I could have said that the best pharmaceutical people in the world were already working at Schering-Plough. I chose not to do that.

During my first Town Hall Meeting on the Schering-Plough campus (I had been CEO all of three days), I spoke what I felt about

what I wanted to accomplish. I talked about building a successful environment where competent, hard-working professionals thrive, grow, and succeed. I said we were building a company where people would do these things and, believe it or not, have fun as they did them. I spoke about my belief that many very good people—some of the best people in our industry—were working at Schering-Plough. Then I asked the question that was on everybody’s mind: “Will we bring in some new people?” I answered that, yes, we would. As we saw needs for specific skills and competencies to help make our company the best, yes, we would bring in some new people. I emphasized, however, that we would do it very carefully and with great respect for the people we currently had in the company.

Had I been less than completely honest, the short-term results would have been smiling faces, relieved employees, and the vocal “attaboys” that come when people believe they have dodged a bullet. In the long-term, though, I would have undermined my credibility. I would have hurt my relationship with both my employees and my executive team.

During this same Town Hall Meeting, I was faced with another opportunity to avoid the truth. As expected, many employees were concerned about how much corporate restructuring would be required to achieve my vision of the new Schering-Plough. I could have side-stepped the issue by saying that I wasn’t certain, I hadn’t completed my analysis, I needed more time, etc. Again, I chose not to do that. I knew the truth, and my employees needed to hear it. To become the best, I said, we must reinvent the company. We must embrace change and, then, drive positive change. We could not focus simply on doing better than we had been doing. We had to change and adapt.

Change, as everyone knows, is one of the most terrifying words in the corporate lexicon. Yet, by telling the truth about changes that were coming, employees prepared for, and became accustomed to, their new future. Less than a month later, I disclosed some of the specifics of the changes to our corporate structure. They were not small changes. They were huge. And it was clear that they would result in the loss of some jobs. But because of my earlier candor, colleagues were now prepared for, accepting, and even anticipating change.

Also fundamental to the change process, which will affect every person and every component of Schering-Plough, is the dissemination of clear and frequent communication from the CEO. There is no such thing as spontaneous success. Success does not occur in a vacuum. Success is a direct result of thousands of interdependent actions that occur every day. A company's employees are clearly the creators, messengers, and recipients of these actions. In order to be fully engaged contributors to success, employees must understand the current state of their company and what their role is in moving the company forward.

In larger companies, communication from the CEO is even more important than it is for smaller companies. In very large companies, the CEO runs the danger of becoming too removed from his or her employees. Co-workers must not see the company as a faceless operation without a soul. Workers must relate emotionally to a company in order to give their best to the company. As CEO, I have found over and over again that if you try to share your thoughts with employees and keep them abreast of the general happenings in their company, it has a huge, positive impact on employees' emotional connection with both the company and the CEO. The consequence of ignoring this reality is excessive rumor. Misinformation via rumor can sap the enthusiasm of even the most dedicated employees and wound a company.

Since my arrival at Schering-Plough, I have traveled thousands of miles to meet with employees, observe production facilities, and review operational processes. I have attended dozens of meetings with cross-functional working groups, with my top executive team, with doctors, lawyers and scientists. I have held Town Hall Meetings with thousands of Schering-Plough colleagues.

Perhaps most important, I have personally written a continuous flow of e-mails to update employees on specific aspects of our corporate turnaround—and their roles in making it happen. This flow will continue. I often spend two or three hours on each of these messages. For any CEO that is an enormous time commitment. It is all the more so in our situation, where almost every aspect of our company requires urgent attention from me. I carve out this time and commitment for personal communication because I am convinced that it is absolutely critical to the transformation of our company that we are engineering, and to the long-term success we are working toward.

I also develop reports when I travel to a plant or to a foreign affiliate, or when I meet front-line people in “CEO dialog sessions.” I share these reports with my management team. I relate what I heard, what I observed, what the local challenge is, and how it might be fixed. The purpose of these reports is not to attack individuals who may not be performing at the highest level, but to communicate procedures, processes, and perceptions that need attention, as well as those that can be considered first-rate and implemented elsewhere. I believe it’s important for my executive management team to hear my thoughts about operational areas that directly impact the success of our company. This is another dimension of business integrity: listening to and learning from the people on the ground so that we keep getting better at what we do and stay committed to doing things right.

A final fundamental of the change process for Schering-Plough that I see as yet another dimension of business integrity is promoting and mirroring emotional intelligence. By emotional intelligence I mean the ability to lead with your heart, to maintain perspective and to listen to your moral compass. Leaders with strong emotional intelligence maintain intellectual and behavioral effectiveness even when things don't go their way. Emotional intelligence also means understanding how to be transparent and honest, while at the same time maintaining confidentiality when it is necessary. The honest and prudent response is sometimes "I cannot answer that question right now because we must keep this information confidential." I am very rigorous in rating myself on emotional intelligence, and I also rate my management team on it.

My own unforgettable experience with emotional intelligence—with maintaining intellectual and behavioral effectiveness when things aren't going well—concerned one of my previous company's most profitable new drugs. Soon after becoming CEO I learned that, due to some particularly sloppy oversight, the drug was in imminent danger of falling into a rival's hands. As I visualized the company disintegrating around me, I immediately set in motion plans to regain control of the product. I was patient and professional regarding the claims of the rival company. We worked out a settlement that was reasonable from their point of view, but also was very good for my company because the drug became an \$800 million product. Although there were a few individuals whose management skills received additional attention, no one lost his or her job. Emotional intelligence demanded that we not resort to an emotional, knee-jerk reaction. This was the right thing to do for the business, and it was

the right thing to do on a human level. Many, many colleagues were watching closely to see how I handled this situation while I was still early in my tenure as CEO. I believe that most of them would say that what they saw was business integrity in action.

Business integrity as I have defined it makes big demands on everyone in an organization. However, I believe it is very important that we recognize that no one is perfect in this dimension. Mistakes are inevitable where there are so many shades of gray. What we demand in our company is that all our people keep striving to become better and to learn from their mistakes.

In conclusion, I want to address Schering-Plough shareowners who, after reading this book, may still be suspicious of the present state of Corporate America. Growing up in Pakistan, I knew that to achieve my dreams I would one day follow the advice of the famous New York newspaperman Horace Greeley. He said, “Go West, young man!” And I did—enthusiastically. I went to London for a chemical engineering degree and, later, to Harvard for an M.B.A. During this time, I never saw America as perfect. I never saw American business as perfect. However, I was absolutely convinced that there was no better country and no business environment more welcoming to a young person with very big dreams and the heart to achieve them.

I sincerely believe this is still true today. To lead an American science-based pharmaceutical company is a proud and honorable profession. I am proud of the good things we do for patients and society. I am proud of our people. As we seek to transform Schering-Plough into a great global health company, I know that we must earn the trust of all of our stakeholders and, most especially, our shareowners. To do so will be an honor.

Fred Hassan

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER
SCHERING-PLOUGH CORPORATION

Fred Hassan is chairman of the board and chief executive officer of Schering-Plough Corporation. He joined Schering-Plough on April 20, 2003, as chief executive officer. He was elected a director and chairman of Schering-Plough's board of directors on April 22, 2003.

Prior to joining Schering-Plough, Hassan was chairman and chief executive officer of Pharmacia. He joined the former Pharmacia & Upjohn in May 1997 as chief executive officer and was elected to the board of directors. In February 2001, Hassan was named chairman of the board of Pharmacia, the company created through the merger of the former Monsanto and Pharmacia & Upjohn companies.

Previously, Hassan was executive vice president of Wyeth, formerly known as American Home Products, with responsibility for its pharmaceutical and medical products business. He was elected to Wyeth's board of directors in 1995. Earlier in his career, Hassan spent 17 years with Sandoz Pharmaceuticals (now Novartis) and headed its U.S. pharmaceuticals business.

Hassan received a bachelor of science degree in chemical engineering from the Imperial College of Science and Technology at the University of London and a master of business administration from Harvard Business School.

Hassan recently served as chairman of the board of directors of the Pharmaceutical Research and Manufacturers of America (PhRMA) and is chairman of the HealthCare Institute of New Jersey. In addition, he serves on the board of directors of Avon Products, Inc.

SCHERING-PLOUGH CORPORATION

Schering-Plough Corporation is a leading research-based pharmaceutical company dedicated to discovering and delivering products that can extend lives and improve the quality of life for people around the world. With over 30,000 employees worldwide, the company's products reach patients and caregivers in more than 125 countries. In 2002, sales totaled \$10.2 billion.

Many of Schering-Plough's prescription products are recognized market leaders. In 2002, the company launched ZETIA™ (ezetimibe), a cholesterol-management product discovered by Schering-Plough scientists. In September 2003, Merck/Schering-Plough Pharmaceuticals submitted a New Drug Application for ezetimibe/simvastatin tablet, an investigational cholesterol-lowering medicine, along with diet, for the reduction of elevated cholesterol levels.

The company's other major products marketed in the United States include PEG-INTRON® Powder for Injection, a longer-acting form of INTRON® A Injection, as monotherapy and in combination with REBETOL® Capsules, for treating hepatitis C; INTRON A, as monotherapy and in combination with REBETOL for treating hepatitis C; CLARINEX®, a nonsedating antihistamine; NASONEX®, a corticosteroid nasal spray for allergies; TEMODAR®, an oral chemotherapeutic agent for certain types of brain tumors; INTEGRILIN®, for acute coronary syndromes and percutaneous coronary intervention; and LOTRISONE®, a topical antifungal.

Schering-Plough's consumer health care business includes leading consumer brands of foot care, over-the-counter and sun care products.

Schering-Plough's global animal health care business comprises pharmaceuticals, vaccines, growth promotants and parasiticides. Schering-Plough is headquartered in Kenilworth, New Jersey.

For more information, visit: www.schering-plough.com.

Stock Symbol: SGP