CVS Smokes the Competition in Corporate Social Responsibility

INTRODUCTION

In 1963, brothers Stanley and Sidney Goldstein founded the first Consumer Value Store (CVS) with partner Ralph Hoagland in Lowell, Massachusetts. The original CVS store sold health and beauty supplies. The company became widely successful and grew to include 17 stores during its second year of business. By 1967, CVS began offering in-store pharmacy departments, and in less than a decade, the company was acquired by the retail holding corporation Melville Corporation. This marked the beginning of CVS's expansion across the East Coast through new store openings or mergers and acquisitions. In 1974, CVS reached a major milestone of exceeding $100 million in sales.

As the company grew, they faced intense competition, which they responded to through a differentiation strategy. CVS focused on their core offerings of health and beauty products and began placing stores in shopping malls to generate more foot traffic. This strategy worked well for the company, allowing them to hit $1 billion in sales by 1985. The company celebrated its 25th anniversary in 1988 with 750 stores and $1.6 billion in sales. The acquisition of Peoples Drug, a chain of drugstores based in Alexandria, Virginia, allowed CVS to establish their presence more widely along the East Coast and spurred the launch of PharmaCare, a pharmacy benefit management (PBM) company providing services to employers and insurers. PBMs aid employers in managing healthcare benefit plans and in processing prescriptions. PBMs also have strong

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negotiating power with drug companies. In 1996, the Melville Corporation restructured, and CVS became independent as a publicly traded company on the New York Stock Exchange (NYSE).

This new surge of investment allowed the company to expand widely across the nation into regions such as the Midwest and Southeast. CVS acquired of 2,500 Revco stores, a drug store chain, in 1997. It became the largest acquisition in U.S. retail pharmacy history. With the rise of the internet, CVS seized upon the opportunity to launch CVS.com in 1999 (and Caremark.com after the 2007 acquisition). This became the first fully integrated online pharmacy in the United States. In another first for the U.S. pharmacy retail industry, the company introduced the ExtraCare Card loyalty program in 2001. The company's 40th anniversary in 2003 was marked with increasing westward expansion, 44 million loyalty card holders, and more than 4,000 stores in approximately 30 states. In the following five years, the company's acquisitions allowed CVS to gain leadership in key markets, begin a mail order business, and open its 7,000th retail location. The company would later be rebranded as CVS Health.

The three most important acquisitions in the history of CVS include MinuteClinic walk-in health clinics (in 2005), Caremark Rx, Inc. (in 2007), a PBM company, and healthcare company Aetna (in 2018). To make refills simpler for customers and to compete more effectively against rivals, CVS began introducing new services such as online prescription refills. Now, the company makes more than $195 billion in revenue and has over 9,900 retail locations and 1,100 MinuteClinic locations.

CVS sells products that meet the highest quality standards as well as their own line of products whose specifications and performance are annually tested and reviewed to ensure compliance with applicable consumer safety laws. In addition, the company has instituted a

Cosmetic Safety Policy that applies to all of the cosmetic products they sell. CVS employs 300,000 people across all 50 states, the District of Columbia, and Puerto Rico. In a one-year period, CVS filled and managed 2.5 billion prescriptions and served 4.5 million CVS Pharmacy customers. The company is proud to note its eighth spot on the Fortune 500 list. Today, CVS is one of the largest pharmacies and pharmacy healthcare providers in the United States and is composed of four business functions: CVS Pharmacy, CVS Caremark, CVS MinuteClinic, and CVS Specialty.

The following case will explain some of the legal and ethical challenges CVS has encountered, including a settlement with the Federal Trade Commission (FTC) and the U.S. Department of Health & Human Services (HHS) regarding violations of the Health Insurance Portability and Accountability Act (HIPAA) Privacy Rule, deceptive business practices, and failure to report missing medications. Our examination will also include how CVS responded to such allegations, and how they have worked to redefine the company as a healthcare provider. We will analyze the company's ethical structure, including its decision to stop selling cigarettes, as well as provide an overview of some criticisms the company has received during its transition. The conclusion offers some insights into the future challenges CVS will likely experience.

ETHICAL CHALLENGES

Like most large companies, CVS must frequently address ethical risk areas and maintain socially responsible relationships with stakeholders. Although CVS has at times excelled in social responsibility, they have suffered from ethical lapses in the past. The next section addresses some of CVS's most notable ethical challenges, some of which resulted in legal repercussions.

HIPAA Privacy Case

As a company grows and achieves widespread influence, they also inherit a responsibility to act ethically and within the law. In 2009, CVS was accused of improperly disposing of patients' health information. It was alleged that company employees threw prescription bottle labels and old prescriptions into the trash without destroying sensitive patient information, making it possible for the information to fall into public hands. This is a violation of the HIPAA Privacy Rule, which requires companies operating in the health industry to properly safeguard the information of their patients. The allegations prompted investigations by the Office of Civil Rights (OCR) and the FTC, marking the first such instance of a collaborative investigation into a company's practices. These investigations revealed other issues as well, including a failure of company policies and procedures to completely address the safe handling of sensitive patient information, lack of proper employee training on the disposal of sensitive information, and negligence in establishing repercussions for violations of proper disposal methods. This was in spite of the fact that CVS materials reassured clients that their privacy was a top priority for the pharmacy. This claim, in addition to the investigative findings, prompted the FTC to allege that CVS was making deceptive claims and had unfair security practices, both of which are violations of the FTC Act.

CVS settled the case with the U.S. Department of HHS, which oversees the enforcement of the HIPAA Privacy Rule, for $2.25 million. The settlement also mandated that the company implement a corrective action plan with the following seven guidelines: (1) revise and distribute policies regarding disposal of protected health information; (2) discipline employees who violate them; (3) train its workforce on new requirements; (4) conduct internal monitoring; (5) involve a qualified, independent third party to assess the company's compliance with the new requirements and submit reports to HHS; (6) establish internal reporting procedures requiring employees to report all violations of these new privacy policies; and (7) submit compliance reports to HHS for three years. The company also settled with the FTC by signing a consent order requiring the company to develop a comprehensive program that would ensure the security and confidentiality of information collected from customers. In so doing, the company agreed to a biennial audit from an independent third party. This audit was meant to ensure that CVS's program continued to meet the FTC's security program standards.

Deceptive Business Practices

In addition to privacy challenges, CVS has been accused of deceptive business practices. A 2008 civil lawsuit involving 28 states was filed against the PBM division of CVS, which acts as the prescription drug claim intermediary between employers and employees. It also maintains relationships with drugstores and manufacturers. One of the main allegations of the lawsuit claimed that doctors were urged to switch patients to name brand prescriptions under the notion that it would save them money. Furthermore, these switches were encouraged without informing doctors of the financial burden it would impose on patients, and employer health care plans were not informed that this activity would benefit CVS. This could be seen as a conflict of interest at the expense of customers. Due to these allegations, the suit called for a revision in how the division gives information to consumers. In the end, CVS signed a consent decree without admitting fault and paid a settlement of $38.5 million to reimburse states for the legal costs and patients overcharged due to the switch in prescriptions. In a similar matter, a multi-year-long FTC investigation concluded in 2009 that the company had misled consumers regarding prices on certain prescriptions in one of its Medicare plans. The switch harmed elderly customers who were billed up to 10 times the amount they anticipated. CVS settled with the FTC for $5 million to reimburse customers for the change in price.

Misuse of Prescription Pharmaceuticals

In 2012, CVS faced challenges with another federal agency—the Drug Enforcement Administration (DEA). The DEA suspended the company's license to sell controlled substances at two Florida locations, only a few miles apart from one another. These locations were found to have ordered a total of three million oxycodone tablets in 2011. The average order for a U.S. pharmacy in the same year was 69,000 pills. Intensifying the matter, abuse of narcotics pain medications, especially oxycodone tablets, was prevalent in the area. In fact, some local clinics had become known as "pill mills" for their liberal distribution of prescriptions for pain pills. This prompted the state of Florida to implement legislation responding and attempting to control the rampant misuse and diversion of pain medications.

CVS responded to the DEA's investigation by notifying some of the area doctors that they would not fill prescriptions written for oxycodone (Schedule II narcotics). However, the company also requested a temporary restraining order against the DEA, which would disable the temporary suspension of selling oxycodone. The DEA suspension decreased the amount of such narcotics being distributed to the two CVS locations by 80 percent in a period of three months, limiting their ability to make a profit. When the matter came before a federal judge, he ruled that the company was at fault for lack of proper oversight in distributing oxycodone and other narcotics. The ruling further implied company negligence since such a large number of dispensed pills should have been noticed as a blatant abnormality.

Later that year, the DEA completely revoked the licenses of the two locations to sell controlled substances—the first time this has occurred with a national retail pharmacy chain. CVS claims that they have improved procedures regarding distribution of controlled substances;

however, the DEA's claims explicitly assigned negligence on the part of pharmacists in light of obvious "questionable circumstances." These circumstances included the fact that several customers were coming to Florida from out of state to fill prescriptions. Many lacked insurance and paid in cash, red flags that can suggest drug abuse. This was in addition to the heavy prescription drug abuse problem in the area that had already prompted state legislation.

Testimonies from employees indicated company negligence as many had knowledge of the top prescribing doctors in the area and awareness that daily oxycodone quotas were being depleted—sometimes within 30 minutes of the pharmacy opening. Pharmacists also indicated that they set aside pills for those patients they considered to have a real need for them because they had strong suspicions that most of the people purchasing the pills were abusers. They did not feel at liberty to refuse prescriptions to customers, however, because they are not trained to diagnose illnesses. In 2013, CVS announced a review of their database of healthcare providers to find abnormalities in narcotic prescriptions. They found and notified at least 36 providers to whom they would no longer fill orders due to high prescription rates.

In 2014, another incident involving the disappearance of 37,000 pain pills in four California stores brought the DEA and CVS together again. These four stores had a history of not being able to account for several pain prescription drugs. The investigations into missing pills was prompted after the DEA found that an employee had stolen approximately 20,000 pills a few years earlier. This was not the first or last time that CVS stores would be investigated for missing pills. The company paid $1.5 million in fines after some of its Long Island stores did not report missing painkillers in a timely manner.

Two years later, CVS agreed to settle an $8 million claim with the DEA for violation of the Controlled Substances Act in its Maryland pharmacies. CVS faced allegations of dispensing controlled substances pursuant to prescriptions that did not have a legitimate medical purpose. CVS acknowledged that between 2008 and 2012 they dispensed controlled substances, including oxycodone, fentanyl, and hydrocodone, in a manner not compliant with its obligations or with regulations. The District Attorney in the case emphasized that pharmacies have a duty to ensure prescriptions filled are issued for a legitimate medical purpose. He also reminded doctors and pharmacists of the charge to protect against abuse of pharmaceutical drugs for non-medical purposes.

Fraudulently Billing for Illegally Dispensed Drugs

In 2019, the Department of Justice accused CVS Health and Omnicare (a CVS Health company) of fraudulently billing federal health programs for illegally dispensed drugs. According to the lawsuit, from 2010 to 2018 Omnicare allowed its pharmacies to distribute prescription drugs—including opioids—to long-term care facility residents even after a prescription had expired or the resident had no additional refills available. This impacted residents at more than 1,700 residential living facilities. Medicare, Medicaid, and Tricare were then billed by Omnicare. In 2020, CVS Health agreed to a $15.3 million settlement.

MOVING TOWARD A HEALTHCARE COMPANY

Despite the ethical challenges CVS has experienced, they are trying to reposition themselves as a socially responsible organization that places priority on consumer health. Being a quality healthcare company not only offers reputational benefits but also financial advantages as well. Changes in both the economic and healthcare landscape are creating new opportunities for CVS to provide different programs and redefine themselves. For example, millions of baby boomers are becoming eligible for Medicare benefits with approximately 10,000 retiring each day. CVS has refocused their efforts on supplying the growing need for chronic disease management that consumes costly resources when patients do not adhere to physician-recommended medications and monitoring methods to maintain health. PBM services are being successfully implemented, including mail order, specialty pharmacy, plan design and administration, formulary management, discounted drug purchase arrangements, and disease management services.

Innovative programs such as Pharmacy Advisor and Maintenance Choice, developed in collaboration with researchers from Harvard University and Brigham and Women's Hospital, help patients stay on their medications. Research shows that regular interaction between patients and pharmacists increases the likelihood that patients will adhere to their medication regimen. Many patients who take regular prescriptions often think that they are well enough to cease taking their medication at a certain point. However, when the symptoms of their ailments reappear, the costs are great, both financially and medically. CVS's programs allow the company to inform patients about the benefits and risks of these effects through education and awareness. The entire industry also benefits from this knowledge so that it can be better prepared to help prevent costly medical procedures due to medication non-adherence, which occurs when patients skip or incorrectly take their dosage requirements. This is estimated to cost between $5 and $10 for every $1 spent on adherence programs. These services are key components of CVS's competitive advantage, allowing the company to provide the best possible patient care. CVS was also proactive in preparing patients for Health Care Reform. For instance, CVS partnered with the Centers for Medicare and Medicaid Services to raise awareness about new services available to Medicare patients under the ACA.

To help people keep up with these and other changes in healthcare, CVS has established its presence on social media and mobile devices. The company introduced a mobile application that allows customers to conveniently refill prescriptions, and the company's social media pages provide helpful health tips. Customers benefit from using CVS's digital tools through increased savings and easier access to many of CVS's services. For instance, the CVS iPad app allows individuals to have a 3D digital pharmacy experience reminiscent of shopping in-store. Customers who are unable to physically visit the store, or prefer the convenience of shopping from home, are able to partake in the CVS experience through the company's technology. As a result, many are saving money and time filling and refilling prescriptions, as well as having instant access to essential drug information.

MinuteClinics are one of the major contributors to CVS's rebranding efforts. These clinics are the first in healthcare retail history to be accredited by the Joint Commission, the national evaluation and certifying agency for healthcare organizations and programs in the United States. This accreditation signifies the clinics' commitment to and execution in providing safe, quality healthcare that meets nationally set standards. In addition to healthcare services, MinuteClinics provide smoking cessation and weight loss programs that contribute positively to people's health. These clinics are also the first retail clinic provider to launch a partnership with the National Patient Safety Foundation for its health literacy program to help improve patient education and community health.

In 2015, CVS announced that it was purchasing Target's 1,672 in-store pharmacies for $1.9 billion. These pharmacies were branded as CVS/pharmacy and remained located in Target stores. This increased CVS's reach, particularly in areas like the Northwest where the company did not have a strong presence. Another benefit of the purchase is that it will increase convenience for consumers who use CVS for their prescriptions as they can now choose from a CVS drugstore or a CVS/pharmacy within a Target location. Target pharmacies have generally received higher customer satisfaction ratings compared to CVS. If CVS can tap into the same practices that Target pharmacies have used to keep their customers satisfied, CVS could use what it learns to adopt a more customer-centric culture that would provide it with an advantage over rivals such as Walgreens.

Despite CVS's strides in becoming a healthcare company, competition from Walgreens has been gaining. In 2017, Walgreens obtained an advantage in prescription management contracts after the Tricare plan from the Department of Defense signed a deal with Walgreens. This deal did not include CVS pharmacies. Walgreens Boots Alliance also made a deal with PBM Prime Therapeutics to launch a specialty pharmacy and mail services company called AllianceRx Walgreens Prime, further increasing the competitive threat to CVS.

Additionally, CVS is moving beyond MinuteClinic and entering the territory of home health care. The company began a clinical trial for a home-dialysis HemoCare device in 2019 following a White House announcement of an initiative that encourages at-home dialysis treatment that is less costly. The goal of the initiative is to decrease end-stage kidney disease by 25 percent before 2030 by improving prevention, detection, and treatment of the disease. If the CVS clinical trial shows the device is safe and effective, CVS hopes to win the approval of the Food and Drug Administration (FDA) and become a healthcare provider for people with chronic conditions. This bold step sets CVS apart from other drugstores. This move has the potential to influence the markets for at-home medical devices and kidney care and goes hand in hand with CVS's acquisition of Aetna in 2018. Additionally, CVS is experimenting with driverless prescription delivery through a collaboration with UPS. Though testing began in 2019, its efforts were accelerated during the COVID-19 (coronavirus) pandemic which prompted lockdowns across the country in 2020.

AETNA MERGER

In November 2018, CVS merged with Aetna, a health insurance company, for nearly $69 billion. The belief behind the merger was that a combined company could provide better patient care and tighten cost controls through cooperation. CVS Health described their intentions stating, "As a combined company, we are working to transform the consumer health experience and build healthier communities by offering care that is local, easier to use, less expensive and puts consumers at the center of their care."

The acquisition had many benefits. It provides CVS with more business as the company gains customers on both an individual level and through employers purchasing plans for their employees. The benefit of this merger also allows Aetna customers with chronic illnesses to be referred to walk-in CVS clinics for check-ups rather than expensive and frequent doctor visits. Others believe CVS went forward with the merger because of Amazon's continual threat to the industry. They believe it was a strategic move to prepare for Amazon's increasing involvement in the pharmaceutical industry, such as the possibility that Amazon could begin shipping medications. Overall, CVS's moves indicate that the company wants to ensure that they continue to remain relevant to consumers and grow market share.

However, not everyone saw the positive benefits of the merger. Critics who openly opposed this decision voiced concern that the merger could limit consumers' options and control of medical care as well as result in higher expenses. Critics worried that since the market was already dominated by a few key players, the additional reduced competition would present consumers with limited choices and quality. An advocacy group, Consumers Union, opposed the merger of the two companies and argued that people enrolled at Aetna health clinics could be forced to seek care at CVS retail clinics. Conversely, they believed CVS consumers not insured by Aetna could pay higher prices for their medications. CVS's stock price steadily declined after it closed the Aetna deal due to skepticism among investors. However, CVS believes the "breadth and depth" of the consumer data they now have will be an important component of its success. The company also believes it will be a driving force for change in the U.S. health care system.

The Justice Department ultimately approved the acquisition on the condition that Aetna sell off its private Medicare drug plans business referred to as “Part D.” The premise of the condition was to ensure that the combined companies did not control too much of the market. Some critics still argued that the merger would make it difficult for small competitors to enter the market in either sector. Other concerns were raised that CVS’s affiliation with the insurer would reduce the transparency necessary to the industry.

Despite the companies operating and identifying as one since November 2018, U.S. District Judge Richard Leon spent months thoroughly reviewing and scrutinizing the merger beginning in June 2019. He wanted to identify and further explore any potential harm the deal could cause for the public and therefore refused to sign off on the merger until further review. This attention aligns with the scrutiny that has been placed on the PBM market as a whole. Leon wished to determine if the consolidation in the highly concentrated market would raise premiums and negatively impact the market. Finally, in September 2019 Judge Leon signed off on the proposed settlement and said it was “within the reaches of public interest” in his opinion.

TOBACCO-FREE CVS

In order to be consistent with its transition from pharmacy to healthcare company, CVS has made some landmark decisions aimed toward helping individuals lead healthier lives. In 2014, CVS announced that it would no longer sell tobacco products. The company became the first national retail pharmacy to stop selling tobacco products. The revenues generated from selling tobacco products were about $2 billion annually, so this bold decision sent a strong message to stakeholders regarding the values of the company. A company that is consistent in their actions will gain a good reputation, which will attract more customers and generate revenue. This decision also gave CVS an advantage in terms of the ACA. As the ACA changes the healthcare landscape, companies are racing to get a stronghold in the new system to be listed as a preferred pharmacy. CVS's alignment in defining themselves as a healthcare provider will likely result in stronger relationships with doctors and hospitals, creating an advantage of preference. The goal is that referrals for medication will be done through CVS and serve to boost reputation within all CVS segments. This puts CVS in a competitive position to attract newly insured Americans.

The decision to become tobacco-free spurred 24 state attorneys general to send letters to other pharmacy retailers, including Walmart and Walgreens, highlighting the contradiction of selling deadly products and healthcare services simultaneously. The letter also noted that drug store sales make it easier for younger age groups to begin smoking and more difficult for those trying to quit smoking. Walmart and Walgreens acknowledged the letter but made no indication that they would stop selling tobacco products. While this letter does not seem to have much of an influence on retailers, some speculate that it increases the pressure on the $100 billion tobacco industry, which is already facing decreasing sales, rising taxes, and smoking bans. For CVS, the decision affected its short-term profits and reduced each share by $0.06 to $0.09 each. One year after the decision, CVS released a report of results from studying states where it had greater than 15 percent of the retail pharmacy market share. In the eight months following the elimination of tobacco products, the stores in these states reported approximately 95 million fewer packs purchased and a 4 percent increase in nicotine patches, indicating that CVS's decision was positively impacting smokers.

CRITICISM AGAINST CVS

CVS's new programs are encroaching on the medical industry by providing services to patients. As customers increasingly choose to visit local pharmacy clinics for aches, pains, or common illnesses, primary physicians are feeling the losses, especially since this sectors' healthcare professionals are dwindling. Choosing a retail pharmacy clinic over a physician's office benefits the patient with lower costs and savings, which is a threat to traditional doctors' offices. Some groups are publicizing negative feedback on pharmacy care. For instance, the American Academy of Pediatrics issued a statement warning patients not to visit such clinics because they cannot offer the specialized care children need. Some groups argue that programs such as CVS's MinuteClinics do not offer the same caliber of service and care as a doctor. However, as stated above, CVS holds itself to a very high standard for care in trying to help patients be healthy. They continue to be accredited by the Joint Commission.

CVS's MinuteClinics do recognize their limitations, however. Their website offers information to visitors regarding when they should and should not visit the clinics. For example, the website recommends that patients with severe symptoms such as chest pain, shortness of breath and difficulty breathing, poisoning, temperatures above 103 degrees Fahrenheit (for adults) and

104 (for children), and ailments requiring controlled substances should seek care elsewhere. MinuteClinics' staff nurse practitioners and physician assistants generally provide services for minor wounds, common illnesses, wellness tests, and physicals, etc. Other information regarding insurance and pricing are also available on the website.

STAKEHOLDER ORIENTATION

CVS's mission to be a pharmacy innovation company is guided by five values: innovation, collaboration, caring, integrity, and accountability. CVS uses these values to determine their actions and decisions, which offer a glimpse into their ethical culture. The company's goal is to use their assets to reinvent the pharmacy experience and offer innovative solutions that help people follow a better path toward health. This goal relays to stakeholders that the company cares about healthcare. CVS's business is committed to fostering a culture that encourages creativity and innovation, recognizing that contributions from all members are a high priority. This commitment highlights the value placed on collaboration with partners and stakeholders, which also serves to hold the company accountable for its operating activities—thus strengthening its integrity. Another important factor in the company's ethical culture is to address enhanced access to care while also lowering its cost.

CEO Larry J. Merlo emphasizes the long-term perspective the company is committed to with each decision and how it will affect each stakeholder group. He states that CVS's priorities remain in customer health, the sustainability of healthcare systems, good stewardship, positive contributions to communities, and a meaningful workplace for employees. Such a statement from the top leader of the company sets the tone that fosters the ethical culture behind CVS. The company's Code of Conduct includes ethical behavior expectations: CVS employs a Chief

Compliance Officer, offers regular compliance education and training, provides an ethics hotline for confidential reporting, and has developed a response and prevention guideline for addressing violations of CVS's policies or federal, state, or local laws. CVS's corporate governance includes a privacy program, information security, and a corporate framework that focuses on the company's values.

So far, we have addressed how CVS meets the needs of its customer stakeholders. However, CVS tries to maintain a stakeholder orientation in which all stakeholder needs are addressed. The following sections will describe how the company meets the needs of other stakeholders.

Employees

CVS engages its employees through a variety of channels—including engagement surveys, myLife (CVS Health intranet), and Colleague Resource Groups—to discuss issues such as wages and benefits as well as employee health and safety. Findings from this research lead to new programs, such as the Stamp Out Stigma initiative designed to reduce the stigma associated with mental health issues, including substance use disorders.

CVS focuses strongly on compliance and integrity training for employees. The compliance and integrity training for employees is led by a compliance officer. Regular compliance education and training programs, a confidential 24/7 ethics hotline, and an efficient audit, response, and prevention process are components that make this program comprehensive. The company also supports the development of employees through professional development training sessions. The purpose of such training is not only to keep employees current on new technologies and processes but also to help them advance in their careers within the company. In 2019, CVS introduced a career development program called developU to offer professional skills workshops every month. After integrating with Aetna, CVS also created a cross-functional center of excellence to support leadership development through on-the-job training and in-person and online mentoring.

CVS has also made a commitment to diversity by creating the Talent is Ageless program to attract mature workers. To nurture and attract young workers as well, CVS has a STEM-enriched program called myCVS Journey Pathways to Health Care Careers. The program includes pharmacy store visits for elementary school students and job shadowing and mentoring for high school students. CVS has a Diversity Management Leadership Council consisting of senior leaders to prioritize diversity across its business. In fact, CVS has been recognized as one of the best places to work for disability inclusion.

Shareholders

CVS seeks to protect shareholder interests while maintaining broad stakeholder engagement. As a result, CVS carefully designed a comprehensive corporate governance system ranging from board independence to executive compensation. Following a corporate governance framework, a variety of specialized committees have been established with different functions for shareholders. From an information governance standpoint, the oversight committee makes recommendations to enhance the ability of information security. On behalf of the board of directors, the audit committee is in charge of the risk oversight and is responsible for protecting the reputation and core interests of the company. To stay engaged with shareholders, CVS has an annual stockholder meeting, quarterly earnings calls, phone briefings, conferences, and more.

In order to balance the interests of different groups, senior management created a reformative executive compensation system. This system is based on financial performance as well as service quality and customer satisfaction. While a pay-for-performance compensation system is still utilized at CVS, a significant portion of annual executive compensation is delivered into long-term equity rather than short-term. In a move to further align the commitment of CVS to link pay with performance, total shareholder return is added on a three-year incentive plan. Each three-year period is known as a cycle that has a predetermined set of goals for the company/executive to accomplish. At the end of each term, performance is evaluated and the executive receives compensation based on these results. For example, if the results surpass the goal by 25 percent, the executive pay will increase by a certain predetermined amount. The details will vary for each cycle, but the purpose of the plan is to pay only when the company and its shareholders are benefited from the performance of the executive.

Communities

CVS has grown its ethical culture not only to include the company's functions but also the communities around them. Community engagement and philanthropic endeavors, for example, are long-standing commitments CVS has devoted time and resources toward developing. Community partnerships have supported veteran hiring, scholarships to future pharmacists, and high school, college, and post-graduate students' interest in science, technology, engineering, and math (STEM) careers. In 2019, CVS launched Building Healthier Communities, a $100 million commitment to focus on building community health and wellness. CVS believes that by helping to further advancement in providing the best health outcomes, they are investing in their current and future workforce.

CVS donates millions of dollars to various organizations and builds strategic partnerships with them to create an awareness of healthy behaviors and educate the community on ways to become insured under the ACA. For instance, CVS embarked upon a five-year, $50 million initiative to fight against tobacco use. The company also offers free health screenings and flu shots for the uninsured, prescription discount card programs, and other community programs to supply individuals with the medications they need to maintain health. The discount card program saves customers over 70 percent on medications, resulting in millions of dollars in savings every year. Volunteerism is also supported by CVS, as employees are encouraged to form groups and obtain sponsorship from the company to address needs within the communities.

CVS further supported the community during the COVID-19 pandemic by opening drive-up testing to many locations. On average, participating retailers such as Target, Walgreens, and Kroger only implemented drive-through testing at 4 percent of locations while CVS opened test sites at 10 percent of its locations. CVS's rapid and expansive mobilization supports its mission to become a healthcare company.

Suppliers

CVS has developed a commitment called Prescription for a Better World, which encompasses its Code of Conduct, Supplier Ethics Policy, Supplier Diversity, and Supplier Audit Program to promote integrity, accountability, and diversity. These programs work to ensure that human rights are respected throughout the entire supply chain. In developing these policies, CVS used principles initiated by the International Labor Organization and the United Nations' Universal Declaration of Human Rights. The human rights framework guides all suppliers of CVS to avoid unethical and illegal practices such as child labor, human trafficking, discrimination, and dangerous workplace conditions.

The Supplier Audit Program is a risk-based assessment conducted by multiple third parties to evaluate workplace conditions, including labor, wages and hours, health and safety, management system and environment, as well as operational, financial, and legal risks, to ensure that employees' rights are not being violated. This program was fully expanded to factories in countries considered to be at high risk for such violations, and CVS is in the process of implementing full social audits for subcontractors in these areas. In addition, CVS works with globally recognized organizations including Worldwide Responsible Accredited Production and Social Accountability International to ensure its measurements are relevant and effective. Finally, CVS became the first healthcare firm to partner with the Responsible Factory Initiative. The partnership will provide tools for CVS's factories and suppliers in identifying risk areas from audits and implementing better compliance systems.

Environmental Impact

Environmental impact is also important to CVS. The company records their progress on this front in its annual Corporate Social Responsibility Report. For instance, CVS has reduced their carbon intensity by 35 percent based on a baseline set in 2010. CVS has opened Leadership in Energy and Environmental Design (LEED) facilities, including a more-than-760,000-square-foot distribution center. The information CVS gains from these facilities will be used to set best practices before constructing other stores. Additionally, CVS has worked with non-profit Green America to identify sustainable alternatives to long paper receipts, including digital receipts and recyclable paper receipts.

CVS expanded its Energy Management System (EMS), which is designed to International Organization for Standardization (ISO) specifications. This digital system tracks and manages energy use, so that each store can be continually monitored and adjusted according to each location's needs. CVS is also in the process of upgrading lighting in the stores by including more energy efficient bulbs. Increasing water use was identified as a significant inefficiency, and CVS has responded by eliminating irrigation at retail locations and opting for less water-intensive landscapes. Finally, CVS offers customers ways to recycle and properly dispose of expired, unused, or unwanted medications, which benefit both human and environmental well-being. In one year alone, CVS collected 1.3 million pounds of unused medicines.

CONCLUSION

CVS is implementing strategies and allocating resources in the hope of achieving an ethical culture that benefits all stakeholder groups. This helps CVS maximize ethical decision-making and remain sustainable. It seems the company has learned from previous ethical lapses by being aware of addiction problems within their communities. As the first national retail pharmacy chain to eliminate cigarettes and other tobacco products, CVS boosted its transition from a pharmacy to a healthcare company, helping its customers lead healthier lives. Also, the merger with Aetna will has the potential to transform the healthcare industry by offering easy to use, affordable care options, including home healthcare solutions. The company's impact on the environment is one of the next big challenges they will have to overcome. As one of the largest pharmacies in the United States, CVS has a long way to go to reduce their overall footprint. However, the company is on the right track, having set goals and action steps to achieve these goals. With the mission of helping people live healthier lives and innovating the pharmacy industry, CVS has a great responsibility in developing a business model, allowing the company to remain competitive while acting ethically at the same time.

QUESTIONS FOR DISCUSSION

1. How has CVS handled ethical challenges?
2. Evaluate CVS's decision to no longer sell tobacco products.
3. What is the future of CVS in positioning themselves as a health care company based on their decision to be socially responsible?

SOURCES

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