An Interview With
Daniel Vasella, M.D.,
Chairman, Novartis
Knowing When to Go

When Daniel Vasella, M.D., announced in late January that he was giving up the chief executive role at Novartis, the world’s third-largest pharmaceutical company, and would stay on just as chairman, it came as something of a surprise to many people in the industry. Vasella is widely viewed as the architect of the company’s successful program of rapid growth. Under his leadership, Novartis executed a set of carefully chosen acquisitions, mergers, divestitures and research investments. Less than a month before relinquishing his operating role, Vasella announced the acquisition of a controlling interest in Alcon, a Swiss eye-care firm, from Nestlé, a purchase that is still subject to approval of the shareholders and the companies’ boards. Vasella’s successor as chief executive is Joe Jimenez, a relative newcomer to the company who headed its pharmaceuticals division. Concurrent with news that Vasella was stepping down as chief executive, Novartis announced a 50 percent increase in profits for the fourth quarter of 2009.

Vasella practiced medicine for eight years before joining Sandoz, a Swiss drug maker, where he quickly rose to become president. Under his leadership, Sandoz merged with Ciba-Geigy in 1996 to form Novartis. Vasella was Novartis’s first chief executive and became its chairman in 1999.

Since becoming chairman, Vasella sold the company’s agriculture businesses, its medical nutrition businesses and its baby foods division. During that same period, he spent $59 billion on acquisitions (not including January’s purchase of Alcon’s shares) to create a company that produces prescription drugs, vaccines, generic medicines and over-the-counter products.

Perhaps most controversial for the chairman of a Swiss-based firm whose oldest antecedent company was started in 1758 was Vasella’s decision to move Novartis’s research center from Basel to Cambridge, Mass., to be near universities like Harvard and M.I.T. In addition, in November 2009, Novartis announced a $1 billion investment to create a research and development center in Shanghai.

Vasella, a 56-year-old Swiss, is a man of many parts. He has been called a risk taker, a strong advocate for cutting-edge R&D, a people-oriented manager and a passionate family man; he has been observed taking calls from his children during senior-level business meetings. With his decision to leave his operating role at Novartis, Vasella will also be known as someone who understands when it is time to make a change.

Vasella spoke with Joel Kurtzman, editor-in-chief of Briefings on Talent & Leadership, about Novartis and about succession, his new role and the trends he sees for the coming decade.
Briefings: Your decision to step down came as a surprise to the media, analysts and industry insiders. Was it a decision made in haste or through deliberation?

Vasella: I started thinking about this in 2008. When I nominated a chief operating officer it was a signal that I was thinking about succession and about successors. But I was unclear about how long the succession process should take. My own assessment was that once I had made the decision, it was better to accelerate the succession process than to draw it out. That’s the discussion I had with myself. Then in June 2009, I shared my decision with the board and developed a plan for how to do it. One idea was to have joint chairmen and joint chief executives — to split the jobs. A second idea was to define the criteria very clearly with regard to a successor, which is what we did.

What were those criteria?

Vasella: We decided on a model of risk management and also on continuity and we discussed exactly the qualities we wanted to apply to my successor. The next step was to focus on internal candidates, which allowed the process to move quickly. We began a series of meetings in June 2009 to evaluate candidates and to make certain that there would be continuity.

“The global economy is moving toward the East.”
Going back to your decision to relinquish your operating role: did you make that decision on your own or did the board suggest it to you?
Vasella: It was absolutely my decision. In fact, when I talked to the board in June 2009, it came as a shock to them.

Why did you make the decision?
Vasella: With the Alcon transaction, we were entering a new period. We also had a full research pipeline and some very good candidates to succeed me. So, it was time.

And you were comfortable with the amount of time you had for the succession process to work?
Vasella: I think people understand that once you make a decision, you have to act on it and we had ample time to make it go right. I had a number of good colleagues, three of whom will leave the firm but who contributed a great deal. We chose someone who is very good and who is very able.

Will you continue as an active chairman?
Vasella: As I said, the board had the thought of having a co-chief executive, but we decided against it. So I will be a non-executive chairman. But I have to say, I will be an active member of the board. Under Swiss law, the board has accountability and responsibility for strategy, choosing the chief executive and insuring that controls are in place.

As chairman, these will be my responsibilities. I won’t operate the company. But I will visit research centers and our facilities and I will act as a coach. So, I am really happy about my new role. It wasn’t easy to come to the decision or to keep the decision to myself for so long. But I am very happy.

Your decision comes at a crossroads for more than just Novartis. The world has gone through a very turbulent decade. What do you think is in store for the next decade?
Vasella: Looking at things we can see today, I would say the global economy is moving toward the East. Certainly, if trade and growth patterns continue, we will have Asia, probably led by China, becoming a major force in economic development, economic power and, as a consequence, military and political power, too.

Vasella: Yes. The fact is that with growing economic power, you also have more investments being made in the deeper education of people in Asia. The Chinese government, for example, is focusing more on educating young people in the sciences and in technology. So while we in the West have seen a decline in the attractiveness of these areas to students, in other parts of the world the natural sciences are seen as areas for the very highest levels of achievement. This is not just in China. In India, for example, if you have a child who is studying medicine or engineering, it is viewed very positively. As a result, the number of scientists from this part of the world will be increasing. As a matter of fact, in the United States, which is still at the forefront of the sciences, we are seeing growing numbers of scientists from Asia.

You recently moved the research headquarters of Novartis from Switzerland to the United States and built up a new research center. Can you describe your plans for increasing your R&D presence in Asia?
Vasella: As part of our program to invest $1 billion in a new state-of-the-art R&D facility in Shanghai, we are planning to increase the number of scientists there from about 180 currently to 1,000.

Do researchers from each of these areas collaborate with one another, or do they work independently?
Vasella: They collaborate across the continents. This is made possible through a very deep penetration of information technology into the area of biomedical research. Bioinformatics allowed us to develop very sophisticated tools to understand biologic systems, to discover new targets and drugs and model their interaction. At the same time, informatics helps us to conduct research globally as communication tools have now permeated our entire organization, including the lab benches.
What are some other trends you see developing?
Vasella: We are observing an aging society worldwide. And as people age, they are more often chronically ill. While this is more pronounced in the Western economies, it is happening everywhere. In addition, there is a desire among people to retire early, rather than later, which means a bigger portion of the population is living off the work of others, rather than from their own work. This is creating economic pressures that are not sustainable.

What are some of the consequences we’ll see from the aging of the population?
Vasella: The factor that is linked most closely to aging and the chronic diseases that accompany it is ever-increasing health-care costs. So, I see two fundamental challenges emerging. The first one is that we need to keep populations healthy. In the United States first, but also in Europe and in urban centers around the world, an increasing percentage of the population is becoming obese. With obesity you have a lot of secondary diseases — diabetes, hypertension and so forth. These are growing trends. In the United States, recent studies show, the direct and indirect costs of obesity are huge, reaching yearly costs of almost $500 billion. In fact, obesity, diabetes, cancer, dementia and cardiovascular diseases are projected to create more than $1 trillion in annual costs each by 2025.

So the crucial question, in my view, is not, “How do you cure obesity?” because that’s very difficult, as we all know. It is, “How do you prevent obesity? How do you keep people fit and trim rather than trying to get them to lose weight, which is a real challenge?”

On a global basis, how will you make certain Novartis’s innovation engine continues to work fully on all continents?
Vasella: First, the human resource is still our most critical ingredient for success. You have to have technology, and you have to invest in it. And, of course, we have to focus on science, because science is the foundation of innovation.

But we also have to understand what our customers need. Patients can articulate needs, but seldom solutions. So, in highly technical fields, the people doing the most complicated scientific work sometimes don’t know enough about the patient’s reality.

It is therefore important to bring scientists together with the needs and realities of the patient. We have to make it possible for our scientists, through empathy and imagination, to understand what’s going on with patients. And then, thanks to our scientists’ knowledge, they can embark on finding potential solutions. That’s what I mean by the human resource.

Now, this is a very important point. Scientists have to understand fully what the patient needs. But understand is not the right word exactly. Scientists have to have an emotional, intellectual, scientific and human understanding of the patient’s needs. They need to understand the impact they have on patients’ lives — on individuals. This is true for all our employees and as we rationally and emotionally understand this, our intrinsic motivations become much stronger to do an excellent job. We identify ourselves with common goals that drive the overall corporation.

When you were chief executive, how did you keep track of what your company did on a global basis?
Vasella: Well, that’s really two or three questions. One is, “Can we keep track of the scientific developments that are taking place around the world and can we understand them?” And my answer is, “Only a very few people can, and I’m not one of them.” The speed of development and of the discovery rate makes it impossible for most people to keep up with rapidly growing knowledge. For me, there is no way really of following closely, from a content perspective, what scientists are doing. So the questions then come up: “How do you know what you need to know? And how do we know that we are on track?”

There are several ways of tackling that. One is, for example, to have peer review processes within the company.
and then peer review processes with outside experts, who will, in detail, visit the research programs and talk to the scientists, and serve as evaluators and advisers and sometimes as pupils of the scientists and report on what they see.

Second, you look at your leadership in science. I strongly believe that excellence and scientific and human credibility are very crucial and that if you have that, you can attract world-class talent. If you have really great talent, then the chances are that they in turn can attract really good people, and that gives you a better chance of succeeding in a systematic way.

And that’s what you mean by the human factor?
Vasella: ‘Yes. The human factor and a capability factor. I think either you’re in a virtuous or a malignant circle. Good and great people attract better people. On the other hand, when you have weakness, then you attract weaker people. Now, that’s hard to prove, although most would agree. But eventually everybody finds out, namely the day you can look at the output, the results. And so you look at the number of new targets and programs, the number of positive proof-of-concept trials, and eventually the number of regulatory approvals you get, and then you know. But this takes years.

Your reputation is that of a risk taker. How do you look at risks as a leader?
Vasella: ‘Let me first say that taking no risks may be the biggest risk of all. In the field of R&D, the biggest risk is not so much the internal programs, because we see their
evolution and we expense as we go. The
more risky undertakings, in my view, are
when we license-in compounds, where we
don’t always have full knowledge and
where we may be missing some facts that
the seller knows or doesn’t know. These
principles are also applicable to our commercial activities, where it is especially
risky to enter areas you don’t know and fully understand. But if you don’t take
any risks, you don’t make money.

So you license-in research?
Vasella: Yes. We are in an inside/outside and outside/inside network, where
knowledge is being exchanged and contacts are ongoing. I think these contacts
are very critical for the development and absorption of knowledge. It’s not an
option not to be in touch with the outside world. In-licensing I look at as a com-
plementary factor, not a primary driver. It can be a good addition, but it never
should replace organic growth and organic innovation. However, it is also true that
sometimes there is a paradoxical thing to be observed, that the internal researcher-
s are tougher with the external projects than their internal projects. They think
that if you license-in, then the external project will get the budget they want. So
that is a potential danger of being misled, which one has to be aware of.

How do you deal with that?
Vasella: You have to make sure that internal projects are evaluated on a peer
review basis and that the people are as objective as one can be. But I think one
shouldn’t have illusions. Occasionally, people make mistakes and make misjudg-
ments, myself included. That’s our human nature. We cannot avoid it completely.
It’s like aiming for perfection in oneself. That’s not obtainable. Everybody has
weaknesses. It is, however, crucial to recognize where we have our weaknesses and accept this reality.

It’s interesting that you lead a scientifically based
company and that you often use words like empa-
thy and the human resource as they relate to research.
Where does that come from?
Vasella: It comes from my deep belief that in order to
deal with each other in an adequate way, we have to
acknowledge the human factors in ourselves first and also in others. And we have
to see those factors not as weaknesses, but as a reality, as a source of strength
and also as a source of diagnostics. For example, your feelings in an employment
interview can be very important. If you are interviewing a candidate and you be-
come bored, that may be a sign that you cannot concentrate for a personal reason.
Or that the candidate is not giving you the real story, that he is covering up some-
thing. Or you become impatient as you’re getting lost in what he is saying because
he is unstructured or repetitious, or that he is so obsessed that he goes from one
detail to the next detail.

So when you have certain emotions, you have to try to understand “Is it
coming from me?” “Is it coming from the other?” And if it’s coming from the
other, “What does it mean?” And, “What is the other person doing to me?” And,
“How can I use that in order to understand the other person better?”

Are different people oriented differently? Do some favor the rational and scientific,
others the emotional, others the commercial?
Vasella: Yes. We all have inclinations, and most of us have the capability to develop
at least an understanding of other areas of expertise than our own. This is impor-
tant as we create very complex things, which can only be done through open
collaboration across different knowledge areas. Some people are very skilled spe-
cialists, others have the ability to switch from one area to the other.

As a leader of a company, do you select for a certain type — say, rational or
scientific or commercial — for senior positions? Or do you select for adaptability?
Someone who can move between different states?
Vasella: That’s an interesting question. I first look for competence from a technical
point of view, because that’s a fundamental condition. Second, I look at interper-
sonal competence. So, the question is, “Can this person interact? Can they create a
link when you talk to them? Is there an emotional contact or not? Is it somebody
who creates a certain bond or not?” And without going into an analysis of how they do it, the
question is, “Are they capable of doing it?” And, of course, I look to see if they have humor. “Can they laugh about themselves? Do they under-
stand a joke?” This helps you understand the functioning of the person and whether they have
emotional baggage. But then I look for intrinsic motivation and integrity; both are a must.
Which of the types you described do you favor? People who are emotional or scientific or commercial?

Vasella: All of them. They all have importance. If somebody is a researcher, I'm not asking him to be a commercial person. That's not the aim of the exercise. But they have to understand that there are some economic realities and that money is not endless, and that there is reality to the budget, and that we all have to work within constraints.

Novartis has a new campus in Basel designed by some of the world's most creative architects, like Frank Gehry. The campus has been heralded for its innovativeness. What is the reason for devoting resources to a campus like that?

Vasella: Our first intention was to create an environment where human beings are at the center, not machines. We come from a chemical production history. So it's a transformation from an industrial production site to a knowledge center, where human beings, not machines, create knowledge and value. So, we asked, "What kind of environment do we need in order to achieve that, to make people understand their importance?" The answer was that we create knowledge, we need an environment that is open, because communication is so important and transparency and openness are so important, and where people feel at ease.

So, the first conclusion was that we wanted to go from individual offices, which we historically had in Basel, to open-space offices. Not cubicles, but open floors. We call it "multispace" because we have conference rooms and also small rooms, where people can have one-on-one discussions that will not be overheard and where they can have confidential telephone calls. But, basically, we wanted to foster cross-functional, cross-individual integration.

In addition, because we are dealing with knowledge workers, we had to ask what people with high levels of education and knowledge are looking for. "Do they want to go to a canteen where they are being served mass food? Or do they prefer to go to places like restaurants?" The answer is obvious. They much prefer to go to restaurants — and not to the same restaurant every day. From the point of view of sitting in restaurants, you ask, "What do we want to signal? Do we want to signal high standards? Do we want to signal that we pay attention to quality in everything we do?" And we do.

Then you have to ask, "What are the needs of double-income couples or singles?" Grocery shopping was one of them. And so we added a grocery shop, which now is in high demand, and postal services, and banking services, and a pharmacy.

And many of our people have children, so child care is a must. Historically, we didn't have children on the campus. But why shouldn't parents be able to bring children on the campus over lunchtime? Of course, there were some concerns about liabilities. But the reality is that it is less dangerous than walking in a city. And, for the first time this summer, I saw parents with strollers and small children and larger children, all walking around the campus. It was great.

We also think about the outside space. Where do people meet? So the green spaces and parks play a big role. During the mild period of the year, you can now see associates who take their computers and work outside with wireless. Or you see little groups of three or four people sitting outside around a table, working or having a cup of coffee under the trees, debating and discussing. The new campus creates a much less rigid kind of environment.

We also decided to integrate art and architecture where practicable. It may not be for everyone, but a majority of people have responded very positively. And the acceptance rate has been extraordinarily high, and the feedback is very positive. So, in the building where the people work who are most critical to what we do, the positive rating was 70 percent.

The images of the campus show something that is remarkably well-designed and imaginative.

Vasella: We had 100,000 visitors last year. And the feedback is often, "How can I get a job here?"