

ESCAPING THE ECONOMIC TURN DOWN THROUGH PERFORMING EMPLOYEES, CREATIVE LEADERS AND GROWTH DRIVER CAPABILITIES IN THE ROMANIAN PHARMACEUTICAL INDUSTRY

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Abstract

In our paper we intended to realize an analysis of the economic crisis's effects on the Romanian pharmaceutical market for the first six months of 2010; we also tried to provide some possible solutions to the challenges that pharmaceutical companies have to face.

In order to escape the current economic turn down managers from the pharmaceutical industry need to recognize the importance of motivation and the involvement of employees; also, leaders' intellectual capability and creativity determine the organizations' potential; innovative thinking attracts other talent that further stimulates creativity and enhances the organizations' ability to compete.

Rezumat

În această lucrare ne-am propus să realizăm o analiză a efectelor recesiunii economice asupra pieței farmaceutice din România în prima jumătate a anului 2010, și de asemenea să furnizăm posibile soluții la provocările cu care se confruntă companiile din domeniul farmaceutic.

Pentru a face față provocărilor actualei perioade economice, managerii companiilor farmaceutice trebuie să recunoască importanța motivării și a implicării angajaților. De asemenea, capacitatea intelectuală și creativitatea liderilor influențează potențialul organizațiilor. Gândirea inovativă atrage noi talente care stimulează, la rândul lor, creativitatea și îmbunătățește capacitatea competitivă a organizațiilor.

Keywords: pharmaceutical industry, patient, motivation, empowerment, creativity, capabilities, growth, value

Introduction

The pharmaceutical industry, as well as medical services sector proved to be some of the strongest sectors, both facing the crisis successfully. Leaders of the industry show the highest level of confidence in the economy. Determinants for this industry – especially population's health

care expenses - were influenced by the crisis, but they cannot change dramatically, as the demand remains strong.

Most recent studies show that sales of Romanian pharmaceutical products will increase over the next 10 years, with sales of prescription drugs and over-the-counter (OTC) medicines expected to grow from US\$ 3.31 billion in 2008 to US\$ 8.24 billion by 2019, representing local currency compound annual growth rates (CAGRs) of 10.10% and 7.34% for 2009-2014 and 2014-2019, respectively. Data released by market research company IMS Health (Intercontinental Marketing Services) identified a 19.9% year-on-year (y-o-y) rise in medicine sales in local currency terms [11].

The dynamics of the Romanian pharmaceutical market in recent years can be characterized as:

- oscillating – still with large and non-homogeneous variations;
- growing – particularly in terms of value;
- tending to normalize, because both in terms of share of large segments (80% retail, 20% hospital), and share of main pharmaceutical groups (cardiovascular and nervous system), we are moving towards a normal market profile.

From a quantitative point of view, the past six years have registered an increase in the volume of the pharmaceutical market by about 3% annually. Romania records one of the largest increases in the Central and Eastern Europe, over 30%. In comparison to the markets in Central and Eastern Europe, and European Union market, Romania's position has improved significantly, as well as its perception. Before this, Romania was below the level of the Visegrad countries, regarding maturity and value. The causes of this evolution are of two types: an interest in long-term development (a large number of people with health care needs insufficiently covered) and a commercial interest (for a market which has reached a certain value and is still increasing) [9].

When we analyze the Romanian pharmaceutical system, we consider its performance, the costs involved in providing medicines to the population and, last but not least, the beneficiaries of this system: the patients. Customers' needs and expectations are constantly changing, but of course they changed materially because of the recession. Today, managers have to spend a lot of time re-examining the business model and looking at areas that they possibly haven't looked at before. Recent studies across a wide range of companies show that "the impact of the recent economic crisis on both business and society will be as profound and long term as it was sharp and deep to begin with" [1].

2010: trends for the Romanian pharmaceutical industry

Romanian pharmaceutical market decline which began in the second quarter of last year, has intensified over the next six months, and the consequences are most serious, throughout the whole supply chain. In these conditions - as Cegedim (the largest provider of research and analysis for the pharmaceutical market) officials believe - it is imperative that all players of the pharmaceutical industry to reassess their strategy. Pharmacies are among the most exposed to bankruptcy [2].

The pharmaceutical market increased by 17.6% to 2.3 billion RON in the first quarter of 2010, according to data presented by the research company Cegedim. Thus, the pharmaceutical market reached a value of EUR 569 million, representing an increase of 22% over 2009. According to the study, Romanians consumed fewer drugs, but more expensive. The analysis shows a 10% decrease in consumption of medicines in hospitals, covered by an increase of 6.2% in retail [3].

Experts believe that the lack of medicines in hospitals is reflected in an increased consumption of reimbursed medicines in pharmacies. The Health Insurance House refunds the money for reimbursed prescriptions in 240 days. So, the pharmaceutical system is in difficulty due to lack of funds, 1500 pharmacies were insolvent and another 400 in bankruptcy, and many hospitals in the country have financial difficulties, according to the representatives of the College of Pharmacists of Romania and the College of Physicians of Romania.

Drug manufacturers representatives say that there is a risk some companies to withdraw from our market.

"The weakness chain is long and unfortunately affects not only the economy but particularly the most vulnerable categories of the society: the elderly and the children. Patients have exceeded the level of humiliation they endured until now. In this moment there is a matter of survival", say the representatives of the College of Physicians of Romania [12].

Experts estimate a 2.5% growth for the Romanian pharmaceutical market for the end of 2010, according to Peter Crăciun, Chief Executive Officer of Cegedim Romania [13]. The reason is the increasing need for treatment in Romania, which will be satisfied in proportion of 80-90%, regardless the measures taken by authorities. "The problem of the authorities is to help those groups who have difficulty in acquiring treatment" – according to the same authorized opinion - the most effective solutions to support the healthcare system are solutions that should have been applied earlier. "General measures like reducing employees' wages and pensions, will aggravate the problem of access to medicines, especially for

the elderly”. Therefore it is considered that ensuring access to treatment for all patients is essential to the authority and a direction of action for the pharmaceutical industry. Also, the measure stipulated in the letter of intent to the International Monetary Found, for the introduction of a tax on the turnover of drug manufacturers, represents “an extremely bad idea, because it will not lead anywhere else than to cases in court and here is to note that the pharmaceutical industry, doing just legal activities, has no reason to be discriminated against other industries”.

In this context it is worth to mention some figures about the world's largest pharmaceutical group, Pfizer. The Net profit of the Pfizer group fell in the first quarter of 2010 with approximately 700 million dollars, to two billion. The figure exceeded, however, analysts estimate, and the result was due to an impressive 54% jump in turnover. Turnover increased by 54% in the first quarter to 16.7 billion dollars, with several hundred million over the estimates of the market. Pfizer's net profit fell in the first quarter of 2010 with a quarter compared to the same period last year, down to just over two billion dollars. Weakening was caused by a number of unique costs. But the figure was significantly above the estimates of the market [14].

In the future it is possible that the pharmaceutical market continues to grow, according to the allocation of funds for health, but also of competitiveness due to increasing competition. Visible effects to the patient will be a faster access to new treatments, but also the difficulty to get these treatments at lower costs on the local market, due to the possibility of parallel imports to other European countries. We should mention the trend of consolidation in the distribution sector, and the high cost pressure at pharmacies. It is estimated that 75% of the pharmacies in the developed countries of the region are confronted with major financial difficulties due to the increasing costs and increased competition.

The need of motivation and empowerment of employees in the pharmaceutical industry. Creative leaders as a valuable resource for the pharma companies.

According to a Deloitte survey among managers in Romania, they believe that attracting and keeping qualified employees, service quality and brand awareness will be the key competitive advantages of companies in the economic crisis. They consider that there is an opportunity to restructure and reorganize businesses. ”Because the abrupt decline has stopped their growth, dynamic companies in Romania now turn their eyes to internal structures, seeking to remedy the problems of inefficiency that have occurred over the years. Also, it focuses attention on key competitive

advantages to gain an advantageous position for the moment when the new economic cycle will start”, say Deloitte analysts [15].

One of the major areas where companies are reconsidering their strategies is the Human Resources. Surveyed CEOs (Chief Executive Officers) believe that for the first time since working in Romania, they have more freedom in recruiting candidates and they may consider the most valuable ones. Major challenges that executives must overcome are the macroeconomic factors, particularly the exchange rate (34%) and the regulatory changes (27%). The main measures considered are cost reduction (26%) and better risk management (26%).

We have to mention a psychology specialist’s opinion, Martin H. Fischer, who once said: „the patient is not interested in the physician’s scientific knowledge; he only wants to know if the physician is capable to cure him”. In healthcare services delivery, the value for the patient can be understood only at medical conditions level, because: it is preponderant depending on the service delivery manner in the given circumstances; it is resulting out of the complete set of involved activities and specializations (it doesn’t matter the individual roles, abilities or functions, but the general result); it is determined for each aspect of the healthcare by the harmonization of necessary abilities and functions.

As a consequence, in offering medical services with high value for the patient, the satisfaction of healthcare organization employees has a crucial role. The medical personnel is responsible for offering quality healthcare services and for delivering satisfaction to the patient. Thus, it becomes more obvious that the personnel’s attitude and behaviour may increase or decrease the value for the patient and the reputation of the organization that is providing healthcare services. Or, in other words, the healthcare organization success depends on how the managers are leading with competence, creativity and imagination their employees [6].

One essential factor in achieving high quality pharmaceutical services appears to be employees who are truly empowered to take whatever decisions are appropriate to ensure customer satisfaction. As we mentioned before, real positive customer experience comes from companies who show they care about their customers. Those companies treat their customers not as their only source of revenue, but as a scarce, valuable resource.

Some of the mistakes regarding how people behave and make decisions are a result of who we are as human beings. The reasons why people and companies repeatedly commit these mistakes include: human nature, over-learning, and attempting to demonstrate a virtue at the wrong time [4]. To avoid repeatedly committed mistakes, an organization must

develop the right purpose and perspective, defining the right goals, and characterizing the problem correctly. Thus, it must overcome incognizance, to create awareness and perspective. We consider that avoiding these mistakes starts at the beginning of the strategy development process by getting the right people involved, having the right kinds of conversations and exhibiting the right behaviour [7].

In the business environment we are living today, individuals who are able to visualize future opportunities represent a critical resource for today's companies. Managers who are creative and able to bring about change to find answers to difficult problems are the ones who can reframe problems as opportunities. They have the abilities that include how to read and understand the environment, build alliances, recognize the importance of social responsibility, manage complexity, use information technology, and encourage creativity [10].

In order to introduce change continuously, such as that required in today's turbulent market place, managers need to recognize the importance of motivation and the involvement of employees. Intellectual capability and creativity determine an organization's potential. Innovative thinking attracts other talent that further stimulates creativity and enhances the organization's ability to compete.

Creative leaders are a critical resource needed to find answers to difficult problems. Effective leaders are willing to take risks, think outside the box, and recognize that empowerment provides a sense of ownership to stakeholders that helps to assure that proposed changes will be accepted. "Innovation" is becoming a key word in today's competitive world [7].

The vast majority of firms in all economic sectors do not have a creative strategy. They market themselves in the same way as their competitors. They use supply/driven marketing messages based on product features; they design unfathomable websites; they create bland brand straplines and statements about what their business does. They do this because it is easy. Companies also do this because their managers/owners know their products and services better than anyone else; as a result, they promote themselves in terms that they understand, but that their customers don't. They also do it because they look at what their competitors are doing and fall into the trap of doing the same things. Instead, what they should do is differentiating themselves by creating a unique, accessible proposition that gives them a real competitive advantage [8].

The first step is to understand the value equation – the sources of the value that the company brings to customers. Core capabilities represent just one part of this equation. Other key components of the value equation are

assets and infrastructure. But the most important element is the company's core essence, which is actually defining the company and its brand [5].

HR (Human Resources) specialists will confront the challenge of differentiating between employees that may be waived and "irreplaceable" employees. Any restructuring program should go "hand-in-hand" with the overall business strategy because the success starts from setting clear goals for the company and from the initial alignment of appropriate resources (including human resources) [15].

The development of the pharmacist-patient partnership, a prerequisite for achieving performance in the pharmaceutical field

The relevant business in delivering healthcare services is the medical condition looked upon the complete healthcare cycle. It mustn't be forgotten that the last judge in the adequate defining of medical condition is the value for the patient (every provider has to define afterwards, clearly and explicitly, the medical condition set that he participates in, any of these conditions being placed in the healthcare cycle; next it is to conceive a strategy, to organize the healthcare delivery and to evaluate the results).

In this context, it is worth mentioning the rules of good pharmacy practice that came into force on February 3rd 2010 in Romania. These represent actually some recommendations applied in the pharmaceutical establishments, intended to ensure that services provided by pharmacy personnel are adequate, effective and patient-oriented [16]. Among the rules of good pharmacy practice the following can be listed:

- pharmaceutical activities should be focused on the issue of drugs, and other health products, which have guaranteed quality, accompanied by appropriate information and advice to the patient;
- pharmacist's main concern should be ensuring the health of patients and of the population, in general;
- pharmacist should encourage a rational prescribing and to promote appropriate use of medicines, in order to avoid self-medication;
- each service provided by the pharmaceutical unit must have a relevant purpose for the patient, must be clearly defined and effectively communicated to the parties involved and accepted by them;
- practicing pharmacists have the professional and moral obligation to ensure that the services they provide to each patient are of adequate quality. The rules of good pharmacy practice represent a way to meet this requirement.

To fulfill this requirement it is necessary to maintain a permanent relationship with other healthcare professionals, especially with doctors. This relationship should be considered as a therapeutic partnership that involves a mutual trust in anything is related to medical treatment. Among pharmacists there should be relations of collegiality and not relations of unfair competition, each of them should try by any ethical means to improve pharmaceutical service. The pharmacist has to practice in accordance with the principles of professional ethics, predominantly from the commercial aspect. Also in pharmacies where it is working a group of pharmacists, the chief pharmacist must assume the tasks of defining, assessing and improving the quality of pharmaceutical service.

An effective pharmacist-patient partnership must be based on a correct information that will enable patients to take correct decisions regarding the medical treatment. It also can facilitate an effective communication between patient and pharmacist or other healthcare professionals, helping and encouraging him to an effective use of the drug. An inaccurate information or a misunderstanding of some aspects may lead to treatment failure and, consequently, to increased health costs. Patients information must comply with their free decision, lead to improving their health and to optimize the outcome of treatment. Information should be formulated and presented according to the understanding degree of each patient. It should be presented in a balanced manner the benefits and risks when using drugs. The pharmacist must convince the patients how important it is to read the information about the product they will take and to encourage them to ask all relevant questions about it. The pharmacist should advise patients to create and maintain a list of all medications they use (prescribed or self medicate), which they should make available to the physician, and to the pharmacist as well [16].

The pharmacist, as a member of the health professional team should make every effort to ensure that the information provided to patients is correct and therefore must keep in touch with news in his domain of activity. The pharmacist will give all information needed for safe, accurate and effective use of drug in a form appropriate to each patient needs. Besides oral communication, information or advice of the pharmacist may be in written form or delivered through other appropriate means. The pharmacist must ensure that the patient or the person responsible for the patient care is fully aware of the following issues: drug action, method of administration, duration of treatment, possible adverse effects, interactions and precautions to take.

Strategical capabilities to drive growth and value in the pharma companies

The competition on the pharmaceutical market is high and growing. It is increasingly difficult to grow or even to keep the market share. In this "struggle" will come out as winners those who have the tools to help them to collect and process data about customers, products, competition, to monitor the expenses and sales, to allocate resources according to the results, and to stimulate the sales and promotion force based on objective criteria.

Specialists consider that in the present context, services organizations must quickly mobilize and focus management attention on the capabilities and enabling strategies to drive growth and value. Great capability encompasses three components: people, process and technology. To produce growth and value, three strategies are proposed:

- "create oxygen";
- build the right foundation;
- drive growth and value.

"Create oxygen" means optimizing marketing management operations, in other words, finding ways to reduce overhead and operating cost investment to free up capacity for "growth driver" capabilities [1, 7]. Examples of such activities are: process optimization, communication planning, campaign management, marketing operations management, and internal communications.

The profound and long-term effects of the recent economic crisis are such that most organizations – no matter their size or sector – will try to become more capital efficient. And this requires building a solid foundation of commercial and financial competence.

Specialists consider that the following five "growth driver" capabilities will be responsible for greater business performance for those organizations that use them:

- *the customer centric organization*: in the new era of 2010-2020, market success requires the customer to stay in the core of all management decisions; the result is a different way of thinking and new conversations across the business;
- *customer experience management*: the great challenge today is to integrate and align activities across the organization to close the gap between promise and reality, across every touchpoint of the customer experience, at every moment;
- *digital and social media*: online environment is no longer a marketing or sales channel but an integrated part of a business model;
- *strategic insight*: is referring to the elevation of market research

and intelligence activities to a wider, more integrated and strategic platform (a strategic insight capability requires structural, process, and skills development and can produce significant rewards for organizations;

- *value proposition development*: is referring to improvement of effectiveness in market by aligning offers with a clear understanding of customer need and value and efficiency in delivery by focusing cost of sale and service only on the component parts that create value.

Conclusions

In the recent years, in order to respond to the rapid changing market dynamics the pharmaceutical companies are forced today to adopt a range of corporate strategies [9]. To target the various customer types many pharmaceutical companies have deployed different strategies, the complex web of decision-makers determining the nature of the transaction/prescription for which direct customer/doctor of this industry is responsible, while the end-user/patient consumes a product and pays the cost.

The pharmaceutical industry plays a significant role in the Romanian economy and society. Besides business and production, the Romanian producers of generic drugs are important employers, massive contributors to the gross domestic product (GDP) and an extremely important source of economic growth. In order to achieve the appropriate functionality, it is required a systematic approach of the pharmaceutical industry in Romania. At the pharmacy level, it is necessary to have a proper orientation to the patient, adequate human capital strategies, and a careful control of costs to achieve the optimum quality level of services.

The main factors that impact the pharmaceutical industry and are reshaping the pharmaceutical marketplace refer to the following: chronic disease is soaring; healthcare policy makers and payers are increasingly mandating what doctors can prescribe; pay-for-performance is on the rise; the boundaries between different forms of healthcare are blurring; governments are beginning to focus on prevention rather than treatment.

In pharmaceuticals, solid relationships with business partners represent a key element to strengthening the competitive advantage in the market, according to a study conducted by the Deloitte company, among managers. Other distinguishing elements are the well-trained employees and brand awareness. However, producing companies and drug dealers are concerned about the prospects of the sector in which they operate. Local pharmaceutical market is very sensitive to the measures and decisions taken by authorities, especially those relating to drug prices, whose impact will

likely be felt in the second quarter. Also, 40% of the participants expect a wave of consolidation that will strengthen influential players, thus capitalizing the synergy created over the years [15].

Creative leaders are a critical resource needed to find answers to difficult problems in the pharmaceutical industry. Effective leaders are willing to take risks, think outside the box, and recognize that empowerment provides a sense of ownership to stakeholders that helps to assure proposed changes will be accepted. In order to escape the current economic turn down managers from the pharmaceutical industry need to recognize the importance of motivation and the involvement of employees. Intellectual capability and creativity determine the organization's potential. Innovative thinking attracts other talent that further stimulates creativity and enhances the organization's ability to compete.

As a final conclusion, pharmaceutical companies have to rethink their strategies and to focus management attention on the capabilities and enabling strategies to drive growth and value, knowing that great capability encompasses three components: people, process and technology.

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