TALENT MANAGEMENT IS KEY TO INDIA'S PHARMA FUTURE

by Cheryl Buxton, Ruchira Pathania and Madhav Sharan

India's pharmaceutical industry is poised for change. Enactment in early 2005 of patent protections that comply with the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) has brought India to the forefront of potential outsourcing venues for the world's pharmaceutical multinational corporations (MNCs). The question now is: will India's pharmaceutical firms soon rival the country's information technology businesses as outsourcing powerhouses? Will they grow to compete with Big Pharma in developing new medicines?

The potential certainly exists, but Indian pharmaceutical companies will need to think strategically about their resources – human and financial – in order to take advantage of the opportunities. Specifically, there are numerous talent management issues that Indian companies should consider as they seek to grow and thrive in this new environment.

THE EVOLVING BUSINESS LANDSCAPE

Prior to the new patent rules, India's laws offered intellectual property protection only to product patents, not process patents. The result was that while Indian pharmaceutical companies could not reproduce a branded drug without paying royalties, they *could* manufacture a similar medicine by adjusting the manufacturing process. With a large and ready internal market, Indian companies enjoyed excellent margins from selling these lower-cost, generic versions of brand-name medicines domestically. Over the past decade, some of the larger Indian pharmaceutical companies have branched out, selling their generic products abroad (particularly to developing nations) and establishing foreign subsidiaries.

But the business landscape has changed, and Indian pharmaceutical companies must reinvent themselves. The most obvious opportunities lie with MNCs, which can now enter India without patent infringement fears. Pressed by the rising costs of developing, testing and marketing drugs, European and U.S. companies will be drawn to India for both manufacturing and research and development (R&D). Nearly every multinational pharmaceutical company has been investigating the Indian possibilities, which span contract manufacturing, licensing agreements, joint ventures, mergers and acquisitions, contract research, or any combination of arrangements.

The Indian pharmaceutical industry's highly skilled, educated workforce and established infrastructure are, of course, attractions, as is the broad labor market potential. According to a recent study by the consulting firm Evalueserve, the pharmaceutical industry has penetrated only about 30 percent of the Indian domestic market. With an estimated population of one billion, the potential is extraordinary: "This represents a large untapped market with low penetration, which can be captured by multinationals through volume sales and realistic pricing."

Another factor in the current Indian pharmaceutical market environment is that in 2005 alone, some 100 drugs in 15 therapeutic categories will go off patent, with about 20 of these in the "blockbuster" category (generally defined as having annual sales of US$1 billion). This opportunity is tempered, however, by the fact that competition for manufacturing and marketing these off-patent drugs will be fierce.

"Big Pharma is revising its approach to generics," says Alan Sheppard, executive vice president, Europe of Dr. Reddy's Laboratories. "Whereas before they would not have pursued

5 TALENT S
INDIAN
Pharmaceutical C

Help Employees Stay

Retaining employees is crucial to long-term success, so make it easy for your best people to stay. Adopt best-in-class human resources practices. Define career paths. Make clear to employees what the company's competency needs will be in the future and help them acquire those skills. Zydus Cadila has a high employee retention rate that management attributes to a corporate commitment to rewarding and re-training employees.

Focus on "Fit"

Every organization has a unique personality. Define yours. Are you entrepreneurial? Or is your culture management driven, similar to that of a multinational? When selecting candidates, consider how their personalities will align with your corporate culture. For example, Stephen Kaplan, vice president, human resources of Ranbaxy USA, said the firm's entrepreneurial spirit is what attracted him to join the firm from Pharmacia.

Ease Transitions

Entering a new environment is always difficult, especially if relocation is involved. Create mentoring programs for all new hires so they will acclimate quickly. Consider assimilation coaching for individuals who are crossing cultures. Not only will it make them more comfortable, but it will also make them productive sooner.

STRATEGIES for

Companies

Make the Position Attractive

High-level professionals, either from India or abroad, want to know there will be a robust career path for them in your company. Let them know what opportunities you provide. They will also want to know that they can work on cutting-edge projects, such as the development of new molecules, and that they will have the authority to manage those projects.

Manage the "Folklore Factor"

People talk. It's a fact of life. In the talent marketplace, your company has a reputation. For example, the talent pool "folklore" may be that you are a creative organization where scientists are encouraged to take risks. Or perhaps your firm is known for "Founder's Syndrome," a situation in which the founder's heavy involvement leads to frequent direction changes or similar work routine disruptions. Just as you must protect your product brand reputation, so must you manage your employer image, taking action as needed to ensure that people know what you want them to know about your organization.

this avenue, they now see that there is post-patent return. Generic production helps support the cost of branded sales."

Therefore, despite their deep experience in the generics category, Indian firms cannot rely on picking up off-patent drugs as a way to increase margins. It may also be necessary to enhance R&D activities. While some of India's major players, such as Dr. Reddy's Laboratories, Zydus Cadila and Ranbaxy Laboratories, have been steadily expanding their R&D spending, the majority of firms will find it difficult to develop new drugs on their own. Evalueserve estimates that creating a new drug costs between US$800 million and US$900 million, with some 30 percent of the cost attributed to research and the remainder to development.

Costs are not the only issue. "In India, there is great strength in process chemistry," says Rashmi Barbhaiya, president of Advinus Therapeutics, a new drug development company. "It is a misconception, however, to assume that this strength leads directly to drug discoveries. Indian pharma companies need to sharpen their focus in this area." Barbhaiya was Ranbaxy's R&D head for two years after having spent more than 20 years working for Bristol Meyers Squibb in the U.S.

While acknowledging the challenges, Anupam Puri, a member of the board of Dr. Reddy's Laboratories, believes companies with marketing savvy have a strong chance of achieving success. "The winners are going to be those generics houses that are good at predicting what the market is going to need, especially if they have the resources to develop and manufacture drugs in response to market conditions."

One bright spot is that partnership opportunities exist, particularly for Indian firms that can provide quality contract research facilities that meet U.S. Food and Drug Administration (FDA) standards. India's contract research organizations (CROs) – with their educated and experienced staffs, access to a huge pool of potential trial participants and lower operating costs – are, therefore, highly desirable research partners.

TALENT MANAGEMENT AMIDST CHANGE

Expanding or re-directing activity in order to participate in the new opportunities necessitates an assessment of talent needs. The significance of addressing "people" issues is reinforced by Jim Collins in his best-selling book *Good to Great*, which advises companies to pay attention to talent even before they develop their growth strategies. In his study of the 11 U.S. companies that showed a marked shift from average performance to extraordinary performance during a 30-year period, Collins found that in every case, company leadership built its executive team first and then decided its future path. Further, Collins found that the "right" person has more to do with character traits and innate capabilities than with specific knowledge, background or skill.

Although essential to future success, recruiting talent is only part of the task. Indian pharmaceutical companies will need to create environments in which employees can succeed and excel amidst change. Consequently, evolving management styles takes on added significance.

India's pharmaceutical companies are overwhelmingly family owned and, like most family-owned businesses regardless of location or industry, they operate with a high level of owner involvement. Yet, the MNCs we speak to tell us they are most interested in working with Indian partners who have not only owners, but also managers with the experience to build the necessary global relationships and to navigate U.S. FDA and European Agency for the Evaluation of Medicinal Products (EMEA) regulations.

Indian companies interested in R&D should realize that the nature of this work requires a different type of management style than a more process-oriented function, such as manufacturing. To an MNC, for example, its India-based R&D work is critical to its future. Therefore, Indian partners need managers who can understand the dynamics of the global markets and who have the autonomy to react quickly to changes required by the multinational.

"There is a buzz about India once again," says Cheryl Buxton, managing director of the Global Life Sciences Markets of Korn/Ferry International. "Over the past six months, I don't believe I have spoken to a Head of Clinical Research who hasn't been out there to evaluate ways in which they can expand their R&D capabilities or forge a joint venture."

Our marketplace experience is that management supply is quickly becoming a deciding factor. For example, Johnson & Johnson, Wyeth, Merck & Co., Pfizer, GlaxoSmithKline, Mayne Group Limited and similar MNCs – as well as a vast number of smaller biotechnology firms – are exploring India for a range of possibilities and cite the availability of talent as key.

These companies are also interested in India's renowned high-tech capabilities and where the industries can converge. Patent changes have led companies such as Pfizer, Wyeth and Johnson & Johnson to begin gearing up to sell products previously closed to India, as they now feel safe that their intellectual property will be protected.

Management development programs, therefore, may prove wise investments for Indian companies seeking to take their activities to a higher level. Zydus Cadila, for example, has an in-house organizational development division. Among its initiatives is a custom-designed training and development program executed in partnership with the Indian Institute of Management Ahmedabad and the Indian School of Business. The program was developed to suit the company's requirements and meet the pharmaceutical industry's challenges.

"We believe in training and rewarding our employees, so that together we can face the challenges and share in the benefits of success," says P.R. Joshi, president, human resources and corporate communications of Zydus Cadila. He notes that the firm's resulting low rate of employee attrition is an integral part of its unique selling proposition.

Indian pharmaceutical companies face the added talent management challenge of blending different cultures. In many cases, Indian firms may need to hire Westerners or non-resident Indians (NRIs) to fill key positions domestically or abroad. "Ranbaxy in India has been very successful in attracting returning NRIs and others from North America or Europe," says Stephen Kaplan, vice president, human resources of Ranbaxy USA. "The most prominent of these is our CEO and Managing Director Brian Tempest, who is British."

The experience of our clients in the thriving Indian IT sector is that NRIs or individuals from other countries expect access to technology and a working environment at least as up-to-date as that of an MNC, as well as policies and procedures more in keeping with what they experience abroad. Programs that help these new employees integrate into the company are critical.

In terms of hiring for foreign posts, many Indian IT companies have found it necessary to adjust their compensation policies to the local market in order to attract and retain the best candidates, and pharmaceutical companies will likely follow suit. Ranbaxy, for example, has brought its U.S. salaries more in line with those of competitors over the past few years and, as a result, has found it easier to attract top talent.

The decision-making environment is critical for high-level employees. In the U.S. and increasingly in Europe, companies generally operate in a de-centralized and collaborative mode. Department heads have high degrees of autonomy in budgetary, staffing and other matters. Board directors set strategy, but managers generally have the task of designing and implementing its execution. Thus, traditional top-down management styles may seem cumbersome or constraining to NRIs accustomed to speedy decision making. A bit of "bending the rules" may be necessary in certain situations.

Deciding how tightly – or loosely – to hold the corporate reins as a company grows is never easy. Speaking in 2004 at a Wharton/INSEAD Alliance conference on the challenges of operating in a global economy, Claude Brunet, a member of the management board of the AXA Group, discussed how this international financial services company meets the challenge.

He described what he called "an everything-decentralized-but" strategy. AXA Corporate leads key decisions, such as capital allocation, selection of top executives and brand management, and shares with subsidiaries and affiliates responsibility for support functions, such as risk management, procurement and IT networking.

Managing expectations among all parties, therefore, is crucial. Indian pharmaceutical companies and their global partners will need to learn to accommodate and adapt as the situation dictates.

REACHING A NEW LEVEL

The stage is set for the Indian pharmaceutical industry to reach a new level in the global marketplace. The industry's ability to join in the opportunities, however, depends on strategic business planning, hiring and managing.

Assessing talent needs, identifying required skill sets and studying the compensation environment are important. But more critical will be a re-orientation of leadership and management styles to accommodate the coming multi-cultural workplace and the rapid pace of global business. Indian pharmaceutical companies will be rewarded with growth and success, and will be creating the framework in which the next generation of innovators can thrive.

Cheryl Buxton is Global Managing Director of the Life Sciences Markets of Korn/Ferry International, based in Princeton, New Jersey.

Ruchira Pathania is a Client Partner in the Life Sciences Markets of Korn/Ferry International, based in Princeton, New Jersey.

Madhav Sharan is a Senior Client Partner in the Life Sciences Markets of Korn/Ferry International, based in New Delhi.

About Korn/Ferry International

Korn/Ferry International, with more than 70 offices in 35 countries, is the premier provider of executive search, outsourced recruiting and leadership development solutions. Based in Los Angeles, the firm partners with clients worldwide to deliver unparalleled senior-level search, management assessment, coaching and development and middle management recruitment services through its Futurestep subsidiary.

For more information, visit the Korn/Ferry International Web site at www.kornferry.com or the Futurestep Web site at www.futurestep.com.

© Copyright 2005 Korn/Ferry International