

# [Management questions and case study of glaxosmithkline](https://assignbuster.com/management-questions-and-case-study-of-glaxosmithkline/)

Critically compare the view of Milton Friedman who believes that the only stakeholder that a company is responsible to is the shareholders with Charles Handy’s belief that the company must balance between the competing demands for all stakeholders.

The long-holding belief of the famous American economist Milton Fried that “ the business for business is business” has been further affirmed by the statement of Senator Al Franken in the recent Netroots Nation speech: “ It’s literally malfeasance for a corporation not to do everything it legally can do to maximize its profits.” http://truthonthemarket. com/2010/07/27/the-shareholder-wealth-maximization-myth/”. Senator Al Franken is only among many people today who still cling to the idea that the company’s sole purpose is to increase its shareholder’s wealth and that the society will doubt if it does not do so. To certain extent, this belief is supported by good reasons. That the world is moving to the threshold of capital shortage has put the company’s under the pressure of increasing profits to attract and maintain its shareholders whose top interests are returns. In such relentless efforts to satisfy the shareholders, the company’s leaders are left with little or even no time to think for other stakeholders. However, this purpose if achieved, will only last in short term. As every economic body stays in connection with a variety of stakeholders, it has to reinforce the relationship with them regularly to keep the smooth and substantial performance. This performance, in turn, affects the value of the company’s shareholders. Putting the company’s operation into a generic view, the company can see how taking into account the interests of other stakeholders can actually help it to bring more values to the shareholders.

An example is reputational and financial damage by British Airways in confronting waves of strikes over pay changes by its cabin crews during 2010. Those employees’ walkouts caused the airline to cancel more than one-third of its scheduled flights and experienced a formidable loss of about £45 million. http://www. nytimes. com/2010/05/21/business/global/21strike. html. What certain are the company’s shareholders were far from happy when reading BA’s financial statement. British Airway’s efforts to maximizing its profits through cutting costs resulted in a regrettable counter-effect. A lesson for the company: maximizing shareholder’s wealth is unachievable unless it takes into account the interests of other stakeholders as well. The concept of an entity’s stakeholders is getting even wider in the world’s raising attention to corporate social responsibility and sustainability. They are not only limited to several groups such as suppliers, employees or consumers but also the well-being communities that live within the same environment and the next generations whose resources will be affected by the company’s current usage, which is referred as sustainability. According to Mc Kinsey Global Survey, 76% of executives see corporate sustainability as a positive contribution to shareholder value in long term and 50% believe as short-term value creation.

There still exists one problem: stakeholders necessarily have conflicts of interests. Back to the case of British Airway case, if the company compromises whenever thousands of its employees propose a pay raise, a huge amount of salary expense will be incurred, reducing the airline’s profits.

The positive stakeholder theories states that company serve to the best interest of the main group of stakeholders. This is what many corporations nowadays are doing. They prioritize the stakeholders and satisfy them to the level of their importance. It’s always a head-aching situation left for the company’s managers to find an optimal points where stakeholders’ benefits are balanced and that the company can keep moving on without being obstructed in the middle of its growth due to strikes, litigations, shortage of capital or as such.

https://www. mckinseyquarterly. com/Energy\_Resources\_Materials/Environment/How\_companies\_manage\_sustainability\_McKinsey\_Global\_Survey\_results\_\_2558? pagenum= 5

## Question 2:

You have recently been made the CEO of a medium sized Vietnamese company. Performance has been declining over the past few years under family management. The business was successfully built by a Vietnamese entrepreneur. It was successful. He developed a strong business in Vietnam and then expanded operations by exporting to the Europe Union. Since his son tool over the business, performance declined as the son enjoyed an extroverted lifestyle and did not focus on the business. A Western Multinational has now bought the family business and has appointed you as the first professional CEO with a task to reinvigorate the company. Evaluate the steps that you will need to take in the first few weeks of your role.

Acquiring a business represents many difficulties since Western Multinational has to consider carefully whether the purchase can support the company’s overall objectives and to come up with different financing solutions for the purchase, yet the most challenging part. The ramification for the Western Multinational company is to turn the acquired company’s performance around and make it the strategic tool for the Western Multinational company to achieve its corporate outcome during the post-purchase stage.

The problem for the purchased company was the lack of a manager who could develop good strategies and build up an effective internal control. The company’s underperformance, as a consequence, might have multiple causes. Identifying the reasons underlying its performance’s decline will be my priority as a CEO in order to address the company’s weaknesses and to anticipate appropriate measures. This can be achieved through discussion with the company’s employees as well as analyzing its financial statements.

In case the company is making loss, its underperforming divisions or branches will be shut down immediately or closed temporarily to stop losses. Together with this, the restructuring of employees will be conducted with the purpose of eliminating redundant labor and recruiting talented personnel for the right jobs. For example, a new Chief Financial Officer and Operation Manager might be hired to replace the former ones, who necessarily have the competency to walk the company through the tough time.

After the restructure of the company and its human resources, the CFO, Operation Manager and I will start developing a detailed plan for the company. This plan will cover the company’s goals and its strategies, which will be divided in two main stages: while the first stage focuses on rebounding the company’s health, the second one aims to foster its performance and integrate the company’s goals to that of the Western Multinational company. During the first stage, it is crucial that the CFO can offer effective financial solutions and maintain rigid cost controls for the company. Any hidden liability or pending litigation needs to be determined and accounted for in the financial plan. The operation manager, at the same time, has to come up with specific strategies to increase productivity and cost efficiency. The second stage will plan for steps that the company should take to further improve its performance and at the same time, serve the objectives of its parent company. During such period, I will collaborate tightly with other managers to set clear targets and key performance indicators (KPIs) for the company. The KPIs must be relevant and reliable figures that I can use to keep track of the company’s health such as sale turnover, profit margin, liquidity, return on assets (ROA) and return on equity (ROE).

Along with planning phase, I will attempts to reach an agreement with other managers over the Codes of Conducts and Codes of Ethics content as well as the other internal controls. This aims to create a discipline, professional and productive environment for employees and re-build their trust in the company’s management.

## References:

The shareholder wealth maximization myth

https://www. mckinseyquarterly. com/Energy\_Resources\_Materials/Environment/How\_companies\_manage\_sustainability\_McKinsey\_Global\_Survey\_results\_\_2558? pagenum= 5

## Task 2

## Introduction

## GlaxoSmithKline Public Limited Company

## About GlaxoSmithKline and its core business:

GlaxoSmithKline (GSK) has a long history that originates from the 1700s. However, not until December 27, 2000 was the company formed under the official name of GlaxoSmithKline through the merger of Glaxo Wellcome plc and SmithKline Beecham plc, two English companies. GSK, its subsidiaries, and associates engage in the inventions, creation, development and manufacture of health-related products with the mission to improve the global healthcare. The company operates in 120 countries and distributes its products in more than 150 countries. GSK has its head office in London and a US headquarters in North Carolina. Its shares are listed on the London Stock Exchange.

GSK plc’s business comprises of two main sectors: the pharmaceutical and the healthcare products. Until 2009, the pharmaceutical business brought 80% to the company’s revenue while the healthcare field accounted for a modest of 16% overall turnover. By acquiring more than 26% of the world vaccines and 17% of all the anti-invectives sales, GSK is the second-largest pharmaceutical company in the world, just behind Pfizer (USA). http://www. corporatewatch. org/? lid= 1361

Figure 1: The revenue contribution according to business sectors

Even though the pharmaceutical business had major contribution to GlaxoSmithKline, this business was rather responsive and dependent to the global health’s context.

Figure 2: GSK’s 2009 Pharmaceutical Revenue

Pharmaceutical sales achieved growth in several fields during the year 2009. Significant revenue growth was driven from sale of respiratory and anti-viral products. Vaccines sales also increase, owing mostly to the flu pandemic products. Other product sales remained unchanged from 2008.

Figure 3: GSK’s 2009 Consumer Healthcare Revenue

Contrast to the pharmaceutical business, the GSK’s consumer healthcare sector had a year of development with higher sale figure in every product type. The Over-the-counter (OTC) product sale grew 8% in compared with 2008 because of market-leading products like Alli, Gaviscon and Panadol. Simultaneously, the dental products turnover rose 7% to £1. 5 billion with Sensodyne performance climbed 13%. Nutritional healthcare sales grew at the moderate rate of 0. 3% due to the “ impulse” market for these products.

Even though pharmaceutical out-weighted healthcare products in term of sales, the market for the former was rather fluctuating with the only vital increase in vaccines whose sales depended largely on the flu pandemic. Whereas, the consumer health-related products appeared to be more stable and achieved steady growth in all segments. With the global rising awareness toward healthcare, it would be reasonable to expect a stronger growth in healthcare products in the next decade.

## \*\*\* By the time this company report is prepared, GlaxoSmithKline has not released its 2010 Annual Report. Therefore, the profit and revenue figures above are based on the company 2009 financial year.

## Vision, mission and goals:

According to TEXT, management is a process of planning, organizing, influencing and controlling to ensure the organization can meet a certain goal. Planning phase, therefore, plays the most important role as it sets the direction and also affects the follow-up implementation. During this phase, the management should be able to define what they want the company to achieve in an exact time frame through the forming of visions, missions and goals.

Through large scale of Research and Development (R&D), GSK has the vision to maintain its leading position in the medical field. Until 2009, the rate of R&D return for the company was about 11%. The company set the long-term goal of improving this rate to 14%.

GSK also sees consumer healthcare products an extremely potential market in the future. With the long-term prospect of enhancing its reputation as a leading-edge healthcare company, GSK plans to continue its expansion of this business to new territories such as China and India and to compete for market share with its top rivals like Abbott Laboratories, Amgen or Johnson & Johnson. GSK plc is committed into a mission: “ improve the quality of human life by enabling people to do more, feel better and live longer”. The mission depicts the company’s determination to strive for the human’s well-being. In reality, GSK has engaged into many programs targeting to prevent and combat diseases. During 2009, it had shared 500 granted patents and 300 patent applications to cure more than 16 neglected tropical illnesses. Until now, it’s of the few companies being able to commit to pool its intellectual property for social benefit and to provide both medicines and vaccines for the World Health Organization’s priority diseases, including HIV/AIDS, tuberculosis and malaria.

http://www. reuters. com/article/2009/03/24/us-glaxo-patents-idUSTRE52N45L20090324

The company’s vision, mission and objectives can only be accomplished if the management is able to convey to and get support from the subordinates. For a pharmaceutical company that focuses on human health, it’s crucial that even the lowest level is well-managed in order to create high-quality products for the consumers’ sake. People need to be inspired in order to make the vision of the company come true. Hence, GSK’s management should also be leaders who have the ability to hand the company’s value to lower-level employees and to optimize the company’s benefits through maximizing the employee’s interests.

GSK creates a productive working and learning environment for its employees by attracting talents that are able to challenge the current thinking, initiate changes and influence others. Career opportunities are open to people from different ages, gender and races and even the disables. They are encouraged to involve in communications with their seniors and colleagues in order to exchange knowledge, the tacit property inside the company. In 2009, GSK Leadership Forum was launched online for the first time to engage top 5, 000 leaders in the company. Meanwhile, the annual Empowerment Survey and the EmpowerMe community aimed to support teams and individuals in making confident and accountable decision. Employees are guided by internal learning cultures that allow them to achieve certain integrity and competency.

Figure 4: GSK’s internal learning culture

Besides productivity, an ethical environment also plays essential roles in maintaining employees who looks for mutual benefits or enjoys working for a cause. GSK focuses on four main values that are: showing respect to people, being patient and focused, committing to transparency and always demonstrating the highest integrity in conducts. Employees working for GSK are required to follow the guidance and policies in the Code of Conducts, especially when it come to marketing strategies of the company’s products. GSK believes its employees have the rights to be provided with full information about the social programs held by the company and asked to involve through myGSK intranet and the quarterly magazine, Spirits.

Being a leading pharmaceutical company, GSK has its good reason to say that healthy people with safe working condition will bring better performance. Also as part of the ethics generated in the corporate, great attention are paid to the health and safety factors of employees. A program has been developed to offer various health supports from immunizations, weight management to personal resilience and Energy for Performance. GSK also helps its employees to identify the root for excessive pressure and low energy. The company also builds a flexible working environment that aids its employees to balance their work and personal lives. Employees are rewarded on their achievements rather than working time. The rewards, which belong to the corporate TotalReward program, are composing of base salary, bonus and recognition awards. They also benefit from many other incentives such as pension plan, healthcare, vacation, childcare support and car ownership. Moreover, eligible employees are provided with the share buyout program. Until 2009, 83% of the company’s UK employees participated in the Share Reward program, showing their trust in the company’s performance and growth prospect.

## Strategies:

Together with the vision of a leader, GSK develops strategies that help drive the company substantial growth, value and streamline operation.

In term of growth, the company aims to diversify its global business that allows focus to drift from Western market to emerging ones such as America, Africa and Asia. The moving away from the its familiar ‘ white pill, western markets’ has made GSK’s sake drop from 40% in 2007 to 25% in 2010. Whereas, the revenue from new markets increased 22% on average during the same period and account for around for 15% of the company’s pharmaceutical turnover. In this strategy, GSK has high expectation in its Japan business which delivered more than 14% growth in the year 2010. In the future, GSK continue to expand its core pharmaceutical business and push growth on its Consumer Healthcare business. Simultaneously, GSK will reinforce its leadership in dermatology field.

Reaching out to new market will give GSK opportunities as well as challenges. One of the difficulties await the firm is competition with local healthcare providers or often, the community’ trust. The ability to deliver values to customers, as a result, will make GSK differentiate itself in the new competitive environments. GSK considers strong R&D its strategic tool to generate new values. From 2007, GSK has launched 36% more new products that accounts for 7% of pharmaceutical sales in 2010. During the year of 2010, the firm has gained approval for six products in America and Europe. Applying the best science available and partnering for shared knowledge, GSK is on the way to accomplish a 3% higher rate of return on R&D which in turn will encourage further discovery and creation of medicines.

Last but not least, the global expansion always associates with the need for adaption. The shorter this period, the faster the company can start to solidify its performance. A simplified operation model will certainly resolve this situation by giving the company more flexibility to for adaption purpose. GSK always tries to evolve its commercial model to meet up with the market context, re-configure manufacturing and reduce working capital to attain cost efficiency and streamline the process for better autonomy. During 2010, the company’s working capitals reduced considerably by £1. 3 billion and together with re-structured manufacturing process, create a cost savings of £1. 7 billion.

The medical industry never ceases to discover new medicines that help prevent and combat many previously stubborn or even fatal diseases. The urgency to save the mankind has made innovation a key driver to success in every pharmaceutical firm. For GSK, innovation is exceptionally crucial when the company want to keep its leading position in the market. GSK has paid serious attention to this issue. Even with a diversifying product portfolio, it always looks for chances of current product improvement and new products development. GSK attempts to manage its R&D projects not only in term of cost and quality but also in term of time to assure products are released ahead of its rivals. The product pipelines are built to disclose the progress of its product R&D. In 2010, the alliance of GSK and Galapagos has announced its initial success in creating the pre-clinical candidate drugs to treat arthritis. Also in 2010, GSK battled against Novartis to keep its top position in the respiratory drugs market. This, as usual, will help the company to cross its limit to continue on the course of innovation

http://www. reuters. com/article/2011/03/04/us-novartis-lung-idUSTRE72331I20110304

http://www. reuters. com/article/2011/03/02/idUS57802+02-Mar-2011+HUG20110302

## Corporate responsibility:

According to legitimacy theory, business is bound to a social contract in which it has to live up to the social norms, values and desired actions to earn the society’s approval and thus, the business’s existence. Therefore, the pressure is on the directors and manger’s shoulders to develop clear strategies for the company and to align them with the society’s expectation. But if the management in the company can come up with solutions to cope with such pressure, they can achieve dual objectives: pursuing benefit for the business and for the society (Tracey Keys, Thomas W. Malnight, and Kees van der Graaf (2009)) (https://www. mckinseyquarterly. com/Making\_the\_most\_of\_corporate\_social\_responsibility\_2479).

As a large company participating in the development of the global healthcare, the expectation towards GSK in committing to safeguard the social well-beings is always high. GSK will not be able to generate trust in any particular customer without first making them believes that the company’s every activity is socially responsible. Confronting the great demand for greater corporate responsibility, GSK has engaged in many programs and projects to address this issue.

## Corporate responsibility – sustainability

## Events

## 1. Contribute to the global health

– Disease prevention: Vaccines provide protection for more than 16 types of ailments, approval in Europe for pandemic H5N1 avian flu vaccine, some vaccines were used for national immunization programs (NIP) such as Cervarix with 1. 4 million doses distributed across UK in 2008.

– Disease awareness: GSK coordinates with nearly 30 Asian NGOs to open a workshop on the necessity of immunization for mother and child health and provide information to more than 13, 550 compounds to help prevent malaria parasite

-Ill health treatments range From anti-bacterials, anti-virals to cardiovascular products. Paracetamol, low cost pill to treat fever, is listed as the World Health Organization’s essential medicine.

– R&D investment average £300, 000 (US$562, 000) an hour, of which 78% is for pharmaceutical and 22% for vaccine purpose. Technology transfers to help emerging markets increase their research and production capability.

## 2. Access to medicines

– Medicine access worldwide: GSK received the prequalification for Rotarix, vaccine against rotavirus from the WHO in June 2009. The company also helped to give access of this vaccine to r national immunization programs. Donate 400 million doses of de-worming drug albendazole worth 12million pounds ($19 million) to the WHO to treat African children in 2011. (http://www. reuters. com/article/2010/10/13/glaxo-albendazole-who-idUSLDE69C1FW20101013)

-Tiered pricing was adopted to ensure access to poor people. Glaxo reduced on average 45% of the prices for 110 products across Least Developed Countries.

– Top three spots in Access to Medicine Index in 2010

(http://www. nytimes. com/2010/06/29/health/29glob. html? scp= 1&sq= glaxosmithkline%20license&st= cse)

## 3. Supply chain

– Third Party Code of Conduct launched for the first time (2010) based on the Pharmaceutical Supply Chain Initiative (PSCI) to express its expectations with suppliers.

– Strict supply criteria and always communicates to support suppliers in increasing their supply quality.

– Fair bidding and supports to suppliers to pursue strategies that align with that of GSK. 60 day payment term is faster than the industry’s average.

-Anti counterfeiting product features to packaging.

## 4. Public policies and patient advocacy

– Join trade associations to deliver values and behaviors through the transparent lobbying activities.

– Encourage policies that support innovations and optimize stakeholders’ interest.

– Advocate the healthcare and research practice reforms in various countries as well as the patient safety in order for customers to receive better products and services.

## 5. Community programs

– Global community investment of £163 million ($254 million), rose more than 30%, includes building healthcare infrastructure in the Least Developed Country.

– Raise funds for African Medical and Research Development (AMREF); donate 60% more medicines and treatments for tropical diseases in compared with 2009, sponsor local programs.

-Personal Hygiene and Sanitation Education (PHASE) was developed in 16 countries, reaching over 700, 000 children.

– Money and medicine donation for countries with disaster like Haiti and China.

## 6. Environment sustainability

## (Appendix 1)

– 20% reduction in energy use and emission per unit of sales, aiming for a cut 45% by 2015.

-Increased material usage efficiency by 2. 5% in 2009 from 2% in 2005, targeting for a 5% figure in 2020.

-5% less water consumption per sale unit.

– Transparency on environmental impact reports (Appendix I).

Besides external programs above, GSK also follow socially responsible internal procedures that show up to be quite comprehensive. The company builds its codes of conducts and ethical conducts that guide its employee to adopt professional practices and due diligence with high training, awareness and to create an ethical working environment that tightly regulate the marketing process and prohibit anti-corruption. In 2009, GSK has form many partnerships in order to improve its research results and run radical campaign in making medicines more accessible to people, among was the most noticeable partnership with Pfizer to improve the anti-HIV products. In addition, it also fully discloses any ongoing clinical research with the purpose of making GSK’s performance transparent and generating trust in the public.

In 2008, GSK was top-listed in the Access to Medicine Index that is published every two year to assess pharmaceutical companies’ performance and their contribution to the society. As a member of the Down Johns Sustainability Index which covers top ten per cent of sustainable company in each sector, GSK was also awarded with the Bronze Class for the year end 2009. Besides, GSK also benchmarked itself through the FTSE4Good-the corporate responsibility parameter and Community Mark – an award for community contributor. During 2009, GSK received many other awards for the company’s great attempts in R&D and philanthropically program. GSK has shown its efforts to meet and even exceed the societal concern for corporate responsibility and sustainability when on the course of expanding rigorously and driving global healthcare revolution.

## \*\*\* A 2009 Survey showed more than 77% of GSK’s personnel were aware of the “ corporate responsibility”, 69% said they involved in corporate responsibility and the majority believed ethical business conduct is the top priority.

## Crisis management

The pharmacy industry that depends largely of R&D faces high inherent risks: either the failure to invent medicines/vaccines for certain diseases or the side effects of the products on user’s health. Besides, this international pharmaceutical firm is also exposed to many other internal and external influences that threaten the company’s finance and reputation. It’s therefore important for GSK to (i) have preventative measures to minimize the risks and (ii) in case of unexpected results, overcome the crisis quickly in a socially responsible manner.

On an annual basis, GSK’s Risk Oversight and Compliance Council together identify and assess the current and possible risks of the company. The company’s Corporate Executive Team (CET) is in charge of planning prevention and mitigation solutions to deal with the risks. Feedback and evaluation are conducted regularly to the risk management structure of this team. During the financial year 2009, GSK saws 20 problems that represented the threats to the company (appendix II). The company also announced its detailed reactions risks in the 2009 Annual Report. As part of its 2010 risk management plan, GSK hired Mr. Simon Dingemans- Goldman Sachs banker as its new CFO who was expect to establish a better financial structures that give the company more effective financing solutions and reduce risks of partnerships.

http://www. reuters. com/article/2010/09/08/us-glaxo-cfo-idUSTRE68738820100908

Nevertheless, GSK has been reluctantly involved in several undesirable litigations in the past few years over its product quality. In 2010, GSK was charged in a criminal and civil whistle-blowing case related to the adulterated medicines. The products under this case’s consideration were the Paxil CR (anti-depressant drug), Bactroban (topical antibiotic), Kytril (anti-nausea) and Avandamet (diabetes drugs) being produced from 2001 to 2005 by GSK’s subsidiary Pharmco in Puerto Rico. They were alleged to have insufficient quality check and mix-up bottles. Besides the formidable litigation loss, GSK’s integral image also suffered from huge damage. The case undermined not only the integrity of GSK as a drug producer but also the competency of the Food and Administration as an approval committee, eroding public trust in the pharmacy industry. It pointed out the internal control weakness and the low ethical of GSK in submitting products’ false to the government healthcare program. GSK admitted it fault and agreed to pay $750 million to settle the case. Mitigating the bad situation, GSK decided to close its poor-standard Puerto Rico plant and then sell it.

http://www. walletpop. com/2010/10/27/glaxosmithkline-admits-problems-with-its-drugs/

In the same year, GSK spent $2. 36 billion to settle 1, 000 out of 13, 000 Avandia product liability lawsuits in North America. Avandia, the company’s diabetes drug was blamed for 43% increase in heart attacks. However, confronting the crisis of continuing lawsuits on this product until 2010, GSK resorted to set aside $3. 4 billion for one-time charge settlement. The amount was estimated to exceed the company’s fourth- quarter profit and would substantially reduce the shareholder’s return. In spite of that, such decision was wise and necessary for the company’s future performance. It proved the GSK’s commitment to put the society’s interest as the company’s priority and never hesitated to claim responsibilities for its actions. Regarding this issue, P. D. Villarreal who is the senior vice president for global litigation in GSK stated: “ We recognize that this is a significant charge, but we believe the approach we are taking to resolve longstanding legal matters is in the company’s best interests.” Although the charge inversely affected the company’s performance for the year 2010, GSK can leave the burden behind and continue its journey as a leading pharmaceutical firm onwards.

## Desirability as an employer:

As an employee, GlaxoSmithKline is definitely a working environment that I am looking for. Firstly, pharmaceutical industry is a prestigious one with a humane philosophy of helping and curing people from diseases. Even though researching and developing medicine are not my expertise, working for GSK which commits to improve the global health care mean I’ll be able to give a good hand to the betterment of my community. Secondl