

An ethical  
examination abbott  
and the  
pharmaceutical  
industry commerce  
essay



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Despite the pharmaceutical industry having notable contributions to society, including the research and development of the oxycontin to relieve peoples pain, there has been some ethical problems that arose. The industry has the patent issue and lots of people abuse the drug. It was thought of as an unethical issue from the Abbott case and companies producing oxycontin to get benefits. Some companies also pay physicians to prescribe their drugs. Whereas, oxycontin is the best drug to release pain and pharmaceutical industry and it is very beneficial to economy.

This report will examine the different aspects pertaining to the topic of “ Ethics of the Pharmaceutical Industry”. On overview of history, development, and value chain of the Canadian pharmaceutical industry will be discussed. Then, the PEST analysis of Abbott is being talked. The essential shareholder groups of interest are on discussion in details. The approval process for new drugs, the potential over-medication of societies and the role of pharmaceutical companies are described. Meanwhile, the economic and social impacts of the production and distribution of Oxycodone from the following perspectives will be analyzed: 1. Utilitarianism; 2. Rights; 3. Justice; 4. Virtue Ethics. This report concludes with the issue management approach demonstrated by the Canadian government and Carroll’s four part corporate social responsibility definitions, and which is from the perspectives of economic, legal, ethical, and philanthropic. Corporate social performances, such as auditing, reporting, communication should be recorded in terms of making the management know the problems or updates within the lower levels of management to make effective policies.

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## **Introduction**

Canadians on average spend 31 billion dollars in the pharmaceutical industry, which makes it very powerful and influential. Our goal is to analyze the industry in a business ethics perspective. To do this we will look at the value chain and development of the pharmaceutical industry in Canada, a PEST analysis of Abbott, the ethical issues linked to the use and overmedication of oxycodone as well as the drug patent system, the social and economic impacts of the production of oxycodone, and addressing the industries record in corporate social performance, responsibility, and responsiveness.

## **Part 1: History & Development**

Have you ever wondered how important pharmaceutical companies are to society? How did the pharmaceutical industry begin in Canada? These question and more will be answered in this segment. The first major pharmaceutical company in Canada started in Toronto in the year 1879 and was founded by Edward B. Shuttleworth (“ Toronto Region Research Alliance”, 2010). Toronto has developed through the years as one of the

leaders in this industry in North America. Toronto Region Research Alliance reports that “ Twenty-five of the top 50 global pharmaceutical companies have Canadian headquarters in the Toronto Region.” (“ Toronto Region Research Alliance,” 2010).

It is interesting to know that the first foreign-owned pharmaceutical company in Canada started here in Windsor, Walkerville by Parke Davis and Co in 1887 (Lexchin, 2006). This decision by Mr. Davis helped develop Canada’s pharmaceutical industry.

From 1879 to present the pharmaceutical industry has advanced substantially. Conferring to the Canadian Encyclopedia in the 1940s our pharmaceutical industry was producing a large amount of drugs efficiently (economy to scales) (Lexchin, 2006). This was a huge improvement in the industry because now companies were able to focus on mass producing drugs, and able to have a larger profit margin on it. Also conferring to the Canadian Encyclopedia in the 1970s and 1980s, Canada started to produce their own “ generic drug companies” (Lexchin, 2006).

In 1921, the University of Toronto developed several drugs that transformed the way diabetes is treated. This drug contains Insulin that has saved an enormous amount of people and helped reduce the suffering for those with diabetes.

Patents came a long way in this industry. Patents acts like a copyright not allowing people to copy your idea. Patents life span is currently 17 years. In the past companies that had a patent on their product had a monopoly type

of power. After Bill C-22 companies do not have this power on a patent, we will discuss this topic later.

## **Part 1: Value Chain**

### **Research and Development**

In Canada before a drug can be approved for the general public it has to go through several tests and studies. These drugs will be tested on animals and eventually on humans. The researcher goal is try to discover a product the public will use. Once the researcher had thought of a drug that will help people; the researcher and the scientist have to develop the product. They will develop their product by testing it on animals and alter it till they receive desirable results. It takes about eight and a half years to test the drug and get it approve to sell (“ Health Canada”, 2011).

### **Pre-clinical Research**

In order to reach this step a company needs to submit data that helps them prove their drug is safe for pre-clinical testing. Pre-clinical testing is when a company tests their drugs in a laboratory on animals. They are looking at a variety of factors such as the animal toxics level and pharmacologic affects (“ Health Canada”, 2011). According to Health Canada at this stage “ sponsors are asked to determine the “ toxicity of the drug in at least two species of animals, from 2 weeks to 3 months, depending on the proposed duration of use of the substance” (“ Health Canada”, 2011).

### **Clinical Trial**

At this stage the drug is deemed safe to test it on humans. During these trials, a substance is “ administered to humans and is evaluated for its safety

and effectiveness in treating, preventing, or diagnosing a specific disease or condition. The results of this testing is the single most important factor in the approval or disapproval of a new drug" (" Health Canada", 2011). If the results of the clinical trial turn out to be positive, the drug is ready to hit the markets.

A New Drug Submission (NDS) is sent with complete information on the new drug at the end of the clinical testing. If the NDS are positive the company is allowed to sell their drug in Canada (Lexchin, 2006).

## **Manufacture, Marketing and Sales**

At this final stage the pharmaceutical companies looks for ways to reduce the costs of drug production. Company's need to make sure they have the right paperwork to start manufacturing the product. Also the company needs to make sure they market the product well and honestly. The company also needs to make sure that they are constantly monitoring their products' making sure it's safe and safely distributed.

## **Part 1: Comprehensive Analysis of the Industry**

Research costs the Canadian pharmaceutical industry millions of dollars annually. The research cost is high because drug companies are trying to develop treatments for variety of types of diseases and illness. Usually the company's purpose on inventing a new treatment is to gain future revenues.

It is currently estimated to cost about eight hundred million dollars to research and market a new drug (" Canadian Pharmacists Association", 2012). Canada develops eighty new drugs a year and only ten percent of



these new drugs have significant improvements over existing drugs (Lexchin, 2006)

Unlike other industries the pharmaceutical industry has a high cost on research and development. The industry spends millions of dollars, inventing new drugs, and develops existing drugs. Companies in this industry spend millions of dollars on marketing and educating people about their product. With high costs and short patent life; is it worth it to companies to spend a significant amount of money on developing their product just to be copied by another company in the future?

Thinking that the cost of developing a drug is extremely high the government should help the pharmaceutical industry in this aspect. Instead of helping in 1987 Brain Mulroney introduced Bill C-22. Through the Bill the Patented Medicine Prices Review Board was created. Their job is to watch over and make the price of the patented drugs. At one point this company raised the price of patents that in some situations the company would have no choice and give up their patent. One thing that was not fair for the companies who develop the product was they were forced to licensing their product. Other companies were allowed to produce their product and pay a royalty fee to the founder company. The problem is the royalty fees are very minimal considering how much startup costs the founding company had to go through.

A huge issue about Bill C-22 coming into effect is it took away incentive to do research and create new drugs. Companies are worried about producing their product as cheaply and efficiently as possible to increase their profit

margin. Patented Medicine Prices Review Board requires 10 percent of a company's revenues. In 2007 only 8.3 percent was spent on research in this industry ("Canadian Generic Pharmaceutical Association", N. D.). In Appendix C shows the user where the research money was spent. It is interesting to note; the majority of the research money was spent in applied research. Applied Research is used on trying to improve the product and the manufacturing process.

The government has another impact on this industry through their policies. The federal government implemented their Food and Drug Act in 1939. This act gave the government some power over this industry. The Federal government decided they needed the companies in the industry to report to Food and Drug Directorate (1959) (Lexchin, 2006). This organization monitors the industry to make sure everyone is following the rules. This Food and Drug Act has been modified throughout the years because of past events. An example is in 1963, 115 kids were born with malformations of the limbs because their mothers' took thalidomide (Lexchin, 2006). Standards in this industry after this event and companies must inform their users who cannot take the drug. This act prohibits false advertising, but it cannot control how the doctors actually use the drugs (Lexchin, 2006).

## **Part 2: Pest analysis for Abbott**

According to the Cambridge Dictionary; pest analysis is "(political, economic, social, and technological) assesses a market including competitors, from the standpoint of a particular proposition or a business. A management method that examines the effect that events or influences from outside may have on the performance of a company or organization". ("PEST Analysis")  
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**Political:**

Abbott labs and its competitors are all seriously affected by government regulations. For example, they include long term challenges like patent expiration and FDA approval. All these rules and regulations are affected by political factors. Under the Medicare Modernization Act, drug prices are negotiated between private drug plans and private drug manufactures which prohibits government to set up a price structure or even participate in the negotiations. The Congress and white house are trying to lower drug prices, which could decrease revenue for Abbott. If Abbott is forced to lower its drug prices, it would be hit hard as half of the revenue it generates comes from pharmaceuticals. (“ Abbott laboratories Stock”, 2006)

The development, sale and distribution of Abbott’s products are subjected to a broad set of rules and regulations. These regulatory actions can result in delay of the release of the product or seizure or recall of products. Violations of these rules may be punishable by civil or criminal sanctions. In some cases there are payable fines, imprisonment or even exclusion from participation in health care programs. These regulations are very broad in scope and are subjected to many developing interpretations, which could require Abbott to gain significant costs associated with altering one or more of its marketing or sales practices. Moreover, if these laws are violated, Abbott could disturb its business. This would not only affect Abbott’s revenues and profitability but would also result in a negative image of Abbott. (“ Abbott laboratories filings”, 2006)

## **Economics:**

Abbott produces a drug called Humira. This is used for rheumatoid arthritis patients. This is one of the main revenue generator drugs, which makes up more than half of the pharmaceutical divisions revenue. Niaspan, another drug produced by Abbott, is the only drug available in the market to decrease cardiovascular risk. This drug increases HDL also known as good cholesterol to minimize the risk. Another popular drug produced by Abbott was Depakote. Abbott lost much of its revenue in 2008 because of generic competition, for the first time. “ Generic competition in Abbott’s pharmaceutical division hurt US sales; however this has been partially offset by international growth.” (“ Abbott Laboratories Stock”, 2006)

Emerging markets represents one of the greatest opportunities in health care. Emerging markets already make up more than 20 percent of Abbott’s overall business. Abbott Laboratories Inc will pay \$3. 7 billion to acquire the branded generics business of India’s Piramal healthcare. Annual payments of \$400 million would be made till four years for Piramal’s healthcare solutions business. Moreover, it will also pay \$2. 12 billion up-front. According to Abbott, it will have the largest market share in India, at seven percent. According to Mr. White, the chairman and chief executive of Abbott, this deal is one of the several he has taken to reshape the company and grow outside the United States. Abbott predicts the sales in India to be more than \$2. 5 billion by 2020. Abbott is paying 8. 7 times annual sales for the Piamal unit. By contrast, Cipla trades at 4. 5 time’s sales.

“ Abbott is rapidly establishing a leadership position in branded generics and emerging markets” (“ Abbott Laboratories to pay \$1. 6 billion”, 2010) said Wells Fargo analyst Larry Biegelsen in a research note.

### **Social:**

Abbott is a constantly changing health care industry. So, for a company like this, market share is a primary focus. Market share can be gained by increasing a demand for the medicines or off course by introducing new and improved medicines. Abbott’s toughest competition includes generic drugs and this has put a lot of pressure on pharmaceutical industries as a whole. Moreover patent infringement is another challenge. “ Medtronic Inc. said on Monday it would pay \$400 million to Abbott Laboratories Inc. as part of an agreement to settle a legal dispute over heart stent technology.” (Kelly, 2009)

Abbott’s produces drugs such as Humira, Xience V and Niaspan. These drugs are faced by constant competition from many other pharmaceutical companies such as Johnson & Johnson (JNJ) and Amegen (AMGN). A competition like this makes it very challenging for Abbott to deal with legal problems

Abbot is a company which fulfills its social responsibilities. It operates with many applicable laws and regulations concerning environmental protection. Abbott believes that it has a social and environmental responsibility towards the community where it operates. For example, Abbott’s capital expenditure in 2010 was \$9 million and operating expenditures in 2010 for pollution control was approximately \$65 million. Capital and operating expenditures in

2011 for pollution control were estimated to be \$15 million and \$67 million respectively. (“ Abbott Laboratories Filings”, 2006)

Abbott has been identified as a responsible party in investigations at many locations in the United States of America by Superfund. Abbott believes that costs related to investigations and remediation and costs which help the company to follow the social rules and regulations, have no consequences on Abbott’s financial position, results of operation or cash flows. (“ Abbott Laboratories Filings”, 2006)

### **Technological:**

Producing new products over time is how a firm progresses. This requires “ technological knowledge, the ability to combine knowledge elements into valuable new products, and the complementary assets that facilitate the manufacturing, sales, and distribution of those products.” (Nerkar, 2004)

“ Abbott is the first pharmaceutical company to have a special laboratory for radioactive pharmaceuticals or “ radiopharmaceuticals”. This progress leads to the creation of what will become the world’s leading immunodiagnostics business.” (History Abbott) After Abbott introduces Selsun Suspension shampoo for dandruff control, the company establishes an employee contributory stock purchase plan to benefit its employees. Several major products are introduced worldwide, including a test to screen and monitor therapy for prostate cancer, self-test kit for HIV and many more.

## **Part 2: Six Main Stakeholders Interests**

Abbots customers are a stakeholder and their main interest is the availability of products that are safe and effective. They look for a price that is reasonable and affordable. They need as much information about the disease as possible and the ways to prevent it through drugs and available treatment. They also look for advocacy for patient needs and support for patient organizations. Health care professionals are also the stakeholders and their main concern is quality, safety and efficacy of products and most importantly proper product use. Information and education about the latest tools and technologies is also an interest of this stakeholder. Research and development is another key interest of this group. Interestingly, reasonable and ethical behavior is also an interest to the health care professionals which can be achieved through ethical marketing practices.

Government is another stakeholder of Abbot. Affordable pricing and ethical business practices is this groups main concern. Government makes a partnership to help address health care needs. Government and Abbot together make policies that foster access to medicines and vaccines.

Moreover, Employees are another stakeholder group and its main interest is to get training and development. They also want to get involved in their communities and most importantly they want to improve and maintain their own health and well-being.

Local communities are another important stakeholder group. Their main interest is that Abbot operates in a responsible and safe manner, wherever it operates. Philanthropic commitment to unmet community needs is another concern. Lastly, suppliers are another stakeholder group. Ethics, labor laws

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and health and safety issues are this stakeholder's primary interest. Support for small and diverse suppliers is also a key interest.

Abbot is committed to developing safe and effective medicines that save and enhance lives. Abbot aims to make its products at affordable and fair prices and to offer low cost or even free options for customers, when possible. For example Abbot was engaged in discussions with patients group and associations. It was also involved with customer care lines, patient assistance programs and market research. This resulted in gaining important insight as to how Abbot could improve their products and develop new ones. They increased awareness among stakeholder groups of potentials for patient assistance for medicines and of contributions of drugs and other products as part of tragedy relief. Abbott is increasing awareness among the stakeholders and proving a lot of its products as part of disaster relief.

Abbot seeks new insight into patient and consumer needs and is committed to leveraging these insights into meaningful products. Moreover, health care professionals play a key role in proper diagnosis treatment and rehabilitation, and work closely to create a greater understanding of disease states and its treatment. Abbott also helps to maintain high standards of integrity in all of its dealings with health care professionals. An example of this is Abbott's educational program for health care professionals. And also the technological exchanges to bolster knowledge of health care professionals. The result of these efforts was improved understandings of emerging challenges on the front lines of health care. Abbott received " feedback on the quality, safety and efficacy of existing products and partner



with health care professionals conducting vital research.” (“ Abbott Global Citizenship”)

Government being a key stakeholder wants affordable prices and ethical business practices. So, Abbot aims to make products available at affordable prices. They want to foster well informed health care professionals, progressive policies and enhanced infrastructure, which are very important to health care access. In addition to that, Abbott holds all their employees to the maximum ethical standards. Abbott has worked with the governments to set prices at reasonable levels. They have talked with governments about major health care policy developments. “ Abbot has participated in numerous U. S. and international trade groups, consistent with the guidelines in Abbott’s code of business conduct.” (Abbott: Global Citizenship) It has shared learning on needs of various communities. Furthermore, it has given updates on major health care policy developments.

Local communities are another important stakeholder. Their key concerns are safe and responsible operations where Abbott operates. Abbott gives full attention to its local communities. They have fully engaged in the communities where they operate, and they treat their local societies with admiration. “ Abbott engages in thoughtful and effective philanthropy.” (“ Abbott Global Citizenship”) Moreover, Abbott employs local people and pays taxes to the local governments. They support educational efforts, cultural and civic programs and community health care organizations. An example can be seen when Abbott in 2011, paid 1. 8 billion in income taxes. Abbott maintains strong relationships with the communities where they operate.

### **Part 3: The Production and Use of Oxycodone**

At the end of February 2012 Purdue Pharma Canada, the company behind oxycontin, stopped production of their popular narcotic and moved to a new painkiller opiate in the oxycodone family called Oxyneo. Oxyneo is an amazing step up from oxycontin because it is made in a way so that it cannot be dissolved in water to be injected (it turns into a gel if you try), and it is very difficult to ground up and snort. These changes do not affected people taking the drug properly for medical uses but that's only four out of every 12, 000 addicts. These people taking oxycontin for the highs have moved on to harder drugs to fill the hole oxycontin left. A recent statistic from Alex Crees of Fox news states " the percentage of people who reported using Oxycontin to get high ' in the past 30 days at least once' fell from 47. 4 percent to 30 percent. During the same time period, the percentage of people who reported using heroin nearly doubled." (Crees) This raises a lot of ethical questions one of which has to do with utilitarianism, how can this move possible benefit the most people when the majority is the one being moved onto harder drugs? This of course raises questions of its own such as if it was so dangerous why was it introduced in the first place, and to that I can simply say no other medication can do what it can do. For a lot of people dealing with chronic acute pain there are very few options available and oxycodone is an attractive alternative to the also opiate based morphine which causes nausea and is half as strong as oxycodone. In the end of the day for the sake of utilitarianism I would say they probably did the right thing by changing the formula but it is all based on perspectives. Another ethical issue that has to do with the lack of corporate social responsibility of Purdue, one moral argument for CSR is that " Corporations cause social problems, <https://assignbuster.com/an-ethical-examination-abbott-and-the-pharmaceutical-industry-commerce-essay/>

and hence have a responsibility to solve those they have caused and to prevent further social problems from arising.” (Crane p. 51) with this statement we can see that Purdue caused a problem and did not really take responsibility for that problem or overly try to prevent it as well. It was the government that forced the cancelation of distribution of oxycontin, not the good will of the corporation, and it was also government regulation demanding the new formula. Purdue should have set up public centers to help deal with the people who were using their product and are now dealing with withdrawals. They had ethical responsibility they did not live up to.

### **Part 3: Drug Patents**

In the realm of medical or drug patenting there is also a slew of ethical problems that must be dealt with. In our modern patenting system it is too easy for procedures or medications to be ‘unavailable’ to those who need them because of issues with patents. A lot of procedures require the doctor or physician have bought the right to use the procedures and only in a certain way. These are often sold only in smaller quantities for higher prices limiting the amount of good they can do. The ethical problem arises when a person comes in for treatment and a patented procedure becomes unavailable to patients who require it, and in worst-case scenarios where no other alternative exists. In a case like this utilitarianism must be questioned as to why they can justify hurting so many people so a few at the top can make a lot more money. Distributive justice is also an ethical issue that relates to this. Some people will argue that due to distributive justice patents are ethical because the framework of distributive justice rewards the inventor and people can’t coast on his success. However if we look at it by its

definition distributive justice is “ concerns the nature of a socially just allocation of goods in a society.” (“ Distributive justice - Wikipedia”) We can see that by having these patents that limit the availability of processes and medications people need were are heading in the opposite way of distributive justice, fewer people are getting benefit of a product. In this way I really believe that the patent system especially pertaining to drugs has a very pre conventional thought process of what can help me I’ll do. They have all this knowledge that could help millions but because there is no immediate monetary benefit for the corporations to open up the patents to everyone in need it won’t happen and many innocent people could get sick, get worse, or even die.

### **Part 3: The Approval Process For New Drugs**

To understand the ethical issues in improvement process for new drugs you must first understand how the process plays out. There are 4 main steps to the process of getting a pill tested and okayed for sales, the first step is to test on animals, then the next is to perform clinical testing on humans, next up is a review by the food and drug administration, and the last step is post marketing surveillance. In this last step the pill has been “ granted limited application by the FDA and is applied to thousands of people for testing. At this stage it is not determined if the pill is either safe or efficacious.” (Kuncl & Logue, 2005). Patents last 17 years and this four-step process takes about 11 years so you can understand the urgency of their actions. The unethical behavior comes in on the fourth step where it is in the hands of marketing surveillance because the importance they determine for the drug is the chances of it actually coming to store shelves. You see a new pill would cost

about \$800 million dollars not counting the 15-year research period so they are very valuable and only explored if the chances are high for payback. Ten to fifteen percent of all gross profits from a pharmaceutical company go back into research. Because of these high costs of business a lot of pills that could help a lot of people but not enough to turn a profit are often declined or have their funding stopped which can leave innocent people without a cure. The ethical problem here is the industry doesn't practice stakeholder theory at all, they are acting to just appease the shareholders but not the other stakeholders like the consumers that could have their lives saved, the employees who's families could have needed those medicines, the government that may have rewarded you for coming up with a cheaper more efficient drug and the list of stakeholders goes on.

### **Part 3: The Potential Over-Medication of Societies and the Role of Pharmaceutical Companies**

Seven million people say they use prescription drugs for non-medical reasons and 39% of drug user use prescriptions over street drugs like cocaine and heroin so why are we seeing this trend? I believe it is due to aggressive marketing by pharmaceutical industries, for reasons previously discussed there is a lot of money spent in the industry just to get new drugs approved, and that's reasonable that they want to market it and spread the word to make back their loss. However the way they go about doing it is unethical and wrong, you see when these new drugs are released they are often released under a wider umbrella of uses than first clinically intended. The unfortunate " reality is that for most new drugs, safety and efficacy are scientifically proven for only a small subset of patient