



## Changing Role of HR Managers in Pharmaceutical Industry

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### ABSTRACT

Pharmaceutical Industry is a recession proof industry. The ever growing population and standard of living drives higher consumption of medicines. The discovery of new drugs had been more or less constant at about 21 per year, over the last decade, the cost of discovery is growing by leaps and bounds, and is estimated to be about \$2 billion to \$4 billion per molecule at present. The new drug discovery is fraught with high failure rate. There is a pressure on the patent holder to recover the expenditure before the patent expires. Thus frauds are not uncommon in this industry. The industry is also very knowledge intensive. Therefore, recruiting the right people, retaining them, and keeping them motivated, is very crucial for the companies. Attrition rate is high in this industry. Companies have been using same old methods like offering higher salaries or stock options to retain important people. But other nonmonetary methods may prove more effective than higher pay. As the culture in each organization differs very much from others, many a time, the person who moved from company to another for the sake of more money may find the change not worth the need for adjustment needed in the new organization. Thus, the HR function is becoming more and more important in such circumstances. But surveys reveal that the mind set of most companies is still ruled by decade old perceptions. This article brings out the need for giving greater importance to HR function and the changing role of HR Manager in the present challenging times.

**Keywords:** Pharmaceutical Industry, HR function, changing role, strategic focus, Employee champion, Administrative Expert, Change Agent

### INTRODUCTION

Pharmaceutical industry is one of the few which is still growing at a fairly good rate in spite of the worldwide recession. It is expected to grow at about 8% annually from \$1.1 trillion in 2014 to \$1.6 trillion by 2020. In 2010, there were an estimated 6.9 billion people. By 2020, the world population is expected to rise to 7.6 billion. The number of 'middle-class' consumers – defined as those with annual incomes of between \$6,000 and \$30,000 (PPP-purchase power parity) – is forecast to more than double from 1.7 billion to 3.6 billion by 2025. As the average income of population is growing, the consumption of pharmaceutical products is also increasing.

But the industry is facing several problems- the most important being slower discovery rate of new molecules. The new molecular discovery has been stagnant at an average around 21 for the last ten years, in spite of having large number of new drug discovery projects in the pipeline are about 458 in pre-clinical stage, 903 in Phase-1, 1411 in Phase-2, and 347 in Phase-3, totaling 3119 (data for the biggest pharma companies only). The failure rate is estimated to be 46% in Phase-1, 66% in Phase-2, and 30% in Phase-3. Average new drug discovery cost per molecule has been estimated anywhere between \$2 to \$4 billion.

Number of drugs are going off patent each year. The price of drugs falls by upto 95% after going off patent. Even at those prices, generic manufacturers of India are making

excellent profits. No wonder the large multinational which are holding most of the patents are using tricks like line extensions to cling to the patents. Because of deep pockets enjoyed by such multinationals (Pfizer is said to enjoy after tax profit to sales ratio of over 40%), Indian drug manufacturers are not able to challenge them in the courts. Dr Reddy Laboratories learnt the lesson the hard way.

The other problem faced by the industry is dubious promotional practices adopted by pharma companies. Between 2000 and mid-2012, the industry paid more than \$30 billion to settle 226 violations, including off-label marketing and overcharging of taxpayer-funded health programmes and the penalties have been steadily escalating.

What are the biggest fraud issues in the pharmaceuticals and life sciences sector?

Here's what we learned from our Global Economic Crime Survey 2014 respondents:

- Bribery and corruption is a major threat. At 31%, it's the second most commonly reported type of economic crime for pharma and life sciences companies. Sector respondents are most concerned about the damage it can do to their corporate reputations.
- Controls are effective but fraud risk assessment is still rare. Corporate controls detected 60% of



economic crimes in the pharma and life sciences sector, and the internal audit function is especially effective. But the sector is lagging when it comes to implementing annual fraud risk assessments.

- Pharma and life sciences faces a threat from within. 64% of the most serious economic crimes in the pharma and life sciences sector are committed by internal perpetrators, compared with just 56% overall. Yet pharma and life sciences companies take less action against both internal and external perpetrators. So companies may have more work to do when it comes to building a fraud-resistant culture.
- Operating in markets with high levels of corruption risk takes extra effort. 42% of pharma and life sciences respondents say they've pursued an opportunity in one during the past 24 months. But there are challenges; 43% of these respondents say they've needed to adapt their business strategies to cope with high levels of corruption risk. Responses range from additional due diligence or adding contractual terms to providing additional training to staff.

Source : Global Economic Crime Survey 2014 – PWC Report<sup>1</sup>

<http://www.pwc.com/gx/en/economic-crime-survey/industry/pharmaceuticals-and-life-sciences.jhtml>

Similarly, in future, the success of a pharmaceutical company will depend upon the success of clinical trials or the potential for commercial applications. The most commonly used, financially-quantifiable measures such as total shareholder returns, earnings per share and increase in market capitalization are bound to lose significance. This is going to put tremendous amount of responsibility on the HR function, to recruit, train, motivate and retain the best talent.

### Survey Reports

Let's look at some of the survey reports for gaining insight into current HRM trends and practices.

HR Benchmarking 2000, a survey of HR departments in 977 European and Middle Eastern companies conducted by PWC<sup>2</sup> found that only 19% of respondents reported that they felt satisfied with the influence of HR on the development of the business strategy. And only 32% had an HR executive on the top management team, suggesting that the function still struggles to gain broad recognition, says PWC. In spite of all the challenges, it is clear that HR executives are not given enough importance in the management hierarchy.

In its 'Asia-Pacific Total Rewards Survey 2007', Mercer<sup>3</sup>, a global provider of consulting, outsourcing and investment services, found that,

- Attracting and retaining the right talent is among the most serious challenges facing organizations in the region. More interesting, however, the study found that over **64** per cent of employers in the region invest primarily in training and career development as a retention tool, while only **27** per cent of employers use base salary increases as a strategy to retain employees.
- Other frequently used employee retention strategies that emerged during the survey include non-cash recognition (43 per cent) and annual cash incentives (34 per cent).

A survey carried out by the Delhi-based Associated Chambers of Commerce and Industry (Assocham)<sup>4</sup>, which polled 160 leading human resources (HR) heads in India Inc, found that,

- The **attrition rate** is highest among employees in the **26-30** age groups.
- Employees with **experience levels** of **2-4** years are the most vulnerable to **poaching** by rivals.
- Women employees are **5** times more stable than men.

### Emerging Roles of HR Managers

#### Attracting the Best Talent

The pharmaceutical industry typically aims to attract the top science graduates and postgraduates from the best universities but the most able graduates are the very people that all blue-chip companies in other sectors also want.

This competition for the best people shifted the focus in favor of the individual, moving away from best pay packages, to reward systems that can be tailored to the needs of each critical employee within an organization. A growing number of companies, including industry leaders offer their most talented employees a stake in the business through share options. However, PWC<sup>2</sup> points out that share options have lost something of their gloss, after a series of "fat-cat" payouts in the mid-1990s, which attracted the attention of various regulatory bodies. As a result, most such schemes now have some sort of performance criteria, although they are still generally less sophisticated - and less demanding - than long-term incentive plans. Nevertheless, share options remain one of the preferred mechanisms for rewarding executives in the UK life-science industry, the report notes.

The production or R&D experience required for one company may not be the same everywhere, and hence, it is important that the candidate is extremely specialised in his field. Due to which it is also important that recruitment is done after a close look at the candidate's profile. As the employee is a beginner it is important to ensure that the candidate is hired for a department he/she has an inclination towards; only then will they be in a position to produce the desired results.



## Employee Retention

Even within an organization, different employees have different needs. The ability to understand and respond to the needs of different employees will be equally vital for retaining them, and keeping them motivated. Many senior managers assume that the only reason someone might leave a company is for money, even in the pharmaceutical sector, where the nobility of the purpose should have been an important motivation. Thus, whenever a key person wants to leave, organizations response is to match, or better the offer, an approach that often ends up boosting compensation for a particular class of workers without increasing the value they deliver.

In fact, PWC says, recent surveys show that most employees would leave an organization to follow a good mentor; and that most believe that being hired into an organization provides a better opportunity to realize their potential than being groomed for a new role. So money is not necessarily the answer.

“The work environment of a company depends on the culture of the particular company, which varies from one company to the other. It is found that most of the new recruits tend to compare the work culture of the current company with that of their previous one.

As no two companies can be the same; there is always a difference and this comparison forces people to get into a shell and not produce the desired results, or sometimes even think of a job change,” says Rajarshi, Managing Consultant, Pharma Resource<sup>5</sup>.

Another factor is redundancy; with fast developing technology even the most experienced people in the industry are overpowered by the feeling of being redundant as they do not have access to the latest upgradation programs and lack training.

To retain the employee, the company first needs to identify the problem within the organisation. “They need to find out where the company is lacking. For instance, for one company the problem can be compensation, in the other it could be environment, etc.

Depending on the stature of the company, the right compensation and environment can be provided,” says Rajarshi. “Creating an encouraging atmosphere with regards to awards, regular appraisals, public announcement of one’s achievements are a few steps being taken by various pharma companies today to ensure that the employee is happy at his/her workplace and wishes to continue.”

According to Ajay Bhatt, Regional Human Resources Director, Abbott India, said, “It is only when the talent can see a clarity of role, a clear career path and more importantly feels valued that he/she finds fewer reasons to leave. The onus is on business leaders and HR managers to provide this clarity and create a participative environment.”

## Change Agent

The constant evaluation of the effectiveness of the organization results in the need for the HR manager to initiate changes for improved performance. Both knowledge and ability to execute successful change strategies make the HR professional exceptionally valuable to the organization. Knowing how to link change to the strategic needs of the organization will minimize employee dissatisfaction and resistance to change. Kaizen, introduction of small but continuous changes are the best method to bring lasting improvement in any organization.

The HR professional contributes to the organization by constantly assessing the effectiveness of not only his own HR function, but also in other departments and in work practices. To promote the overall success of his organization, he actively participates in the identification of the organizational mission, vision, values, goals and action plans. Finally, he helps determine the measures that will evaluate the performance of the organization.

### Traditional Role versus Changing Role

Traditional Role	Changing Role of HR Manager
Counselor Role	Role makers than Role takers
Mediator Role	Integrate the policy
Trouble shooter Role	Practice changing business strategies
Spokesman Role	Versatile people in HRD
Changing agent Role	Learning Individuals and Ready to handle Responsibility
Communicator Role	Have highly applied behavioral science
Teaching Role	Global Competitors
Role of Professional Attitude	Global net-workers
Role of Fair treatment	Innovative Leaders
Conventional	Creative

**SOURCE:** Dr.A. Chandramohan, K. Vasanthi Kumari, S.G. Ashwani, *Changing Role of HR Manager in the Corporate World*<sup>6</sup>, HRD News Letter, Vol.22, Issue:10, Jan 2007, PP 8-9.

## Employee Champion

Today’s HR manager has to be Employee Champion, championing their cause but at the same time getting the organization’s job done. Job design and specification are constantly being studied and modified to suit to the changing Business Trends. Even the organization structure and the reporting structure are to be constantly reviewed and adjusted to suit the changing environment and also the personnel manning the key positions.

Stress management in an organization, is becoming increasingly important. Yoga and meditation classes have become a part of corporate culture to relieve tensions and improve organizational performance. He needs expertise in how to create a work environment in which people will to be motivated, contributing, and happy.



Improving the Quality of work life is becoming very important to retain the best talent. The Workforce today is very smart and always a constantly moving population. The organizational practices are to be benchmarked against the best in the industry. Sometimes, useful lessons can be learnt from other industries too in this matter.

### **Torch Bearer of Corporate Ethics**

The expectations for showing improved performance quarter on quarter, is putting tremendous pressure on the managements. Several instances have come to light where, even the best known names in the corporate world have resorted to unethical means to maintain their position. But the consequent damage the revelations bring may far outweigh the benefits achieved by adopting such unethical measures. Thus, many Governments are insisting on ethical practices, in business deals, more so in industries like pharmaceuticals, where the life of mankind is affected. So, Ethics-related language in formal statements not only sets corporate expectations for employee behavior, it also serves as a shield for companies in an increasingly complex and regulatory environment. An effective corporate culture is about engaging employees at a fundamental level and translating that engagement to ethical practices to meet the organization's objectives.

### **Administrative Expert**

The principle of HR Accounting is to consider the expenses and costs involved in Training and Development and Knowledge Management Infrastructure as a long term investment. This paradigm shift in considering the Human Resources as an important valuable asset has boosted up the Brand image and Brand equity of growing organizations to a considerable extent.

### **Core Competency**

Outsourcing has paved way for the HR personnel to focus their organization on its Core Competency, which can be identified and fine tuned by a TQM or BPR initiative. Innovation is the secret for the success of any Organization. It can be in the Product, Service or the way in which people work and accomplish the Business mission. By focusing on the Organization's Core competency today's HR managers have become the key Knowledge managers of the Organization. Accompanied by an effective Transformational Leadership to adapt and survive in the Changing Business environment would be the biggest morale booster. Henceforth today's HR managers are trying to mould Leaders from within and also rope in successful leaders from outside the Organization.

### **Corporate Social Responsibility (CSR)**

CSR is gaining importance in the corporate world. HR department is usually found to be the preferred department to be engaged in the work. External stakeholders (NGOs, media, consumer advocacy groups

and public opinion) carefully watch the steps taken by pharmaceutical companies and their practices. As a consequence, initiatives and communications must be designed by the HR to satisfy stakeholders' needs and expectations.

### **CONCLUSION**

According to PWC report "The values, beliefs, habits and management style that determine how people in an organisation think and behave, have a profound bearing on its decision-making processes. And when the environment in which the organisation operates alters, these characteristics often need to alter, too. Yet most pharma companies still rely on a corporate culture that prevailed 20 years ago."

PWC report also says that the scarcity of talent and the corresponding increase in the power of the most able individuals, along with changing social mores, will all contribute to a revolution in corporate perceptions of the workforce. They will also create one of the biggest challenges facing pharmaceutical HR functions over the next few years. HR professionals will have to help put the right sort of managerial structure, with the right sort of flexibility, in place.

It is important to look for people with raw talent, develop their skills and recognize their worth at an early stage. This means creating a culture that stimulates learning, with knowledge management systems, mentors, coaching, e-learning and so forth. Additionally, it means acknowledging the acquisition of new skills promptly - in both financial and non-financial ways.

Fairness in pay – as per market data, higher education policy, job rotation and rewards and recognition are crucial factors and must be followed by all companies to retain their employees. It is not just important to pay the employee well, but to ensure that employees are working in a perfect environment.

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