



CLOSING CASE STUDY

GSK seeks to restore reputation in global pharmaceuticals



Improvements in facilities and medicines in the Chinese healthcare system make this market potentially highly lucrative for global pharmaceutical companies, but they must be alert to the legal and regulatory frameworks.

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The image of a large pharmaceutical company that boasts of being research-led is one of an organization committed to finding new drugs to cure diseases and improve health. These laudable activities are expected to be its main purpose as a company. But the leading pharmaceutical companies' commitment to improving human well-being has been repeatedly questioned in recent years, as the rush for growth and profits appears to have got the upper hand. Scandals over improper marketing, bribery and misleading test results have swirled around the industry, giving the impression that, in reality, these companies are unethical in the ways they pursue profits. GSK (GlaxoSmithKline), Britain's largest pharmaceutical company, has been caught up in a number of these scandals. Restoring its ethical reputation has become a priority. It is seeking growth in emerging markets, but a scandal in China has affected its reputation there. At the same time, without innovative medicines, the core competencies that benefit a research-driven company are threatened. In addition to these challenges, there is the likelihood of

a tightening of regulatory supervision in many markets, not just developed ones.

A research-led company could focus on developing new drugs and then wait to see whether there is a good take-up by health professionals, but this is not how the industry functions. In the early stages of the new drug's life, articles in academic journals are influential. We would expect an article in a medical journal to be independent but, in fact, the presentation of data and the writing of articles on a new drug are often done by 'ghostwriters' employed by the pharmaceutical company that developed the drug. Pharmaceutical companies spend billions annually on marketing, and some of these activities verge on bribery. Companies often pay doctors to go to conferences under the banner of 'medical education', when in reality the trips are closer to being luxury holidays. GSK was fined \$3 billion in the US in 2012 for marketing abuses consisting of taking prescribers on trips to luxury resorts in Hawaii. This was a record fine at the time.

Much of this doubtful marketing takes place in emerging economies, where it is perceived that there

will be lax regulation. However, GSK was in the mire in China in 2014, where it was fined the equivalent of \$490 million for bribing doctors to adopt its drugs. This came after a 15-month investigation that was highly damaging for GSK's reputation in China, one of its major prospects for growing sales. The former head of GSK's China unit, along with four other senior employees, received suspended prison sentences. All had pleaded guilty. The case could have repercussions, as both the US and UK have anti-bribery legislation under which companies can be punished for committing corruption overseas. GSK has promised to change its sales practices, including reviewing its system of incentives to sales staff.

GSK's CEO is under pressure over ethical reform and revitalization of the business. Its shares did not suffer a downturn following the China prosecutions, but declining sales globally could have a greater impact on market sentiment. Respiratory drugs have been a profitable area for GSK, but its asthma drug, Seretide (known as Advair in the US), which is near the expiry of its patent, is facing competition from generic producers. The company needs to make good the slump in sales that is likely to occur, as this drug accounts for one-fifth of its revenues at present. A welcome boost in sales of its HIV drugs and flu vaccines has cheered executives and shareholders. In 2014, GSK carried out a minor restructuring with Novartis of Switzerland. GSK sold its underperforming cancer drug activities to Novartis, and acquired the vaccine business of Novartis, which was spun off into a joint venture between the two companies. GSK sells numerous consumer products, from Aquafresh toothpaste to Turns indigestion tablets, and even Horlicks, a powdered malted-milk drink. GSK took steps to sell off its older medicines that are now out of patent and have little growth potential. The company aims to offer these to

private equity groups. On the face of it, this would not be controversial, but private equity buyers are inclined to ratchet up the price charged to consumers, which can come as a shock to loyal customers of these products, reflecting negatively on GSK.

GSK announced in 2014 that, from 2016, it would stop paying doctors to go to medical conferences, and stop paying them to speak in support of the company's products. It also intended to stop setting sales targets for its individual salespeople, and stop offering bonuses to marketing staff that are linked to sales targets. Critics of the pharmaceutical industry are sceptical about such moves, observing that these practices are entrenched as 'a way of doing business' (Jack, 2013). They point out that prosecutions for marketing abuse in the US alone led to \$20 billion in fines from 1991 to 2010, and in the following three years, another \$13 billion. As the example of China shows, scrutiny is rising in emerging markets as well. Escalating fines would be a possible reform, if penalties were higher than current levels. The example of China shows that the risk of a jail sentence should be a warning to companies. The practice of industry-funded medical education breeds scope for abuse. Another possible reform would be the provision of continuing medical education by national healthcare systems.

Such regulatory reforms would lead to changes in pharmaceutical marketing, helping at least to prevent some of the more corrupt practices that have come to light. A refocus on innovation would be a more meaningful ethical shift, but the drive for growth is the major preoccupation of GSK's CEO.

Sources: Jack, A. (2013) 'End of the hard sell?', *Financial Times*, 27 December, at www.ft.com; Ward, A. (2014) 'Storehouse of trouble', *Financial Times*, 12 April; Ward, A. (2014) 'Overflowing in-tray awaits Hampton at embattled GSK', *Financial Times*, 26 September; Ward, A. (2014) 'GSK asks for bids on older drugs list', *Financial Times*, 30 May.

Questions for discussion

- Has the drive for research excellence been lost at GSK? In reality, what does GSK exist to do?
- How have the marketing abuse scandals damaged GSK's reputation?
- What recommendations would you make to GSK's CEO to restore the ethical values that stakeholders expect?
- Should there be greater mandatory regulation of the pharmaceutical industry, or are voluntary initiatives enough? Explain.