

**RESPONSE STRATEGIES TO CHANGES IN THE  
INTERNATIONAL BUSINESS ENVIRONMENT ADOPTED  
BY RESEARCH-BASED MULTINATIONAL  
PHARMACEUTICAL COMPANIES IN KENYA**

**BY  
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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT  
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## **DECLARATION**

This management research project is my original work and to the best of my knowledge has not been presented for the award of a degree in any other university.

Signed:.....Date:.....

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**Reg No: D61/61/P/8165/2000**

I hereby certify that this project has been presented for examination with my approval as the University of Nairobi supervisor.

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To God be the Glory.

## **DEDICATION**

This Project is dedicated to the honour of my late father, Laban L. A. M'mayi, dad per excellence, mentor and friend. For your sacrifices, great and small I am who I am today.

Papa, I salute you.

To my dear mother, Esther Khaniri, teacher and friend, I am indebted to you for the solid foundation on which my learning is built.

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## **ABSTRACT**

Faced with the reality of competing in a global environment while having to act in a local environment, Multinational Company (MNC) subsidiaries create competitive advantage through response strategies that adapt to both the changes in their international environment and their national environment. A survey was carried on all the research-based multinational pharmaceutical company subsidiaries in Kenya to establish the changes that have occurred in the international business environment, their impact on their businesses and the response strategies that they have adopted to cope with these changes. The instrument for data collection was a questionnaire, which consisted of structured and semi-structured questions. Data was collected from a total of ten (10) companies, which constituted the population of companies targeted for the survey as per the inclusion criteria. The study findings suggest that changes have occurred in the international business environment of the multinational pharmaceutical companies (MNPCs). The ratings for changes in the global industry environment and the macro-environment were higher than those for changes related to globalisation of the industry. The results further suggest that these changes in the international business environment have had an impact on various aspects of the businesses of the MNPC subsidiaries in Kenya. These changes appear to have had the greatest impact on activities related to marketing and sales and the least impact on the research and development activities of these subsidiaries. The research findings further established that the research based MNPC subsidiaries in Kenya have adopted a range of response strategies to these changes which when ranked in descending order of mean score, were related to the marketing and sales function; stakeholder engagement activities; approach to business; and international business. From the results of this study, it can be concluded that the changes in the international business environment have impacted on the business of the research-based multinational pharmaceutical company subsidiaries in Kenya. These changes have in turn led to the adoption of a range of response strategies by these subsidiaries. These response strategies appear to be guided by the pressure for local responsiveness vis-à-vis the pressure for global integration; and the corporate context which is dictated by their headquarter offices.

## TABLE OF CONTENTS

Declaration.....	ii
Acknowledgements.....	iii
Dedication.....	iv
Abstract.....	v
List of Tables.....	ix
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background of Study.....	1
1.1.1 Response Strategies .....	1
1.1.2 The International Business Environment .....	4
1.1.3 Research Based Multinational Pharmaceutical Companies In Kenya .....	6
1.2 Research Problem.....	7
1.3 Research Objectives.....	8
1.4 Value of the Study .....	8
<b>CHAPTER TWO: LITERATURE REVIEW .....</b>	<b>10</b>
2.1 Introduction.....	10
2.2 International Business Environment.....	10
2.2.1 The Macro- Environment .....	12
2.2.2 Geographic Space .....	12
2.2.3 The Industry Environment .....	12
2.2.4 Globalisation and the International Business Environment .....	14
2.3 Response Strategies .....	15
2.4 The International Business Environment and Firm Responses .....	18
<b>CHAPTER THREE: METHODOLOGY.....</b>	<b>22</b>
3.1 Introduction.....	22
3.2 Research Design .....	22
3.3 Population Study .....	22
3.4 Data Collection .....	23
3.5 Data Analysis .....	24

<b>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION.....</b>	<b>25</b>
4.1 Introduction.....	25
4.2 Demographics .....	25
4.3 Emerging Trends in the International Business Environment .....	26
4.3.1 Emerging Trends in the Macro Environment.....	26
4.3.2 Emerging Trend in the Global Industry Environment.....	31
4.3.3 Emerging Trends in the Globalisation of the Industry.....	35
4.3.4 Emerging Trends in the International Business Environment .....	37
4.4 Impact of the Changes on the Firm’s Business.....	38
4.4.1 Impact on the Firm’s Approach To Business.....	38
4.4.2 Impact on the Firm’s Marketing and Sales Activities.....	39
4.4.3 Impact on the Firm’s Research and Development Activities.....	40
4.4.4 Impact of the on the Firm’s Stakeholder Engagement Activities.....	41
4.4.5 Impact ofthe Changes on the Companies’ Business .....	42
4.5 Response Strategies of the Firms.....	42
4.5.1 Response Strategies Related to Approach to Doing Business.....	43
4.5.2 Response Strategies Related to the Marketing and Sales Activities.....	45
4.5.3 Response Strategies Related to the Management of Stakeholders .....	45
4.5.4 Response Strategies Related to Approach to International Business.....	46
4.5.5 Response Strategies of the Companies .....	48
4.6 Discussion of the Findings.....	48
4.6.1 Emerging Trends in the International Business Environment.....	48
4.6.2 Impact of the Changes on the Businesses of the MNPC subsidiaries in Kenya.....	50
4.6.3 Response Strategies of the Companies.....	51
 <b>CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.52</b>	
5.1 Introduction.....	52
5.2 Summary of the Findings.....	52
5.3 Conclusions of the Study.....	54
5.4 Recommendations of the Study.....	55

5.4.1 Recommendations for Theory and Knowledge.....	55
5.4.2 Recommendations for Managerial Policy.....	55
5.4.3 Recommendations for Managerial Practice.....	56
5.5 Limitations of the Study.....	57
5.6 Suggestions for Further Research.....	57
<b>REFERENCES.....</b>	<b>59</b>
<b>APPENDICES .....</b>	<b>63</b>
Appendix 1: Research Questionnaire .....	63
Appendix 2: List of Companies .....	70

## LIST OF TABLES

4.3.1.1 Emerging Political-Legal Trends.....	28
4.3.1.2 Emerging Socio-Economic Trends.....	29
4.3.1.3 Emerging Socio-Cultural Trends.....	30
4.3.1.4 Emerging Trends in the Technological Environment .....	31
4.3.2.1 Emerging Trends in the Bargaining Power of Buyers .....	33
4.3.2.2 Emerging Trends in the Degree of Rivalry Amongst Existing Firms.....	34
4.3.2.3 Emerging Trends in the Threat of Substitutes .....	35
4.3.2.4 Emerging Trends in the Threat of New Entrants .....	35
4.3.3 Emerging Trends in the Globalisation of the Industry .....	36
4.3 Emerging Trends in the International Business Environment .....	37
4.4.1 Impact on the Firm's Approach To Business.....	39
4.4.2 Impact on the Firm's Marketing and Sales Activities.....	40
4.4.3 Impact on the Firm's Research and Development Activities.....	41
4.4.4 Impact on the Firm's Stakeholder Engagement Activities .....	42
4.4.5 Impact of the Changes on the Companies' Business.....	43
4.5.1 Response Strategies Related to Approach to Doing Business .....	44
4.5.2 Response Strategies Related to Marketing and Sales Activities.....	45
4.5.3 Response Strategies Related to the Management of Stakeholders .....	46
4.5.4 Response Strategies Related to Approach to International Business .....	47
4.5.5 Response Strategies of the Companies .....	48

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Since the 1950s, the growth and expansion of international business has been dramatic. By the mid-70s the volume of international business had overtaken that of domestic business. International business is critical to the survival and success of multinational corporations (MNCs). In response to the evolving pharmaceutical industry's international business environment, MNCs in the industry have developed response strategies that have seen them enter new high potential emerging markets while tapping into the comparative advantages of nations and regions to cut costs and improve efficiencies. While a firm in a global industry must have a global strategy that has a high degree of centralised decision making at the corporate headquarters, it always has to perform some functions in each of the countries it competes in: the global strategy thus guides the strategic responses developed both at regional and national levels.

#### **1.1.1 Response Strategies**

The word strategy is derived from the Greek word 'Stratego', meaning to plan the destruction of one's enemies through the effective use of resources (Bracker, 1980). "Strategy is the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations", (Johnson, Scholes & Whittington, 2008, p. 3). Strategy is the creation of a unique and valuable position, involving a different set of activities (Porter, 1996, p. 64). The strategic responses of a firm determine the markets that the firm shall

compete in, the activities that it shall carry out in those markets, as well as how it can perform better in these markets as compared to its competitors.

Strategic responses are forecasts that result from what the managers' in the firm currently know. This necessitates that the managers are aware of the environment that the firm operates in. The decisions made have far reaching consequences in that they have an enduring effect on the firm in the long term, determining issues like a firm's choice and mix of customers, who they will compete with, and the firm's organisational structure which then affects the firm's strategic business units, divisions and program units. They often also lead to the substantial re-allocation of the firm's resources such as people, money and physical assets or their acquisition from outside the firm. Response strategies within a firm are multi-tiered, typically consisting of three levels: the corporate level, the business level and the functional level. Strategic decision-making therefore involves decision makers from all the three levels of the firm (Pearce & Robinson, 1997).

The board of directors, the Chief Officer and administration officers make response strategies at the corporate level. Corporate level strategic decision-making aims at improving a firm's financial performance and achieving non-financial goals that relate to the firm's image and social responsibilities (Pearce et.al, 1997, p. 5). This consequently is a reflection of the firm's vision and mission. It is concerned with addressing the concerns of the stockholders and society at large. It adopts a portfolio approach to the management of the business and plans developed are long-term, typically for a five-year period. Corporate

strategic decisions tend to be more value oriented, conceptual and less concrete. They carry greater risk, cost and profit potential. They also need greater flexibility and longer time horizons.

At the business level, strategic decision-making is done by the business level strategic managers. At this level, response strategies are concerned with how the firm will compete in its selected area of products and markets. Strategic choice aims to identify and secure, based on the firm's competitive advantages, the most promising market segment for its products (Pearce et.al, 1997, p. 6). Business level response strategies act as the bridge between corporate and functional levels. As compared to corporate level response strategies, they are less costly and carry less risk and potential profit. They are however more costly, and come with more risk and potential profitability than functional level decisions.

Response strategies at the functional level are geared at addressing issues of efficiency and effectiveness and are thus concerned with implementing the overall strategy formulated at the corporate and business levels. Functional level strategic decisions are the mandate of managers of product, geographic and functional areas. Functional level strategies are concerned with the development of annual objectives and short-term strategies in areas of production, operations, research and development, financing and accounting, marketing and human relations (Pearce et.al, 1997 p. 6). Functional level response strategies are adaptable to on-going activities and can be implemented with minimal cooperation. They are also more concrete and quantifiable but their profit potential is low.

### **1.1.2 The International Business Environment**

A firm's environment consists of all those physical and social factors that have to be taken into consideration during decision-making by individuals in the organisation (Duncan, 1972). The environment can be further classified into internal and external environments. The external environment consists of those factors that exist outside the boundaries of the firm (Duncan, 1972). Pearce et. al (1997) further classify the external environment into the remote environment, the industry environment and the operating environment. The remote environment consists of factors that are beyond the firm's control or influence and usually affect the industry as a whole as compared to an individual firm in the industry. These are grouped as political, economic, social, technical, ecological and legal (PESTEL) factors (Johnson et. al. 2008). The industry environment consists of those factors that affect competition within the industry. Porter (1995) describes these as the 'five forces', namely the threat of new entrants; the bargaining power of suppliers; the bargaining power of customers; the threat of substitute products; and the jockeying among current players. Lastly the operating environment consists of those factors that affect the firm's immediate competitive situation; its competitive position, customer profiles, suppliers, creditors, and the labour market (Pearce et.al, 1997).

Increasingly, firms are choosing to expand internationally so as to reach more customers and become more efficient and profitable. The international business environment is enormously marked with complexity as it consists of a collection of environments which not only differ in their remote, industry and operating environments but also in the

various rates of change within them (Morrison, 2011). Pearce et. al (1997) with regard to the international business environment, add to the external factors identified, cultural environments; national sovereignty issues; and geographic separation. These latter factors pose communication and control challenges between headquarters and overseas affiliates. At the business and operational levels, the different financial environments complicate normal behaviour concerning the disposition of earnings, sources of finance and the structure of capital. This could create conflict not only between the corporate and subsidiary offices of the firm but also between the home and host countries.

Morrison (2011) explains that within the context of international business exists a range of distinctive geographical environment layers: the local, national, regional and global geographic environments. There is interaction and interdependence between these layers. The factors that comprise the external environment can be observed in each of these layers. Differences in regional industry structure intensify competition and the various regional blocs and economic integrations restrict the selection of the MNCs competitive strategies (Pearce et.al, 1997).

Negotiations through GATT and WTO have resulted in the erosion of barriers to trade. The international monetary fund defines globalisation as the increasing integration of economies around the world, particularly through trade and financial flows (IMF, 2000). The Yip framework identifies market, government, cost and competition as the four key drivers of globalisation (Johnson et. al, 2008, p.297). These four drivers will in effect determine whether an industry becomes global or multi-domestic (Porter, 1986). Porter

further asserts that the competitive position in a country of a firm that is competing in a global industry is significantly influenced by its position in other countries.

### **1.1.3 Research Based Multinational Pharmaceutical Companies in Kenya**

The pharmaceutical industry in Kenya consists of a host of players who include the research based multinational companies, local manufacturers mainly of generic medicines, importers of branded and non-branded generic medicines and counterfeits. There are a total of 42 companies listed as local manufacturers of which only one (GlaxoSmithKline) is a multinational company, 15 others are listed as institutional/facility based (UNIDO, 2010). Of the twelve research-based multinational pharmaceutical (MNP) companies in Kenya, seven have a regional office in the country while five others have appointed agents. Other players in the market include distributors who may also act as agents of generic manufacturing companies and other opportunistic importers of medicines who import based on the market's demand.

The Pharmaceutical Executive report Exec top 50 provides an annual ranking of the world's pharmaceutical companies based on sales of prescription drugs. According to its 2010 report, for the year 2009, Pfizer Laboratories was ranked number one. Other companies that are in the top ten positions included Sanofi Aventis in second position, Novartis in the third position, Roche at fifth position, GlaxoSmithKline at fourth position and Astra Zeneca in the sixth position. All these companies have a regional office that is based in Kenya. Merck and Eli Lilly were ranked in the seventh and ninth positions respectively.

The Kenya Pharmaceuticals and Healthcare Report (quarter 1, 2012) estimated that the total Kenyan pharmaceutical market stood at KES33.02bn (US\$417mn) in 2010 and grew

to KES38.72bn (US\$450mn) in 2011. These values include both domestic and export markets. Research-based multinational pharmaceutical companies (MNPCs) have relied mainly on the research and development model which is based on the innovation of novel treatments that once patented and marketed successfully enable the company to earn large revenues and subsequently achieve growth. The UNIDO report (2010) estimates that imported branded 'originals' constituted 40% of the total domestic market valued at 240 million US\$. This would suggest that MNP companies controlled at least 40% of the domestic market. It is important to note that some of these MNPCs also conduct marketing and sales activities in neighbouring countries in the region using Kenya as their regional base.

## **1.2 Research Problem**

Porter (1996) views strategy as the creation of a unique and valuable position through the use of different sets of activities. Corporate strategy is the emergent pattern of decision making in a company through which its objectives, purposes and goals are seen. This pattern of decisions guides the company's principle policies and plans for achieving its goals and informs the company on the range of businesses it chooses to pursue, the economic and human organisation it becomes and the economic and non-economic contributions it makes to shareholders, employees, customers, and communities (Andrews & Kenneth, 1980). Response strategies enable a firm to adapt to changes in its remote, industry and operating environment in order to ensure its survival in the long run- for better or worse.

Faced with the reality of competing in a global environment while having to act in a local environment, MNC subsidiaries create competitive advantage through response strategies that adapt to both the changes in their international environment and their national environment. Empirical and literature searches yield a lot of information on the 'new world order' of the pharmaceutical industry's international business environment and how this has guided both the short term and long term response strategies of research-based multinational pharmaceutical company subsidiaries in the developed and emerging country economies. On the contrary, a similar search for literature on research-based multinational pharmaceutical company subsidiaries in developing countries yields unsatisfactory results. What are the changes in the international business environment that research-based multinational pharmaceutical company subsidiaries in Kenya consider important? And what coping strategies have they developed in order to ensure their survival and success in the country?

### **1.3 Research Objectives**

- i. To identify the changes in the international business environment of research-based multinational pharmaceutical companies.
- ii. To determine the impact of these changes on the research-based multinational pharmaceutical companies in Kenya.
- iii. To establish the response strategies adopted by research-based multinational pharmaceutical companies in Kenya to the challenges they face from changes in the international business environment.

#### **1.4 Value of the Study**

The impact of the international business environment on research based MNP subsidiaries in developed and emerging country economies is well established. Operating in an international business environment context does have an impact on the response strategies of a firm (Porter, 1986; Bartlett, 1985). Although this phenomenon has been well researched in different regional markets of the pharmaceutical industry, literature review yields unsatisfactory information on the response strategies of the Kenyan research-based multinational pharmaceutical company subsidiaries to the international business environment. This study is expected to contribute to the body of knowledge on how the international business environment impacts on the local research-based multinational pharmaceutical company subsidiaries and its subsequent influence on their strategic responses. The study will be of benefit to the pharmaceutical industry players as it will provide an insight on the emerging drivers in the international business environment. It also anticipates providing an insight into the likely response strategies of the research-based multinational pharmaceutical company subsidiaries in Kenya to these drivers of change. This then allows for a better understanding of the future local competitive environment. The issue of health and the access to affordable medicines is critical to policy decision makers in health and international trade. For the policy decision makers in trade, the study adds to the pool of information on the emerging trends in the global pharmaceutical industry and their impact on the evolution of the local pharmaceutical industry. For the policy decision makers in health, the study offers insights into the local pharmaceutical market dynamics with regard to essential drug purchase policy and regulatory policies in general.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Firms and their environments have become more complex in recent years. The international business environment, while presenting daunting obstacles to firms, also offers unprecedented opportunities. Four cross-cutting and inter-linked dimensions are identified with regard to the international business environment: the macro-environment, the industry environment, the effects of globalisation and in dealing with these dimensions, the importance of geographical space cannot be over-emphasised. The development of response strategies in the international business environment is more complex than that for domestic business environments due to a host of factors that include differences in culture, geographic space and geo-politics. A firm's response strategies are guided by the characteristics of the external environment (e.g. opportunities and constraints), and the internal capabilities of the firm. In international business, a firm's response strategies will also need to consider the tradeoffs associated with responding to the pressures for external flexibility through national responsiveness, and internal efficiency through global integration.

#### **2.2 International Business Environment**

Four cross-cutting environments are identified with regard to the international business environment. These are the macro-environment, often explored in the PESTEL framework, the industry environment, globalisation and its effects and the geographical space in which international business is conducted. The macro-environment influences

considered under this framework include the political, economic, social, technological, ecological and legal (Johnson et. al 2008). Two other influences, the financial and cultural are added (Morrison, 2011). The industry environment, under the five forces framework advanced by Porter (1986) presents the other important environment in international business. Globalisation has resulted in an increased economic interdependence amongst nations in that economic markets for goods and services are more integrated, as well as factors involved in the production of these goods such as technology, finance and to some extent labour. In addition to these inter-linked dimensions of the international environment, there is the over-riding dimension of geographic space that encompasses the local, country, regional and global geographical spaces (Morrison, 2011) in which international business is conducted.

Sleznick (1948) defines the business environment as flows of information relevant to goal setting and decision-making through managerial perception. The environment is “the totality of physical and social factors that are taken directly into consideration in the decision-making behaviour of individuals in the organization” (Duncan, 1972). According to Obasan (2001), the environment is a set of the physical and social forces and institutions that are relevant to the organisational goal setting and goal attainment which are taken directly into consideration by members of the organization when making business decisions and plans. The business environment is further classified into internal and external environments. Duncan (1972) defines the external business environment as the relevant factors outside an organization that are taken into consideration by the organization in its decision-making. The internal environment of a business alludes to a firm’s specific strategic capabilities, resources or cultures (Johnson et. al, 2008).

### **2.2.1 The Macro-Environment**

The macro-environment consists of broad environmental factors. These impact on almost all organisations. The PESTEL framework categorises environmental influences into six main types: political, economic, social, technological, ecological and legal (Johnson et. al 2008, page 55). The legal influence is considered often at times with the political influence. Two other influences are added: the cultural and the financial (Morrison, 2011). The cultural influence is often considered together with the social as the socio-cultural influence.

### **2.2.2 Geographic Space**

MNCs in the international environment, encounter a range of distinctive geographical environments. Bartlett and Ghoshal (1989) classify geographic space into national and global (worldwide) spaces. Morrison (2011) sees these environments as the community, the country, the regional and the global spaces. The macro-environment influences are inter-linked and cut across the geographically distinct layers of the local, country, regional and global spaces. Each of these influences is observable in each of these layers and there is interaction and interdependence between these layers (Morrison, 2011). In considering the macro-environment of international business, the elements of the PESTEL are analysed in a range of geographic spheres.

### **2.2.3 The Industry Environment**

The Industry environment in international business is the product of both the five industry forces, as described by Porter, that act on firms within an industry, and the

pressure on firms within a particular industry to either pursue economic efficiency through integration of some of their functions resulting in a global industry or to localise their product offer to meet local customer needs resulting in a more domestic industry (Porter 1980, Porter 1986). According to Porter, industry structure is determined by the threat of new entrants; the bargaining power of suppliers; the bargaining power of buyers; the threat of substitute products or services; and the degree of rivalry among existing firms (Porter, 1980). These variables affect all firms in an industry but not all the firms are affected equally.

MNCs operating in different geographic spaces have to contend with two groups of pressure: the pressure for local responsiveness and the pressure for global integration (Prahalad and Doz, 1987, Bartlett and Ghoshal 1989). The pressure for local responsiveness prompts the firm to be more responsive to local market needs by applying different activities and skills in different countries. In opposition the firm is also faced with the forces for global integration that require the firm to coordinate and control its activities and skills across national boundaries so as to exploit economies of scale and scope, increasing efficiency and profitability. Porter (1986) observes that the pattern of international competition in an industry is guided by whether the industry is multi-domestic or global: the former arises from the need for firms to be more locally responsive while the latter is a result of firms needing to integrate their functions across the globe. Roth and Morrison (1990), suggest that the pressures for local responsiveness and global integration impact on the industry structure, the competitive positioning of firms within that industry and also the configuration of these firms.

#### **2.2.4 Globalisation and the International Business Environment**

The impact of globalisation on the international business environment is well recognised. Changes in the political environment as well as the liberalisation of financial markets have further eroded national business boundaries rendering all firms, including those operating only within national boundaries open to the competitive realities associated with globalisation.

The International Monetary Fund defines globalisation as the increasing integration of economies around the world, particularly through trade and financial flows (IMF, 2000). Ohmae (1995) sees globalisation as the absence of borders and barriers to trade between nations, barriers to trade having been eroded through the GATT and WTO negotiations. The Organisation for Economic Cooperation and Development (OCED) sees globalisation as “the geographic dispersion of industrial and service activities, for example research and development, sourcing of inputs, production and distribution, and the cross-border networking of companies, for example joint ventures and sharing of assets”. Kohr (2000:5) observes that it is the few large MNCs, financial institutions, and transnational institutions that are rewriting the rules of the game (As cited in RV weeks 2002). Oman (1996:7) argues that globalization not only reduces the economic distance between nations and regions but also between business institutions themselves, thereby changing the rules of the game in the struggle for competitive strategy (As cited in RV weeks 2002).

Globalisation has a temporal element in that it is closely related to the ‘time-space compression’ phenomenon (Harvey, 1996). This phenomenon results from the

compression of the temporal and spatial processes into the 'here and now' through contemporary infrastructure, communication and IT devices (Törnroos, 2000).

The growth of world trade as a percentage of total global GDP rose from 15% in 1990 and is expected to grow to around 30% by 2015 (Hindle, 2009). Franklin and Nell (2010) suggest that globalisation will continue to increase in the future. However, Rugman&Hodgett (2001) observe that while trade in exports and imports has grown rapidly, it is highly regional. They therefore argue that the international business environment is not becoming global but regional in outlook through the regional trading blocs: that geographic and other distinctions have not been submerged by the rising tide of globalisation, but on the contrary, such distinctions are increasing in importance. They go on to say that competition in many 'global' industries is played out at regional level. An emerging consensus between regionalisation and globalisation is semi-globalisation which argues that the world's markets are indeed regional but moving towards globalization Ghemawat (2003, 2005). Ghemawat (2007) posits that regional blocs have stalled the process of globalisation.

### **2.3 Response Strategies**

Porter (1996), states that strategy is the creation of a unique and valuable position, involving a different set of activities. He argues that in order for a firm to create this position, trade-offs are essential, purposefully limiting what a company offers. Strategy links the firm to the environment and consequently its strategic responses will determine its performance. Through strategy, the firm strives to survive and succeed by matching or developing its competences to the environment.

Corporate level response strategies are about the firm's overall purpose and scope. They are macro-level and conceptual in nature. Corporate response strategies may involve several different corporations and business areas. Business (competitive) response strategies are about how a firm competes within a particular industry or market. They are based on the premises provided by the corporate strategy. Functional (operational) level response strategies are concerned with how the component parts of an organization deliver effectively on the corporate and business level strategies in terms of resources, processes and people (Johnson et. al, 2008). The firm's ability to implement operational activities is key to success of corporate and business level strategies.

Competitive strategy is about a firm taking offensive or defensive positions and actions with the objective of creating a defensible position within an industry so as to cope successfully with the five competitive forces and hence create superior profit its shareholders (Porter, 1980). He discusses three generic strategies: overall cost leadership, differentiation and focus, which a company can use to gain competitive edge. Porter however notes that depending on the industry type, differentiation "may not be incompatible with relatively low costs and comparable prices to those of competitors" (Porter 1980, P.38). Conceptually (Hill, 1988) and empirically, (Dess& Davis 1984), have shown that cost leadership and differentiation are not mutually exclusive strategies but dimensions of any competitive strategy. These findings are however based at the business level analysis of strategy. They may not address variations in product-level strategies within businesses.

Grand strategies are master or business strategies that provide basic direction for strategic actions (Pearce et. al 1997, pp. 219). They aim at securing the long-term objectives of the firm. These are concentrated growth, market development, product development, innovation, horizontal integration, vertical integration, concentric diversification, conglomerate diversification, turnaround, divestiture, liquidation, joint ventures, strategic alliances and consortia (Pearce et. al, 1997, pp.241).

Hill and Gareth (2009) define international strategy as a strategy through which a firm sells its goods or services outside its domestic market. International business strategy is about helping firms to operate and compete effectively across national boundaries. Fundamentally an international business strategy is similar to a domestic strategy but the development of strategies to cope with the international business environment is more complex than that of strategies for domestic markets due to cultural, geographic, and political differences. International strategies that a firm choosing to sell its goods outside its domestic market may adopt range from export, licensing / franchising, strategic alliances, to wholly owned subsidiaries strategies (Pearce et. al, 1997).

In international business strategy, the MNC has to weigh in on whether to focus on a purely global strategy that seeks to integrate functions across countries and develop a standardised product for consumers or to focus on the differences and needs of consumers in different markets. This results in the group of four strategic responses: global, international, multi-domestic and transnational (Prahalad&Doz, 1987; Bartlett & Ghoshal 1989; Bartlett and Ghoshal, 1990). In global marketing strategy, Zou and Cavusgil (2002) acknowledge three strategic perspectives: standardisation, configuration-

coordination and integration. Moon (2005) suggests two types of global marketing strategies, standardization strategy and customization strategy.

As opposed to globalisation theory, proponents of regionalisation theory suggest that MNC strategies are highly regional (Rugman, 2001, Ghemawat, 2005). Ghemawat (2005) identifies five regional strategies: home-base strategy which locates research and development and manufacturing in the country of origin; portfolio strategy which establishes operations outside the home region that report to the home base; hub strategy in which the firm builds regional bases that provide shared resources and services to country operations; the platform strategy which reduces the number of basic product platforms offered worldwide; and the mandate strategy which gives certain regions the mandate to supply particular products or perform certain roles for the entire firm.

#### **2.4 The International Business Environment and Firm Responses**

The international business environment of the firm is multidimensional and thus firm response strategies are multifaceted in nature. Firm responses in international business may be analysed from different perspectives of the international environment. The perspective of industry environment yields two industry types, the global industry in which the dominant competitive forces operate at a global level and the multi-domestic industry in which the dominant competitive forces operate at the national level. The globalisation phenomenon which depicts a steady flow of goods, capital, labour and information led to the thinking that firms operating in the international environment would achieve their objectives through a global strategy. However, global strategy has

been challenged by scholars who argue that regional strategies are the reality for most MNCs.

An important factor overriding the international business environment is the corporate context comprising global subsidiary mandates and control systems. This guides MNC strategy at the subsidiary level, requiring that the subsidiary strategic responses are not only driven by the factors in its environment, but also the corporate context of the firm.

The integration-responsiveness framework by Prahalad and Doz (1987) dominates current analysis of international business strategy and provides a framework for examining strategic responses of MNCs in the international context. The integration-responsiveness (I-R) framework is based on managerial perception of the environment along two basic imperatives: the pressure for global integration and pressure for local responsiveness (Prahalad and Doz, 1987). These yield three types of strategies: the global, multi-domestic and international strategies. Bartlett and Ghoshal (1989) and Ghoshal and Bartlett (1990) added to the three strategies the transnational strategy in which the firm follows a hybrid model in order to achieve global integration, national responsiveness as well as worldwide innovation simultaneously.

Rugman (2001), argues that global strategies are a myth and that network managers in MNCs adapt business strategies that are triad/regional and responsive to local consumers, rather than global and uniform. Empirical evidence from international sales from companies suggests that the world's markets are in fact internationalising in the direct opposite direction of regional markets (Rugman, 2001; Rugman and Verbeke, 2004). The

emergence of regional blocs is also argued to contribute to the stalling of globalisation. Ghemawat (2007) observes that increasing cross-border integration has been accompanied by an increase in regionalisation. He groups the emergent regional strategies into five types: the home-strategy, the portfolio strategy, the hub strategy, the platform strategy and the mandate strategy. However, a region is not confined to the geographic space and hence regional strategy may be global, continental, sub-continental, national, intra-national, or local depending on profitability (Ghemawat, 2007). In response to the argument for regionalisation, some companies that are global have instituted regional headquarters. However Ghemawat(2007), points out that having a regional headquarter does not imply that a company has a regional strategy and that a firm without a regional headquarter can still use regions as the building blocks of its overall strategy.

The corporate context of the firm is about the strategic directives of and the control mechanisms used by the head office to evaluate managerial performance at subsidiary level. Subsidiaries are key to MNC overall performance. A review of subsidiary literature points to different levels of involvement of the subsidiary in MNC strategy. Taggart (1999) sees subsidiaries as active units that are sources of MNC competitive advantage and providers of strategic initiative. Subsidiaries are contributors to a complex networked firm (Ghoshal and Bartlett 1990; Nohria and Ghoshal 1997). The abundance of typologies suggests that subsidiaries vary in their contributing roles to MNC strategy. Differences in contributing roles may be looked at from the perspective of environmental determinism, where the role of the subsidiary is seen as a function of its local environment; the perspective of head office assignment where the subsidiary is seen as an

implementer of head office strategies; and the perspective of subsidiary choice in which the role of the subsidiary is open to subsidiary management (J.Birkinshaw, N.Hood, S.Jonsson, 1998). Of the many types of subsidiary typologies developed to distinguish subsidiaries from each other, the Enright and Subramanian (2007) typology presents one of the most comprehensive subsidiarytypology frameworks. They propose a four dimensional subsidiary typology based on capability creation; capability utilisation; geographic scope; and product scope. These yield four major subsidiary typologies of leader, innovator, implementer and observer. These four typologies may each be further classified into three sub-types based on geographic space. For example; a leader may be global, regional or local.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

In this chapter, the choice of research design is discussed, as well as the population of study. The data collection tool and method of collecting data are explained. Finally, a plan on how the data was analysed is given.

#### **3.2 Research Design**

The study adopted a descriptive survey research design, which aimed to identify the response strategies of research-based multinational pharmaceutical companies in Kenya to changes in the international business environment. This design was selected for this study because it can be used to describe, explain or explore the existing status of variables at a given time (Mugenda and Mugenda, 2003).

#### **3.3 Population of Study**

The target population was all subsidiaries of research-based multinational pharmaceutical companies in Kenya. For purposes of this study, the definition of a subsidiary was “any operational unit controlled by the MNC and situated outside the home country” Birkinshaw (1997). A total of fifteen (15) research-based multinational companies have their presence in Kenya. Of these, nine (9) have an office in the country and one has a licensed marketing and sales entity. All these were classified as subsidiaries. All of these ten (10) companies were included in the study. The other five (5) have appointed agents (UNIDO, 2010). The study did not include these five as their business model was less under the control of the parent company and more under the

control of the appointed local agent. While local agents focus mainly on the sales and distribution aspects of the business, companies having an office have strong linkages with the parent company and are able to influence strategic choice on behalf of the parent company.

### **3.4 Data Collection**

The research relied on primary data. The data collection instrument was a questionnaire consisting of structured and semi-structured questions. It was divided into four sections. Section one collected data on the demographics of the target companies; section two sought to identify the changes in the international business environment; section three collected data on the impact of these changes on the companies; and section four collected data on the response strategies that the research based multinational pharmaceutical companies had adopted in response to the challenges resulting from the changes.

The respondents were at senior management level, holding titles that included Marketing Manager, Sales Manager, Country Manager, Operations Manager and Managing Director. An incentive for them to participate was a copy of the research findings. The questionnaire was administered through drop and pick as well as via e-mail in scenarios where the respondents preferred to answer the questions on line. This was expected to yield a better response rate as opposed to methods like postage. It was also believed to reduce the chances of bias that could have arisen in face-to-face interviews through interviewer influence.

### **3.5 Data Analysis**

Descriptive statistics were used in the analysis of section A. For sections B, C and D the data collected was quantitative and was therefore analysed by determining the average mean and standard deviation for each question. The grand mean and standard deviation for the sub-sections in each section were also derived. Finally the overall mean score for each section was calculated. This data was analysed using the Statistical Package for Social Sciences (SPSS).

## **CHAPTER 4**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

In this chapter, the data collected will be analyzed and the results arrived at discussed. In accordance with the objectives of the research, the data collected has been grouped into four sections focus on: demographics of the companies and respondents; perceived emerging trends in the international business environment; impact of the trends on the local businesses of the firms; and the response strategies of these firms to changes in the international business environment. The last section is a discussion of the findings.

#### **4.2 Demographics**

Data was collected from a total of 10 companies. These comprised the population of companies targeted for the survey as per the inclusion criteria. The response rate was 100%. All those interviewed on behalf of the company were at senior management levels, being holders of titles that included marketing manager, sales manager, country manager operations manager and managing director. Of those interviewed, six had 10-15 years of service to the company, one had over 15 years of service to the company, while the remaining three had been in their respective companies for a period of 1 to 5 years.

Three out of the ten companies have their headquarter offices in USA while seven have their headquarter offices in Western Europe. All these companies have been in operation in Kenya for more than fifteen years. The local organizational structure setups of the companies differ: all the seven companies whose origin is Western Europe, chose the 'Regional office that is fully fledged' option as best describing their organizational

structure. Of the companies whose origin is in the USA, two had a country office that consisted of a sales department only, while the other was the licensed marketing and sales entity of the original company. With regard to annual sales turnover, three respondents declined to respond citing confidentiality concerns; four had an annual turnover of over 650 million Kenya shillings while three had an annual turnover of between 450 and 600 million Kenya shillings.

#### **4.3 Emerging Trends in the International Business Environment**

This section addresses the first objective of the research, which was to “identify the changes in the international business environment of research-based multi-national pharmaceutical companies”. The respondents were asked to rate on a five-point scale (where: 1= not at all, 2= little extent, 3= moderate extent, 4= great extent and 5=very great extent) how much you agreed with the questions / statements posed in the questionnaire, relating to the international business environment. The questions in this section were grouped into three subsections: macro-environment; the industry environment from a global perspective; and globalization. The responses for each question were summed and the mean score derived. The standard deviation for each question’s responses was also calculated. These results are presented in table form. A 100% response rate was attained for all the questions in this section of the questionnaire.

##### **4.3.1 Emerging Trends in the Macro-environment**

The questions in this section of the questionnaire focused on identifying emerging trends in the international macro-environment. The questions were further grouped into four sub-sections, which consisted of the political-legal environment; the socio-economic

environment; the socio-cultural environment; and the technological environment. The interviewees were asked to rate on a five-point scale (where 1= not at all, 2 = little extent, 3= moderate extent, 4 = great extent and 5= very little extent) to what extent the aspects in the questions were emerging trends.

#### **4.3.1.1 Emerging Political-Legal Trends**

Trends surveyed achieved mean rating scores ranging from 2.9 to 4.4. The most highly rated trend was that the protection and enforcement of intellectual property rights remained a difficult issue in many emerging markets (mean rating 4.4). The harmonization of patent protection through the introduction of TRIPS was the least perceived emerging trend (mean rating of 2.9) Other aspects in the international business environment that were highly rated as emerging trends are the increase in counterfeit products abuse across the world due to the provision under TRIPS for the parallel importation of drugs; the trend for much stricter regulatory processes with regard to the marketing approval for new drugs; and the increasing scrutiny by the regulatory authorities of the marketing and sales practices in pharmaceutical companies. These achieved means of 4.1. The overall mean for political-legal trends was 3.78. The results of this section are presented in Table 4.3.1.1.

<b>Table 4.3.1.1 Emerging Political- Legal Trends</b>			
	<b>Aspects in the Political –Legal Environment</b>	<b>Mean</b>	<b>Standard Deviation</b>
1	A harmonisation of patent protect through the introduction of the Trade Related Aspects of Intellectual Property (TRIPS).	2.9	0.70
2	Protection and enforcement of Intellectual property rights remains a difficult issue in many emerging markets like India and China (pharmerging markets).	4.4	0.66
3	Weak pharmaceutical industry incentive to develop new drugs for developing countries due to the provision for compulsory licensing under TRIPS.	3.2	1.17
4	Increasing ability of research based multi-national industry players to launch their products in emerging markets of Asia.	3.4	0.49
5	Increase in counterfeit products abuse across the world due to the provision under TRIPs for the parallel importation of drugs.	4.1	0.94
6	A global trend for much stricter regulatory processes with regards to marketing approval for new drugs.	4.1	0.70
7	High failure rates and increased cost of research and development of new drugs.	3.9	0.70
8	Increased regulatory burden due to tougher demands on pharmacovigilance systems.	3.9	0.83
9	Increasing scrutiny by the regulatory authorities of the marketing and sales practices in pharmaceutical companies.	4.1	0.70
	<b>Grand Mean</b>	<b>3.78</b>	<b>0.24</b>

#### **4.3.1.2 Emerging Socio-Economic Trends**

As illustrated in table 4.3.1.2, all of the surveyed aspects in the socio-economic environment attained means percentage scores of 3.3 and above. The positive economic growth of the industry in the emerging economies (pharmerging markets) had the highest mean rating at 4.3. The other aspects that were highly rated as emerging trends are the slowing down in the growth of pharmaceutical markets in the USA and Western Europe countries; and the growing importance of the emerging economies to global pharmaceutical sales. These both achieved mean ratings of 4.2. On the contrary, although

acknowledged as an emerging trend, a move towards universal health coverage in sub-Saharan Africa ranked lowest (3.3 mean rating). The grand mean for the socio-economic trends 3.82.

<b>Table 4.3.1.2 Emerging Socio-Economic Trends</b>			
	<b>Aspects of the Socio-Economic Environment</b>	<b>Mean</b>	<b>Standard Deviation</b>
10	Global economic downturn especially in the USA and Western Europe countries.	3.6	0.80
11	Slower growth of the pharmaceutical markets in the USA and Western Europe countries.	4.2	0.75
12	Heightened concern by governments in Western Europe to cut the cost of healthcare.	4.0	0.77
13	Positive economic growth in countries such as India, China, Brazil, Turkey and Mexico amongst others (known as the pharmerging markets).	4.3	0.46
14	Pharmerging market governments' investment in healthcare hence an increased demand for drugs.	3.4	0.80
15	From a global point of view, a reorganisation of market importance (the 'new world order') in terms of sales, although the triad markets (Western European, USA and Japan) still remain important.	3.9	0.70
16	Growing awareness of the increasing contribution to global sales from countries in emerging economies such as China, India, Brazil, India, South Africa, amongst others.	4.2	0.40
17	A better business climate in Africa due to African governments' action to end armed conflicts, improve macro-economic conditions and undertake micro-economic reforms.	3.5	0.92
18	A move towards universal health coverage for countries in sub-Saharan Africa.	3.3	0.78
	<b>Grand Mean</b>	<b>3.82</b>	<b>0.46</b>

#### **4.3.1.3 Emerging Socio-Cultural Trends**

Trends in the socio-cultural are illustrated in table 4.3.1.3. All aspects surveyed in the socio-cultural environment achieved mean ratings of 3.1 and above. The most highly rated emerging trends were the global increase in the incidence of non-communicable

diseases and the anticipated increase in the growth of the pharmaceutical market in sub-Saharan Africa as a result of the dual burden of communicable and non-communicable diseases, with both scoring a mean rate of 4.1. A heightened concern by payers about healthcare funding was also noted as emerging trend at mean rating of 3.6. The overall mean for socio-cultural trend was 3.66.

<b>Table 4.3.1.3. Emerging Socio-Cultural Trends</b>			
	<b>Aspects of the Socio-Cultural Environment</b>	<b>Mean</b>	<b>Standard Deviation</b>
19	The HIV/AIDS crisis as an important shaper of market and industry dynamics.	3.1	1.04
20	A global increase in the incidence of non-communicable diseases due to adoption of lifestyles characterised by less healthy diets and more sedentary activities.	4.1	1.14
21	An anticipated increase in the growth of the pharmaceutical market in sub-Saharan Africa due to the dual burden of communicable and non-communicable diseases.	4.1	0.70
22	An increase of non-state actors in global health such as the civil society organisations, private foundations and hybrid organisations like the private-public partnerships.	3.4	0.66
23	Heightened concerns by payers about healthcare funding	3.6	0.92
	<b>Grand Mean</b>	<b>3.66</b>	<b>0.58</b>

#### **4.3.1.4 Emerging Trends in the Technological Environment**

The overall mean score for emerging trends in the technological environment was 3.84. The increasing difficulty of discovering new blockbuster drugs was the most highly rated trend at a mean rating of 4.4. The trend of potential blockbusters that reached the market also having no guarantee of providing the hoped-for returns was rated at 4.1. The

beginnings of a shift away from western dominance in the area of R & D got the lowest rating at 3.3. The trend of many indications being well served by cheap generics was rated at 4.0. Table 4.3.1.4 presents the results of emerging trends in the technological environment.

<b>Table 4.3.1.4 Emerging Trends in the Technological Environment</b>			
	<b>Aspects in the Technological Environment</b>	<b>Mean</b>	<b>Standard Deviation</b>
24	Biotechnology companies becoming key players in industry as more research & development (R & D) work outsourced to them.	3.5	0.81
25	The lines between big pharma and biotech continue to blur as the two industries converge.	3.7	0.46
26	The beginnings of a major shift away from western dominance in the area of R&D may be underway.	3.3	0.90
27	A range of blockbuster drugs are expected to lose their patent protection between 2011 to 2015, (the "patent cliff").	3.9	1.14
28	Many indications (treatments) are now well-served by cheap generics.	4.0	1.18
29	It's getting ever more difficult to discover new blockbuster drugs.	4.4	0.49
30	Even when potential blockbusters do reach the market, there is no guarantee that they will provide the hoped-for returns.	4.1	0.94
<b>Grand Mean</b>		<b>3.84</b>	<b>0.49</b>

### **4.3.2 Emerging Trends in the Global Industry Environment**

The questions in this section of the questionnaire focused on identifying emerging trends in the global industry environment. The questions were further grouped into four small sub-sections, which consisted of the bargaining power of buyers; the degree of rivalry amongst existing firms; the threat of substitutes; and the threat of new entrants. The interviewees were asked to rate on a five-point scale (where 1= not at all, 2 = little extent, 3= moderate extent, 4 = great extent and 5= very little extent) to what extent the aspects in the questions were emerging trends.

#### **4.3.2.1 Emerging Trends in the Bargaining Power of Buyers**

The overall mean score for bargaining power of buyers was 3.51. With regard to the bargaining power of buyers, trends that achieved high mean ratings are the intensified effort by healthcare payers to limit price increases and their intensified effort to move patients to lower cost generics, with mean ratings of 4.2 and 4.0 respectively. On the contrary, effort to limit access to non-generic drugs was rated lower, at 3.5. A shift in the drug purchase dynamics for developing countries as a result of proliferation of health foundations received the lowest mean rating at 3.0.

<b>Table 4.3.2.1 Emerging Trends in the Bargaining Power of Buyers</b>			
	<b>Aspects in the Bargaining Power of Buyers</b>	<b>Mean</b>	<b>Standard Deviation</b>
31	Intensified effort by healthcare payers to limit price increases.	4.2	0.75
32	Intensified effort by healthcare payers to limit access to non-generic drugs.	3.5	1.12
33	Intensified effort by healthcare payers to move patients to lower-cost generics.	4.0	0.89
34	Price cuts on existing drugs through payer action.	3.3	0.78
35	Higher standards required for innovative therapies to qualify to be on the reimbursement list of Healthcare funds	3.6	0.92
36	Healthcare payers' use of economic incentives for prescribers and pharmacists to drive a shift to generic alternatives.	3.2	0.87
37	Rising importance of pharmaco-economic studies to justify the value that medicines bring to healthcare systems.	3.6	0.80
38	Pressure from global civil society forcing down the price of medicines for HIV/AIDS for developing countries.	3.5	0.92
39	A shift in drug purchase dynamics for the developing countries due to the proliferation of health foundations.	3.0	0.63
40	Creation of large drug purchasing consortia that are able to lower the cost of medicines.	3.2	0.87
41	Negotiations for the purchase of drugs for developing countries shifted to a global level.	3.5	0.81
	<b>Grand Mean</b>	<b>3.51</b>	<b>0.41</b>

#### **4.3.2.2 Emerging Trends in the Degree of Rivalry Amongst Existing Firms**

The overall mean rating for trends in the degree of rivalry amongst existing firms was 3.56. Of the aspects surveyed under the degree of rivalry amongst existing firms a trend by firms to refocus their therapeutic area portfolios on more potential big-selling fields such as cancer and diabetes received the highest rating at a mean rating of 4.3. The trend of many companies diversifying into the manufacture of generic versions of their own drugs was rated at 3.9, as compared to the trend for these companies to diversify into the manufacture of generic versions of other companies' off-patent drugs (3.4 mean rating). A trend of increased outsourcing of research and manufacturing to India, China and other

Asian countries was rated at 3.7. The lowest rated trend was on the maintenance of pricing practices by firms in the industry, at 2.9.

<b>Table 4.3.2.2 Emerging Trends in the Degree of Rivalry Amongst Existing Firms</b>			
	<b>Aspects in the Degree of Rivalry Amongst Existing Firms</b>	<b>Mean</b>	<b>Standard Deviation</b>
42	Mergers and acquisitions among pharmaceutical, biotech, and medical device companies are frequent.	3.6	1.02
43	Several firms are changing their research structures.	3.0	1.18
44	Several firms are refocusing their therapeutic area portfolios on more potential big-selling fields such as cancer and diabetes.	4.3	0.64
45	Several firms are pulling out of areas where the market is small or there are strong generics.	3.4	1.02
46	Pharmaceutical companies are expected to maintain their pricing practices.	2.9	0.83
47	Pharmaceutical companies are expected to compete on the basis of clinical evidence and value.	3.8	1.08
48	Many companies have started to diversify into manufacturing generic versions of their own drugs.	3.9	1.14
49	Many companies have started to diversify into manufacturing generic versions of other companies' off-patent drugs.	3.4	1.20
50	Companies are increasingly outsourcing research and manufacturing to India, China and other Asian countries.	3.7	0.78
	<b>Grand Mean</b>	<b>3.56</b>	<b>0.50</b>

#### **4.3.2.3 Emerging Trends in the Threat of Substitutes**

The grand mean rating for threats of substitutes was 4.55. The perception that there would be a steady rise of the global market share for generics achieved a mean rating of 4.6. The proliferation of generic manufacturers from China, Asia, Israel, Africa and Eastern Europe was also recognized to a very great extent as an emerging trend with a mean rating of 4.5.

<b>Table 4.3.2.3 Emerging Trends in the Threat of Substitutes</b>			
	<b>Aspects on the Threat of Substitutes</b>	<b>Mean</b>	<b>Standard Deviation</b>
51	There is a proliferation of generic manufacturers from China, Asia, Israel, Africa and Eastern Europe.	4.5	0.50
52	Globally, market share for generics is expected to rise steadily.	4.6	0.49
	<b>Grand Mean</b>	<b>4.55</b>	<b>0.42</b>

#### **4.3.2.4 Emerging Trends in the Threat of New Entrants**

With regard to the threat of new entrants, the recognition that Indian companies were gaining ground in the area of product innovation achieved a mean rating of 3.3. Rising international collaboration (which includes licensing, acquisitions, manufacturing, outsourcing, joint ventures and marketing alliances) with Indian companies achieved a higher mean rating of 3.6. The grand mean was 3.45.

<b>Table 4.3.2.4 Emerging Trends in the Threat of New Entrants</b>			
	<b>Aspects on the Threat of New Entrants</b>	<b>Mean</b>	<b>Standard Deviation</b>
53	Indian companies are gaining ground in the area of product innovation.	3.3	1.10
54	International collaboration (which includes licensing, acquisitions, manufacturing outsourcing, joint R&D ventures, and marketing alliances) with Indian companies is on the rise.	3.6	0.49
	<b>Grand Mean</b>	<b>3.45</b>	<b>0.72</b>

#### **4.3.3 Emerging Trends in the Globalisation of the Industry**

Aspects surveyed under the globalization of the industry attained ratings of 3 and above. The overall rating was 3.52. The trend that was most highly rated is the increasing global collaboration in product development through the public-private partnerships (mean rating 3.9). At a mean rating of 3.7 the rise of the emerging economies of the East as partners to research based MNPCs was perceived as an important emerging trend. This

perception goes hand with the scope of partnering being perceived to go beyond the traditional partnership of manufacturing to other areas such as R & D, product-co-development, design, marketing and procurement (mean rating of 3.7). A growing importance of the regional economic and political blocks in sub-Saharan Africa had a mean rating of 3.7. The results are captured in table 4.3.3.

<b>Table 4.3.3 Emerging Trends in the Globalisation of the Industry</b>			
	<b>Aspects in Globalisation of the Industry</b>	<b>Mean</b>	<b>Standard Deviation</b>
55	After 2005, and increasingly in the future, partnering is being redirected <i>in geographic scope</i> to include not just partners from the west, but also partners from emerging economies, especially in Asia.	3.7	0.46
56	This new partnering with emerging economy players goes beyond manufacturing, to include different stages of R&D, product co-development, design, marketing, and procurement.	3.7	0.46
57	R&D resources of the firms are relocating to emerging economies.	3.1	0.70
58	Some R & D facilities in western countries are being closed down or downsized.	3.0	1.18
59	Growing importance of regional political and economic blocks in sub-Saharan Africa	3.7	0.78
60	In the areas that are of public health concern, there is increasing collaboration through global product development public private partnerships (Product development PPP).	3.9	0.54
	<b>Grand Mean</b>	<b>3.52</b>	<b>0.44</b>

#### 4.3.4 Emerging Trends in the International Business Environment

A summary of the overall means for emerging trends in the international business environment is given in table 4.3. The overall grand mean rate for emerging trends in the international business environment is 3.67. Emerging trends in the macro-environment have a grand mean score of 3.72 with trends in the technological environment having the highest mean rating of 3.84. Emerging trends towards globalisation has the lowest grand mean rating at 3.52. Under emerging trends in the global industry environment, the threat of substitutes had the highest mean rating at 4.55 while the threat of new entrants had the lowest mean rating of 3.45.

<b>Table 4.3 Emerging Trends in the International Business Environment</b>			
<b>Trends in the Macro-Economic Environment</b>		<b>Mean</b>	<b>Standard Deviation</b>
	Grand mean on political legal trends	3.78	0.24
	Grand mean on Socio-economic trends	3.82	0.46
	Grand mean on Socio-cultural trends	3.66	0.58
	Grand mean on trends in the technological environment	3.84	0.49
	Grand mean on trends in globalization	3.52	0.44
	<b>Total Grand Mean</b>	<b>3.72</b>	
<b>Trends in the Global Industry Environment</b>			
	Grand mean on bargaining power of buyers	3.51	0.41
	Grand mean on the degree of rivalry amongst existing firms	3.56	0.50
	Grand mean on the threat of substitutes	4.55	0.42
	Grand mean on the threat of new entrants	3.45	0.72
	<b>Total Grand Mean</b>	<b>3.77</b>	
<b>Trends Towards Globalization</b>			
	<b>Grand Mean</b>	<b>3.52</b>	<b>0.44</b>
	<b>Overall Grand Mean on Trends in the International Business Environment</b>	<b>3.67</b>	

#### 4.4 Impact of the Changes on the Firm's Business

This section sought to answer the second objective of the research, which was to “determine the impact of these changes on the research-based multi-national pharmaceutical companies in Kenya”. Interviewees were asked to rate on a five-point scale the impact that the changes in the international business environment had had on various aspects of the firm’s business. The mean ratings and the standard deviations for each question were derived and are presented in tables. The response rate to the questions in this section was 100%. For the purpose of analysis, this section is further classified into four sub-sections based on whether the changes had impacted on aspects related to the company’s approach to business; marketing and sales activities; research and development activities; or stakeholder engagement.

#### **4.4.1 Impact on the Firm’s Approach to Business**

A total of 12 questions were grouped under this area. The grand mean rating of the impact of the changes on the firms’ approach to business was 3.53. The mean ratings ranged from 3 to 3.9. Four aspects were rated as having been the most highly impacted by changes in the international business environment, at a 3.9 mean rating. These are: the reporting structure of companies with the headquarter offices; the companies’ management structures; the companies’ business models; and their total staffing at country levels. The least affected aspects of the companies’ approach to business were the companies’ the inter-organisational links; the firms’ inter-organisational relationships; and their recruitment and socialization policies. The impact of the changes on these aspects was at 3.0. The results are presented in table 4.4.1.

<b>Table 4. 4. 1 Impact on the Firm's Approach to Business</b>			
	<b>Aspects Related to the Firm's Approach to Business</b>	<b>Mean</b>	<b>Standard Deviation</b>
1	Reporting structure with headquarter office	3.9	0.94
2	Head office's mandate to company	3.6	1.20
3	Organisational structure	3.8	1.08
4	Management structure	3.9	1.04
5	Business model	3.9	0.54
6	Total staffing at country level	3.9	1.14
14	Product range/portfolio	3.8	1.08
24	Country/countries from which company sources its products	3.1	1.30
26	Recruitment and socialisation policy	3.0	1.34
27	Inter-organisational links	3.0	1.18
28	Inter-organisational relationships	3.0	1.18
38	Company's role in other markets within the region	3.5	0.81
	<b>Grand Mean</b>	3.53	

#### **4.4.2 Impact on the Firm's Marketing and Sales Activities**

A total of 13 questions/aspects were identified to relate to the marketing and sales activities of the firms' business. The grand mean rating of the impact of the changes on the firms' marketing and sales activities was 3.91. The impact of the changes ranged from 3.4 to 4.6. The highest impact is on the firms' marketing and sales practices, at a mean rating of 4.6, while the lowest impact is on the firms' market shares. Other aspects that had been highly impacted at ratings of above 4.0 are: the annual sales turnover (4.0), Sales team size (4.2); sales team structure at 4.0; marketing team size and structure at 4.0; Approach to new product launches (4.1); and the ability to successfully launch and market innovative products (4.0). The results are compiled in table 4.4.2.

<b>Table 4.4.2 Impact on the Firm's Marketing and Sales Activities</b>			
	<b>Aspects of the Firm's Marketing and Sales Activities</b>	<b>Mean</b>	<b>Standard Deviation</b>
7	Annual sales turnover	4.0	0.77
8	Market share	3.4	0.80
9	Sales team size	4.2	0.75
10	Sales team structure	4.0	0.89
11	Marketing team size and structure	4.0	0.89
13	Marketing and sales practices	4.6	0.49
15	Ability to successfully launch and market innovative products	4.0	0.77
16	Approach to new product launches	4.1	0.83
17	Approach to retail market (pharmacies)	3.9	0.83
19	Use of promotional and product detailing materials	3.7	0.90
20	Market segmentation approaches	3.9	0.94
21	Pricing practices	3.5	0.92
22	Distribution networks	3.5	0.81
	<b>Grand Mean</b>	<b>3.91</b>	

#### **4.4.3 Impact on the Firm's Research and Development Activities**

Under the aspects grouped under research and development activities of the firms, changes in the international business environment had the greatest impact on the role of the medical department in companies, at a mean rating of 4.5. The least impact of these changes is the role of research and development locally and in the region at 2.1 and 2.2 respectively. The grand mean rating for the impact on the firms' research and development activities is 3.0.

<b>Table 4.4.3 Impact on the Firm's Research and Development Activities</b>			
	<b>Aspect of the Firm's Research and Development Activities</b>	<b>Mean</b>	<b>Standard Deviation</b>
12	Role of the medical department	4.5	0.50
18	Use of pharmaco-economics in product promotion	3.1	0.83
23	Role of R & D locally	2.1	1.14
25	Length of time it takes to obtain local registration for new products.	3.1	1.04
39	Role of R & D in the region	2.2	0.98
	<b>Grand Mean</b>	<b>3.0</b>	

#### **4.4.4 Impact on the Firm's Stakeholder Engagement Activities**

For those aspects grouped under activities related to the firms' engagement with stakeholders, changes in the international business environment had the greatest impact on the firms' engagement with institutional buyers (mean rating 4.0). Other greatly impacted stakeholder engagement aspects are: the firms' engagement with the regulatory authorities (mean 3.7); engagement with government policy makers (3.7); and engagement with professional associations (3.9). The grand mean rating of the impact of the changes on the firms' engagement with stakeholders is 3.34. The changes in the international business environment have had the least impact on engagement of the firms with the public and hybrid organisations like the PPPs at 2.6 and 2.7 respectively. The results are tabulated in table 4.4.4.

<b>Table 4.4.4 Impact on the Firm's Stakeholder Engagement Activities</b>			
	<b>Aspect of Firm's Stakeholder Engagement Activities</b>	<b>Mean</b>	<b>Standard Deviation</b>
29	Engagement with regulatory authorities	3.7	0.64
30	Engagement with healthcare policy makers and funders	3.4	0.92
31	Engagement with non-state actors like civil society, private foundations	2.8	1.17
32	Engagement with hybrid organisations like the private-public partnerships (PPPs)	2.7	1.10
33	Engagement with the government policy makers	3.7	0.78
34	Engagement with professional associations	3.9	0.70
35	Engagement with institutional buyers	4.0	0.77
36	Engagement with global foundations involved in the purchase of drugs	3.1	1.22
37	Engagement with the public	2.6	1.20
40	Approach to corporate social responsibility (CSR)	3.5	1.12
	<b>Grand Mean</b>	<b>3.34</b>	

#### **4.4.5 Impact of the Changes on the Companies' Business**

The changes in the international business environment have had an overall rating mean impact of 3.45 on the research-based multi-national pharmaceutical companies' business in Kenya. The highest impact of these changes on the business of the companies is on the marketing and sales activities, at a mean rating of 3.91. The lowest impact is on the companies' research and development activities, at a mean rating of 3.0.

<b>Table 4.4.5 Impact of the Changes on the Companies' Business</b>		
		<b>Mean</b>
	Grand mean impact on approach to business activities	3.53
	Grand mean impact on marketing and sales activities	3.91
	Grand mean impact on research and development activities	3.0
	Grand mean impact on stakeholder engagement activities	3.34
	<b>Overall Mean</b>	<b>3.45</b>

#### **4.5 Response Strategies of the Firms**

The purpose of this section of the questionnaire was to answer the third research objective which sought to identify the response strategies adopted by research-based multi-national pharmaceutical companies in Kenya to the challenges they faced from changes in the international business environment. The interviewees were asked to rate on a scale of 1 to 5 (where 1= not at all, 2= little extent, 3= moderate extent, 4= great extent and 5=very great extent) the extent to which the companies had adapted the presented response strategies. For the purposes of analysis the questions/ response strategies classified into four groups based on strategies related to: the companies' approach to doing business; the marketing and sales function; the approach to international business; and stakeholder engagement. The response rate was 100%. The mean and standard deviation for each question were calculated and the scores tabulated.

##### **4.5.1 Response Strategies Related to Approach to Doing Business**

With regard to response strategies related to the companies' approach to doing business, the highest ranked response strategy was the creation / strengthening of the medical department at a mean score of 4.2. Other response strategies that were adopted to a great extent are changes to the company organizational structure 3.5; and the introduction of a

new line of products 3.6. The forming of a joint venture with another company for marketing and sales of particular products in the country as a response strategy and the divesting out of a product line were other response strategies that were adopted having mean ratings of 3.2 and 3.3 respectively. The least adopted response strategies were the acquisition of a local pharmaceutical company (mean rating of 1.1); and the licensing of a local pharmaceutical company to manufacture and sell products on the behalf of companies (mean rating 1.6). The grand mean on response strategies related to the business approach was 2.6.

<b>Table 4.5.1 Response Strategies Related to Approach to Doing Business</b>			
	<b>Response Strategy</b>	<b>Mean</b>	<b>Standard Deviation</b>
1	Changed your organisational structure	3.5	0.81
5	Divested out of a product line	3.3	1.35
6	Introduced a new line of products (like medical devices, vaccines or animal health products, skin and hair products or over the counter (OTC) products or other)	3.6	1.02
7	Introduced an in-licensed product into your product portfolio	3.0	1.18
8	Formed a joint venture with another company for marketing and sales of particular products in the country	3.2	1.47
9	Gotten into a contract manufacturing agreement with a local pharmaceutical manufacturer	1.6	0.92
10	Licensed a local pharmaceutical company to manufacture and sell your product on your behalf	1.2	0.60
11	Acquired a local pharmaceutical company	1.1	0.30
15	Diversification through the introduction of a generic line of your own products	1.9	1.37
16	Diversification through the introduction of a generic line of other companies' off-patent products	2.1	1.51
40	Creation or strengthening of the medical department	4.1	1.14
	<b>Grand Mean</b>	<b>2.60</b>	

#### **4.5.2 Response Strategies Related to the Marketing and Sales Activities**

The overall mean rating for response strategies related to the marketing and sales activities of companies was 2.92. Adopting self-regulation through a code of ethics for

marketing and sales was the most highly ranked response strategy at a mean of 4.5. Other response strategies that were rated highly are the maintenance of a premium price based on product differentiation and the introduction of new marketing and sales team models, which both had a mean rating of 3.6. The least rated response strategy was the repackaging of products so as to meet local market needs at a mean rating of 1.3.

<b>Table 4.5.2 Response Strategies Related to the Marketing and Sales Activities</b>			
	<b>Response Strategy</b>	<b>Mean</b>	<b>Standard Deviation</b>
2	Maintaining lower prices of products as compared to competitors in the market	2.6	1.02
3	Pricing products on based on clinical evidence and value as opposed to lowest cost	3.3	1.00
4	Maintained a premium price based through product differentiation	3.6	0.66
12	Bidding for a local tender business as a consortia	1.8	1.25
14	Repackaging products so as to meet local market needs	1.3	0.46
17	Developed different product versions that appeal to particular market segments	2.7	1.27
35	Introduced new marketing and sales team models	3.6	0.92
36	Adopting self regulation through code of ethics for marketing and sales	4.5	0.50
37	Introduced new product distribution models	2.9	1.04
	<b>Grand Mean</b>	<b>2.92</b>	

#### **4.5.3 Response Strategies Related to the Management of Stakeholders**

On response strategies related to the management of stakeholders, partnerships with the government and other global health organisations to deliver products to the market at a lower price was the most highly rated response strategy achieving a mean rating of 3.6. Companies adopted to a great extent, the joining of an industry lobby group against counterfeit products was adopted to a great extent by companies, mean rating 3.4. The overall mean for response strategies related to stakeholder management was 2.74.

<b>4.5.4 Response Strategies Related to the Management of Stakeholders</b>			
	<b>Response Strategy</b>	<b>Mean</b>	<b>Standard Deviation</b>
18	Entered into partnership with the government and other global health organisations to deliver products to the market at a lower price	3.6	1.11
30	Implemented a medicines donation programme for the public	2.4	1.62
31	Implemented a medicines subsidy programme for the public	2.1	1.51
32	Implemented an advocacy plan on non-communicable diseases	2.6	1.02
33	Venturing into public- private-partnerships for access to medicines	2.7	1.62
34	Venturing into public- private-partnerships for research and development.	2.5	1.57
38	Joining of an industry lobby group for the enforcement of intellectual property rights.	2.6	1.43
39	Joining of an industry lobby group against counterfeit products	3.4	1.11
	<b>Grand Mean</b>	<b>2.74</b>	

#### **4.5.4 Response Strategies Related to Approach to International Business**

The grand mean for strategies related to international business was 2.61. The appointment of distribution agents in other countries within the sub-Saharan Africa regions was the highest rated response strategy, with a mean rating of 3.7. Other response strategies that had been adopted to a great extent are the extension of the mandate of the medical department personnel to other countries in the region (mean 3.4); the appointment of marketing and sales agents in other countries within the sub-Saharan Africa region (at a mean score of 3.4); and the expansion of business into other countries within the region through export (mean score 3.3). Extending the mandate of marketing personnel to other countries in the region as a response strategy was moderately adopted at 3.1. Least adopted response strategies were the licensing of a pharmaceutical company in the region

to manufacture and sell your product on the behalf of the company and the acquisition of a pharmaceutical company within the region, which were both rated at 1.4.

<b>Table 4.5.4 Response Strategies Related to Approach to International Business</b>			
	<b>Response Strategy</b>	<b>Mean</b>	<b>Standard Deviation</b>
13	Expanding your business into other countries in the region through export	3.3	0.64
19	Extended the mandate of marketing personnel to other countries in the region	3.1	1.30
20	Extended the mandate of sales personnel to other countries in the region	2.6	1.28
21	Extended the mandate of medical department personnel to other countries in the region	3.4	1.28
22	Extended the mandate of Human resource department personnel to other countries in the region	2.5	1.57
23	Appointed distribution agents in other countries within the sub Saharan African region	3.7	0.78
24	Appointed marketing and sales agents in other countries within the sub Saharan African region	3.4	1.02
25	Entered into a joint venture for marketing and sales with another pharmaceutical company in the region	2.0	1.34
26	Licensed a pharmaceutical company in the region to manufacture and sell your product on your behalf	1.4	1.20
27	Acquired a pharmaceutical company within the region	1.4	1.20
28	Opening of country offices in sub-Saharan Africa countries	2.6	1.36
29	Bided for a regional tender business as a consortia	1.9	1.22
	<b>Grand Mean</b>	<b>2.61</b>	

#### **4.5.5 Response Strategies of the Companies**

The overall mean rating of responses strategies to changes in the international business environment is 2.72. The highest rated response strategies were those that were related to the marketing and sales function (2.92). Response strategies related to the approach to doing business and international business were rated lower at 2.60 and 2.61 respectively. The grand mean for stakeholder engagement response strategies was 2.74.

<b>Table 4.4.5 Response strategies of the Companies</b>		
		<b>Mean</b>
	Grand Mean response strategies to approach to business	2.60
	Grand Mean response strategies in marketing and sales	2.92
	Grand Mean response strategies to stakeholder engagement	2.74
	Grand Mean response strategies to international business	2.61
	<b>Great Grand Mean</b>	<b>2.72</b>

#### **4.6 Discussion of the Findings**

The observed results are discussed under the three objectives of the study. These are compared for similarities and differences with existing literature. The section also attempts to offer explanations of the results and their significance.

##### **4.6.1 Emerging Trends in the International Business Environment**

The results of the survey suggest that changes have occurred in the international business environment. The ratings for changes in the global industry environment and the macro-environment were higher as compared to those for emerging trends towards globalisation. The drivers for change in the macro-environment appear to be well distributed across the political-legal, socio-economic, technological and socio-cultural environments. The key drivers in the global industry environment are aspects related to threat of substitutes. Emerging trends in towards globalisation relate to partnerships across the globe between several industry stakeholders and the growing importance of regional and political economic blocks in Sub-Saharan Africa.

The findings of the macro-economic environment's technological trends are similar to the findings of the IMAP Healthcare report 2011, which depict declining success in the discovery and marketing of new drugs in the industry. Under the political-legal trends,

the enforcement of TRIPS has met several hurdles, as a result of the Doha declaration which constitutes a commitment to favour public health over patents rights (Elbeshbishi, 2007) and the made by the WTO in 2003 to lift TRIPS restrictions on compulsory licensing for export of generic medicines to countries that lack the capacity to manufacture them (3dthree.org). The trends towards stricter regulatory processes can be related to the U.S. Food and Drug Administration (FDA) Amendments Act of 2007 that enforced even stricter standards for approvals of new drugs. Once new drugs have been granted marketing authorisation, their marketing practices are closely monitored, and demands are made that companies institute pharmaco-vigilance systems.

The findings on the threat of substitutes are similar to the findings that the loss of patent rights has led to the rise of generic drugs and generic drugs manufacturers. The global generic market was estimated at 27% market share in 2010 and anticipated grow to 36% to 39% market share by 2015 (Van Arnum, 2011). Many companies have also followed Novartis' diversification into generic production. Others like GSK signed an alliance with Aspen Pharmaceuticals to market and sell its generic products in emerging markets. (Houlton. S, 2009).

Findings suggest that Private-Public Partnerships are becoming more global in their collaboration especially in the areas of product development for areas of public health concern for low income countries. The Medicines for Malaria Ventures and the Global Alliance for TB are some of the most successful product development Public-Private-Partnerships. The geographic redirection of partnering by MNPCs may be as a result of

the rise of the emerging economies which translates into larger markets and hence an increasing contribution to the total global pharmaceutical sales.

#### **4.6.2. Impact of the Changes on the Businesses of the MNPC Subsidiaries in Kenya**

The results suggest that the changes in the international business environment of research-based MNPCs have had an impact on the businesses of their subsidiaries in Kenya. The impact of these changes is varied across the four different categories of activities. The changes appear to have had the greatest impact on activities related to marketing and sales and the least impact being on the research and development activities of these subsidiaries. The impact on the activities related to approach to business and stakeholder engagement is modest.

Morrison (2011) postulates on the geographic environments of the MNCs as consisting of country, regional and global spaces. The macro-environment, industry and globalisation influences are observed in each of these layers and these spaces also interact and are interdependent. Porter (1986), stated that a firm that engages in international competition has to have a strategy for geographic scope that guides on how it distributes the activities in its value chain across the countries in which it operates. In the value chain, this then creates a distinction between downstream and upstream activities resulting in countries whose focus may be on upstream or downstream activities.

The impact of the changes in the international business environment on the MNPC subsidiaries in Kenya is a reflection of these arguments: the environment of these subsidiaries, being a part of the MNC also includes the international geographic space.

The impact of the changes seems to be stronger on the upstream activities of the value chain than those that are downstream and may suggest the focus activities of these subsidiaries.

#### **4.6.3 Response Strategies of the Companies**

Response strategies as a whole were moderate. Response strategies related to marketing and sales were rated highest followed by those that related to stakeholder engagement. Those related to approach to business and international business were lower. When compared to section A and B of the questionnaire, the ratings in this section were much lower. Bartlett and Goshal (1989) provide a view of the subsidiary as a semi-autonomous entity with a differentiated system. The concept of subsidiary embeddedness provides the framework within which subsidiary strategy can be explained. Given the complexity of embeddedness, subsidiary strategic choice encounters constraints. Response strategies in subsidiaries are a balance of their own initiatives vis-à-vis requests from the headquarter offices (Birkinshaw, 1996). The results also reflect the level at which strategic choices are made: being a business unit of the parent company, subsidiaries are more likely to implement business level and functional level response strategies as compared to corporate level response strategies.

The lower overall rating of the responses in this section of the questionnaire could be that the respondents were less open in sharing their firms' response strategies. Another reason for the lower ranking of the answers in this section could be that some of the questions focused on response strategies at corporate level, which fall beyond the mandate of a subsidiary, hence lowering their rating. A stronger focus on business and functional level strategies may have yielded higher ratings.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter consists of 6 sections inclusive of the introduction. The second section is a summary of the study findings. The third section gives the conclusions arrived at about the findings of the study. The fourth section proposes recommendations of the study. The fifth section discusses the limitations of the study. Finally, the sixth section presents suggestions for further research.

#### **5.2 Summary of the Findings**

The study was able to establish that there were changes in the international business environment. These changes were rated highly for the global industry environment and the macro-environment. Emerging trends towards globalisation of the industry were rated to be moderate.

The study established that these changes had had an impact on the subsidiary businesses of the MNPCs. The impact of these changes on the business of the MNPC subsidiaries was highly rated for business activities related to marketing and sales and moderately for business activities related to the MNPCs' approach to business, stakeholder engagement and research and development.

Response strategies to these changes in the international business environment had an overall moderate rating. Response strategies related to marketing and sales activities and stakeholder management were the most highly ranked. The least ranked response strategies were those related to approach to business and international business. This may

be a reflection of a low degree of autonomy of the firms in relation to the parent company. It could also be that the MNPC subsidiaries in Kenya are guided by the activities that they carry out in the company's value chain.

### **5.3 Conclusions of the Study**

Multinational Companies are faced with the reality of competing in a global environment while having to act in a local environment. The MNC subsidiaries create competitive advantage through response strategies that adapt to both the changes in their international business environment and their national environment. With regard to the first objective of the study, the findings indicate changes to the international business environment of the research-based MNPCs. These changes are identified more with aspects in the global industry and the macro-environment and less with aspects of change related to globalisation.

These changes have to a great extent had an impact on the businesses of the MNPCs. In descending order, the changes have had an impact on the marketing and sales activities of the MNPCs; on the MNPCs' engagement with stakeholders; on their approach to business; and on the R & D activities.

The research based MNPCs subsidiaries in Kenya have adopted a range of response strategies to these changes. When ranked in descending order these response strategies are related to the marketing and sales function; stakeholder engagement activities; approach to business and international business.

### **5.4 Recommendations of the Study**

The findings of the study led to recommendations in the areas of theory and knowledge, managerial policy and managerial practice.

#### **5.4.1 Recommendations for Theory and Knowledge**

The study provides an insight into the complexity that surrounds subsidiaries in the decision making process. For theory and knowledge, the study forms a basis on which further research into subsidiary embeddedness and strategic choice for subsidiaries in Kenya.

The findings also suggested that the response strategies adopted by the MNPC subsidiaries in Kenya could be related to activities in the value chain of the industry. From a theory and knowledge view point they provide a basis for further research into the relationship between strategic choice at subsidiary level and its relation to the value chain.

#### **5.4.2 Recommendations for Managerial Policy**

From the policy makers in health the study reveals the growing importance of generics across the globe, the rising problem of counterfeits and the challenge of enforcing TRIPS. First, policy makers in health need to be more vigilant to the threat of counterfeits to health and work closely with the industry in the fight against counterfeits. Secondly, faced with budgetary constraints need to consider the judicious use of generic medicines in their public health programmes. Thirdly, in the enforcement of TRIPS the challenges need to be addressed against the backdrop of trade-offs between public health and the need to protect future R & D.

For policy makers in trade, the emerging economies are mainly in the East. An analysis of the factors that contributed to their rise would contribute towards policies that improve national competitiveness and development of local pharmaceutical products manufacture and export.

For Policy makers in the parent companies, the role of the subsidiary in Kenya needs to be evaluated. This would guide on establishing the right balance of control in strategic decision-making that will maximise market share and growth of the business.

#### **5.4.3 Recommendations for Managerial Practice**

MNPCs in Kenya had a moderate response to changes in the international business environment. This was partly driven by the fact that some of the response strategies had a wide range of ratings by different respondents. Being cognisant of the fact that the degree of autonomy of a subsidiary from its parent company constraints strategic choice, the following recommendations are suggested.

First, the increasing growth of the generics which are brand substitute having been one of the highest ranked changes in the international business environment, the management in these subsidiaries need to develop strategies to introduce generic line of their own products as well as those of other companies whose patents have expired.

Secondly, considering the high ranking of the increase in counterfeit products abuse across the world, it would be beneficial for all the subsidiaries to be part of the industry lobby group against counterfeit products. From a global perspective, Interpol and the

pharmaceutical industry launched a global initiative to combat counterfeits (Interpol, media releases, 2013).

### **5.5 Limitations of the Study**

Although the study was able to address its objectives, some limitations were observed. First, although the data collection instrument was developed to be as comprehensive as possible, it is impossible to exhaustively list all those aspects of trends in the international business environment, all those aspects that impact on the businesses of the MNEs and all the possible response strategies that they may have adopted.

Secondly, The study was quantitative in nature and thus unable to capture qualitative data. Therefore even as it able to measure the findings, it is not able to explain these findings. Finally, due to the size of the population, any responses that fell far from the other responses tended to have a major impact on the overall mean and standard deviation of the response.

### **5.6 Suggestions for Further Research**

The findings of this study provide a basis for further research in the area of response strategies of MNC subsidiaries in Kenya. The concept of subsidiary embeddedness provides the framework within which subsidiary strategy can be explained. Given the complexity of embeddedness, subsidiary strategic choice encounters constraints. At subsidiary level, choices have to be made that take into account the need to be both internationally integrative and locally responsive (Bartlett and Ghosal, 1989).

One suggestion for further research is on the identification of the drivers and constraints of strategic choice for MNC subsidiaries in Kenya. Another area of further research would be in the role of MNC subsidiaries in Kenya in strategic choice of the parent MNC.

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## APPENDICES

### Appendix 1: Research Questionnaire

#### SECTION A: DEMOGRAPHICS

1. Name of company.....
2. Company head quarter base.....
3. Years of operation in Kenya. (Highlight / or bold and colour in red if filling on line)  
 0-1 year  1-5 years  5-10 years  10-15 years  More than 15 years
4. Organisational structure (highlight /bold in red if filling on line)  
 Working under a distributor   
 Country office with marketing and sales department   
 Country office that is fully fledged   
 Regional Office that is fully fledged   
 Other (please explain).....
5. Annual sales turnover in Million Kenyan shillings. (highlight /bold in red if filling on line).  
 0-150  151-300  301-450  451- 600  over 650
6. Name of person begin interviewed.....
7. Position in the Company.....
8. Years of service to the company.(highlight /bold in red if filling on line).  
 0-1 year  1-5 years  5-10 years  10-15 years  More than 15 years

#### SECTION B: CHANGES IN THE INTERNATIONAL BUSINESS ENVIRONMENT

Below are some statements on perceived emerging trends in the international business environment over the past 15 years. From an international point of view and in relation to your company, rate on a five point scale (where: 1= not at all, 2= little extent, 3= moderate extent, 4= great extent and 5=very great extent) how much you agree with these statements.

**The Macro Environment**(fill in the box with a capital Y if filling on line)

	Aspect	1	2	3	4	5
<b>Politico-Legal</b>						
1	A harmonisation of patent protect through the introduction of the Trade					

	Related Aspects of Intellectual Property (TRIPS).					
2	Protection and enforcement of Intellectual property rights remains a difficult issue in many emerging markets like India and China (pharmerging markets).					
3	Weak pharmaceutical industry incentive to develop new drugs for developing countries due to the provision for compulsory licensing under TRIPS.					
4	Increasing ability of research based multi-national industry players to launch their products in emerging markets of Asia.					
5	Increase in counterfeit products abuse across the world due to the provision under TRIPs for the parallel importation of drugs.					
6	A global trend for much stricter regulatory processes with regards to marketing approval for new drugs.					
7	High failure rates and increased cost of research and development of new drugs.					
8	Increased regulatory burden due to tougher demands on pharmacovigilance systems.					
9	Increasing scrutiny by the regulatory authorities of the marketing and sales practices in pharmaceutical companies.					
<b>Socio- Economic</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
10	Global economic downturn especially in the USA and Western Europe countries.					
11	Slower growth of the pharmaceutical markets in the USA and Western Europe countries.					
12	Heightened concern by governments in Western Europe to cut the cost of healthcare.					
13	Positive economic growth in countries such as India, China, Brazil, Turkey and Mexico amongst others (known as the pharmerging markets).					
14	Pharmerging market governments' investment in healthcare hence an increased demand for drugs.					
15	From a global point of view, a reorganisation of market importance (the 'new world order') in terms of sales, although the triad markets (Western European, USA and Japan) still remain important.					
16	Growing awareness of the increasing contribution to global sales from countries in emerging economies such as China, India, Brazil, India, South Africa, amongst others.					
17	A better business climate in Africa due to African governments' action to end armed conflicts, improve macro-economic conditions and undertake micro-economic reforms.					
18	A move towards universal health coverage for countries in sub-Saharan Africa.					
<b>Socio-Cultural</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>

19	The HIV/AIDS crisis as an important shaper of market and industry dynamics.					
20	A global increase in the incidence of non-communicable diseases due to adoption of lifestyles characterised by less healthy diets and more sedentary activities.					
21	An anticipated increase in the growth of the pharmaceutical market in sub-Saharan Africa due to the dual burden of communicable and non-communicable diseases.					
22	An increase of non-state actors in global health such as the civil society organisations, private foundations and hybrid organisations like the private-public partnerships.					
23	Heightened concerns by payers about healthcare funding					
<b>Technological</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
24	Biotechnology companies becoming key players in industry as more research & development (R & D) work outsourced to them.					
25	The lines between big pharma and biotech continue to blur as the two industries converge.					
26	The beginnings of a major shift away from western dominance in the area of R&D may be underway.					
27	A range of blockbuster drugs are expected to lose their patent protection between 2011 to 2015, (the "patent cliff").					
28	Many indications (treatments) are now well-served by cheap generics.					
29	It's getting ever more difficult to discover new blockbuster drugs.					
30	Even when potential blockbusters do reach the market, there is no guarantee that they will provide the hoped-for returns.					

**The Global Industry Environment** (fill in the box with a capital Y if filling on line)

	<b>Aspect</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Bargaining Power Of Buyers</b>						
31	Intensified effort by healthcare payers to limit price increases.					
32	Intensified effort by healthcare payers to limit access to <u>non</u> -generic drugs.					
33	Intensified effort by healthcare payers to move patients to lower-cost generics.					
34	Price cuts on existing drugs through payer action.					
35	Higher standards required for innovative therapies to qualify to be on thereimbursement list of Healthcare funds					
36	Healthcare payers' use of economic incentives for prescribers and pharmacists to drive a shift to generic alternatives.					
37	Rising importance of pharmaco-economic studies to justify the value that medicines bring to healthcare systems.					
38	Pressure from global civil society forcing down the price of medicines for					

	HIV/AIDS for developing countries.					
39	A shift in drug purchase dynamics for the developing countries due to the proliferation of health foundations.					
40	Creation of large drug purchasing consortia that are able to lower the cost of medicines.					
41	Negotiations for the purchase of drugs for developing countries shifted to a global level.					
<b>The Degree Of Rivalry Amongst Existing Firms</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
42	Mergers and acquisitions among pharmaceutical, biotech, and medical device companies are frequent.					
43	Several firms are changing their research structures.					
44	Several firms are refocusing their therapeutic area portfolios on more potential big-selling fields such as cancer and diabetes.					
45	Several firms are pulling out of areas where the market is small or there are strong generics.					
46	Pharmaceutical companies are expected to maintain their pricing practices.					
47	Pharmaceutical companies are expected to compete on the basis of clinical evidence and value.					
48	Many companies have started to diversify into manufacturing generic versions of their own drugs.					
49	Many companies have started to diversify into manufacturing generic versions of other companies' off-patent drugs.					
50	Companies are increasingly outsourcing research and manufacturing to India, China and other Asian countries.					
<b>The Threat Of Substitutes</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
51	There is a proliferation of generic manufacturers from China, Asia, Israel, Africa and Eastern Europe.					
52	Globally, market share for generics is expected to rise steadily.					
<b>The Threat Of New Entrants</b>		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
53	Indian companies are gaining ground in the area of product innovation.					
54	International collaboration (which includes licensing, acquisitions, manufacturing outsourcing, joint R&D ventures, and marketing alliances) with Indian companies is on the rise.					
<b>Globalisation</b> (fill in the box with a capital Y if filling on line)						
	<b>Aspect</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
55	After 2005, and increasingly in the future, partnering is being redirected <i>in geographic scope</i> to include not just partners from the west, but also partners from emerging economies, especially in Asia.					
56	This new partnering with emerging economy players goes beyond manufacturing, to include different stages of R&D, product co-					

	development, design, marketing, and procurement.					
57	R&D resources of the firms are relocating to emerging economies.					
58	Some R & D facilities in western countries are being closed down or downsized.					
59	Growing importance of regional political and economic blocks in sub-Saharan Africa					
60	In the areas that are of public health concern, there is increasing collaboration through global product development public private partnerships (Product development PPP).					

### SECTION C: IMPACT OF THE CHANGES

From alocal point of view and in relation to your company, to what extent have the changes in the international business environment impacted on the following aspects of your business? Rate this on a five point scale where: 1= not at all, 2= little extent, 3= moderate extent, 4= great extent and 5=very great extent. (fill in the box with a capital Y if filling on line)

	<b>Business Aspect</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Reporting structure with headquarter office					
2	Head office's mandate to company					
3	Organisational structure					
4	Management structure					
5	Business model					
6	Total staffing at country level					
7	Annual sales turnover					
8	Market share					
9	Sales team size					
10	Sales team structure					
11	Marketing team size and structure					
12	Role of the medical department					
13	Marketing and sales practices					
14	Product range/portfolio					
15	Ability to successfully launch and market innovative products					
16	Approach to new product launches					
17	Approach to retail market (pharmacies)					
18	Use of pharmaco-economics in product promotion					
19	Use of promotional and product detailing materials					
20	Market segmentation approaches					
21	Pricing practices					
22	Distribution networks					

23	Role of R & D locally					
24	Country/countries from which company sources its products					
25	Length of time it takes to obtain local registration for new products.					
26	Recruitment and socialisation policy					
27	Inter-organisational links					
28	Inter-organisational relationships					
29	Engagement with regulatory authorities					
30	Engagement with healthcare policy makers and funders					
31	Engagement with non-state actors like civil society, private foundations and other hybrid organisations like the private-public partnerships (PPPs)					
32	Engagement with hybrid organisations like the private-public partnerships (PPPs)					
33	Engagement with the government policy makers					
34	Engagement with professional organisations					
35	Engagement with institutional buyers					
36	Engagement with global foundations involved in the purchase of drugs					
37	Engagement with the public					
38	Company's role in other markets within the region					
39	Role of R & D in the region					
40	Approach to corporate social responsibility (CSR)					

#### SECTION D: RESPONSE STRATEGIES

In dealing with the changes in the international business environment, to what extent has your company adopted each of the following measures?

Rate on a five point scale where: 1= not at all, 2= little extent, 3= moderate extent, 4= great extent and 5=very great extent.

(fill in the box with a capital Y if filling on line)

	Measure	1	2	3	4	5
1	Changed your organisational structure					
2	Maintaining lower prices of products as compared to competitors in the market					
3	Pricing products on based on clinical evidence and value as opposed to lowest cost					
4	Maintained a premium price based through product differentiation					
5	Divested out of a product line					
6	Introduced a new line of products (like medical devices, vaccines or animal health products, skin and hair products or over the counter (OTC) products or other)					
7	Introduced an in-licensed product into your product portfolio					
8	Formed a joint venture with another company for marketing and sales of particular products in the country					

9	Gotten into a contract manufacturing agreement with a local pharmaceutical manufacturer					
10	Licensed a local pharmaceutical company to manufacture and sell your product on your behalf					
11	Acquired a local pharmaceutical company					
12	Bidding for a local tender business as a consortia					
13	Expanding your business into other countries in the region through export					
14	Repackaging products so as to meet local market needs					
15	Diversification through the introduction of a generic line of your own products					
16	Diversification through the introduction of a generic line of other companies' off-patent products					
17	Developed different product versions that appeal to particular market segments					
18	Entered into partnership with the government and other global health organisations to deliver products to the market at a lower price					
19	Extended the mandate of marketing personnel to other countries in the region					
20	Extended the mandate of sales personnel to other countries in the region					
21	Extended the mandate of medical department personnel to other countries in the region					
22	Extended the mandate of Human resource department personnel to other countries in the region					
23	Appointed distribution agents in other countries within the sub Saharan African region					
24	Appointed distribution marketing and sales agents in other countries within the sub Saharan African region					
25	Entered into a joint venture for marketing and sales with another pharmaceutical company in the region					
26	Licensed a pharmaceutical company in the region to manufacture and sell your product on your behalf					
27	Acquired a pharmaceutical company within the region					
28	Opening of country offices in sub-Saharan African countries					
29	Bided for a regional tender business as a consortia					
30	Implemented a medicines donation programme for the public					
31	Implemented a medicines subsidy programme for the public					
32	Implemented an advocacy plan on non-communicable diseases					
33	Venturing into public- private-partnerships for access to medicines					
34	Venturing into public- private-partnerships for research and development					
35	Introduced new marketing and sales team models					
36	Adopting self regulation through code of ethics for marketing and sales					

37	Introduced new product distribution models					
38	Joining of an industry lobby group for the enforcement of intellectual property rights.					
39	Joining of an industry lobby group against counterfeit products					
40	Creation or strengthening of the medical department					

## **Appendix 2 :List of Companies in the Study**

### **Company**

- 1 Norvatis
- 2 Sanofi Pasteur
- 3 Sanofi Aventis
- 4 GlaxoSmithKline
- 5 Bayer East Africa Ltd
- 6 Astra Zeneca
- 7 Roche
- 8 Pfizer Laboratories
- 9 Merck Sharp &Dohme
- 10 Eli Lilly



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DATE...16<sup>th</sup> April 2013

**TO WHOM IT MAY CONCERN**

The bearer of this letter Consolata Wanjiku



Registration No. D.G.I./P./8165/2000

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

  
  
**IMMACULATE OMAND**  
**MBA ADMINISTRATOR**  
**MBA OFFICE, AMBANK HOUSE**